



**TELEFÓNICA EMISIONES, S.A.U.**

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

€40,000,000,000

**PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS**

unconditionally and irrevocably guaranteed by

**TELEFÓNICA, S.A.**

*(incorporated with limited liability in the Kingdom of Spain)*

This prospectus has been approved by the United Kingdom Financial Conduct Authority (the "FCA"), which is the competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"), as a base prospectus (the "**Base Prospectus**") issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to Telefonía Emisiones, S.A.U., Telefonía, S.A. and the issue of debt instruments (the "**Instruments**") under the programme described above (the "**Programme**") during the period of twelve months after the date hereof.

Applications have been made to the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**") for Instruments issued within 12 months from the date hereof to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange. References in this Base Prospectus to Instruments being "listed" (and all related references) shall mean that such Instruments have been admitted to the Official List and have been admitted to trading on the Regulated Market of the London Stock Exchange.

The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Instruments.

Potential investors should note the statements on pages 105 to 111 regarding the tax treatment in Spain of income obtained in respect of the Instruments. In particular, payments on the Instruments will be exempt from Spanish withholding tax if the Issue and Paying Agent provides the Issuer and the Guarantor with certain documentation in a timely manner.

Tranches of Instruments issued under the Programme may be rated or unrated. If a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be (1) issued by a credit rating agency established in the European Economic Area ("**EEA**") and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**"), or (2) issued by a credit rating agency which is not established in the EEA nor registered under the CRA Regulation, or (3) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation, or (4) issued by a credit rating agency which is not established in the EEA but which is certified in accordance with the CRA Regulation, will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified in accordance with 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.

Each of Standard & Poor's Credit Market Services France SAS ("**S&P**"), Moody's Investors Service España, S.A. ("**Moody's**") and Fitch Ratings Limited ("**Fitch**") has rated the Guarantor, see page 75. Each of S&P, Moody's and Fitch is established in the EEA, registered under the CRA Regulation and, as of the date of this Base Prospectus, included in the list of credit rating agencies published by the European Securities and Market Authority (ESMA) on its website, <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs> in accordance with the CRA Regulation.

*Arranger for the Programme*

**BNP PARIBAS**

*Dealers*

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

**BNP PARIBAS**

**CITIGROUP**

**CREDIT SUISSE**

**DEUTSCHE BANK**

**HSBC**

**MIZUHO SECURITIES**

**SANTANDER GLOBAL BANKING & MARKETS**

**THE ROYAL BANK OF SCOTLAND**

**BARCLAYS**

**BofA MERRILL LYNCH**

**COMMERZBANK**

**DAIWA CAPITAL MARKETS EUROPE**

**GOLDMAN SACHS INTERNATIONAL**

**J.P. MORGAN**

**MORGAN STANLEY**

**SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT**

**BANKING**

**UBS INVESTMENT BANK**

10 June 2014

## IMPORTANT NOTICES

Each of Telefónica Emisiones, S.A.U. (the "Issuer") and Telefónica, S.A. ("Telefónica" or the "Guarantor") accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Instruments issued under the Programme. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus and the relevant Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information.

References herein to the "*Programme Date*" are to the date specified on the cover of this Base Prospectus.

### Certain terms and conventions

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

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

- "**Access**" refers to a connection to any of the telecommunications services offered by Telefónica. Because a single fixed customer may contract for multiple services, Telefónica counts the number of accesses, or services a customer has contracted for. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than one. The following are the main categories of accesses:
- "**Fixed telephony accesses**": includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating the number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).
- "**Internet and data accesses**": includes retail broadband accesses (retail asymmetrical digital subscriber line "ADSL", very high bit-rate digital subscriber line "VDSL", satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits. "Naked ADSL" allows customers to subscribe for a broadband connection without a monthly fixed line fee.
- "**Pay TV**": includes cable TV, direct to home satellite TV, or DTH, Internet Protocol TV, or IPTV.
- "**Mobile accesses**": Telefónica counts each active SIM as an access regardless of the number of services contracted through the SIM. Includes accesses to mobile network for voice and/or data services (including connectivity). Mobile accesses are categorised into contract and prepay accesses.
- "**Mobile broadband**": includes mobile Internet (Internet access from devices also used to make voice calls e.g. 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).
- "**Unbundled/shared local loop**", or "**ULL**": includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, "shared UL").
- "**ARPU**" is the average revenues per user per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming in revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12 months.
- "**Data ARPU**" is the average data revenues per user per month. ARPU is calculated by dividing total data revenues (SMS, MMS and other data revenues like mobile connectivity and mobile

Internet, etc.) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12 months.

- "**CDMA**" means Code Division Multiple Access, which is a type of radio communication technology.
- "**Churn**" is the percentage of average customers disconnected over a period of time.
- "**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.
- "**Data revenues**" includes revenues from SMS, MMS and other data services like mobile connectivity and mobile Internet, etc. consumed by the customer.
- "**Data traffic**" includes all the traffic related to Internet access service, related to messaging service (SMS, MMS) and to connectivity service that is transported by the Telefónica's networks and that generates data revenue.
- "**Digital Dividend**" refers to the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV.
- "**Final client accesses**" means accesses provided to residential and corporate clients.
- "**FTTx**" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop typically used for the last mile of telecommunications wiring.
- "**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 double resolution than SDTV, being able to show higher level of details compared to an analogue TV or to a common DVD.
- "**HSPA**"/ "**HSDPA**" means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfers speeds and capacity.
- "**Interconnection revenues**" means revenues received from other operators which use Telefónica's networks to connect to their customers.
- "**Market share**" is the percentage of final accesses or revenues of one operator compared to the total market in its operating area.
- "**ISP**" means Internet service provider.
- "**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.

- **"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 such mobile network operator for using the infrastructure to facilitate coverage to their customers.
- **"Net adds"** means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of the 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).
- **"P2P SMS"** means person to person short messaging service (usually sent by mobile customers).
- **"Revenues"** means net sales and revenues from rendering of services.
- **"Service revenues"** means revenues less revenues from handset sales. Service revenues are related mainly with telecommunication services, especially voice and data services 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.
- **"Voice Traffic"** means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.
- **"UMTS"** means Universal Mobile Telecommunications System.
- **"VoIP"** means voice over Internet protocol.
- **"Wholesale access"** means access Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

In this Base 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 being considered a hyperinflationary economy in 2011, 2012, and 2013 by eliminating all adjustments made as a result of such consideration.

**This Base Prospectus should be read and construed with any amendment or supplement thereto and with any other documents incorporated by reference (see "*Documents Incorporated by Reference*") and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Final Terms (as defined herein).**

**No person has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or, as the case may be, the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Arranger or any Dealer (as defined herein).**

No representation or warranty is made or implied by the Arranger, Dealers or any of their respective affiliates, and neither the Arranger, Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date thereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer, the Guarantor or the Group since the date thereof or, as the case may be, the date upon which this Base Prospectus has been most recently amended or supplemented or the statement of financial position date of the most recent financial statements and annual accounts which are deemed to be incorporated into this Base Prospectus by reference or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Instruments, see "*Subscription and Sale*". In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Instruments in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to U.S. persons. Neither this Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by the Issuer, the Guarantor, the Arranger, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Instruments. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor and the Group.

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed €40,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into Euro at the date of the agreement to issue such Instruments calculated in accordance with the provisions of the Dealership Agreement as defined under "*Subscription and Sale*"). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement.

*This Base Prospectus describes in summary form certain Spanish tax implications and procedures in connection with an investment in the Instruments (see "Risk Factors - Taxation in Spain" and "Taxation and Disclosure of Information in Connection with Payments - Taxation in the Kingdom of Spain"). Holders of Instruments must seek their own advice to ensure that they comply with all procedures to ensure correct tax treatment of their Instruments.*

All references in this Base Prospectus to "\$", "dollar", "USD" and "U.S. Dollar" are to United States dollars, the lawful currency of the United States of America, all references to "sterling", "pound sterling", "GBP" or "£" are to the currency of the United Kingdom; and all references to "A\$" are to Australian dollars, the lawful currency of Australia; all references to "Renminbi" and "CNY" are Renminbi Yuan, the lawful currency of The People's Republic of China; and all references to "Euro", "EUR" and "€" 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.

In connection with the issue of any Tranche of Instruments, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the

**applicable Final Terms may over-allot Instruments or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Instruments is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Instruments and 60 days after the date of the allotment of the relevant Tranche of Instruments. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## CONTENTS

	<b>Page</b>
KEY FEATURES OF THE PROGRAMME .....	1
RISK FACTORS .....	7
DOCUMENTS INCORPORATED BY REFERENCE .....	22
TERMS AND CONDITIONS OF THE INSTRUMENTS .....	24
FORM OF GUARANTEE .....	58
FORM OF FINAL TERMS.....	64
USE OF PROCEEDS .....	72
TELEFÓNICA EMISIONES, S.A.U. ....	73
TELEFÓNICA, S.A. ....	75
TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS .....	105
SUBSCRIPTION AND SALE .....	113
GENERAL INFORMATION .....	118

## KEY FEATURES OF THE PROGRAMME

The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Instruments, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.

<b>Issuer</b>	Telefónica Emisiones, S.A.U.
<b>Guarantor</b>	Telefónica, S.A.
<b>Guarantee</b>	The Guarantor has, in a Deed of Guarantee dated 10 June 2014 (the " <b>Guarantee</b> "), unconditionally and irrevocably guaranteed the due and punctual payment of all amounts under the Instruments.
<b>Arranger</b>	BNP Paribas.
<b>Dealers</b>	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc and UBS Limited, and any other dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments.
<b>Issue and Paying Agent and Principal Registrar</b>	The Bank of New York Mellon, London Branch.
<b>Programme Amount</b>	€40,000,000,000 in aggregate principal amount of Instruments outstanding at any one time (and, for this purpose, any Instruments denominated in another currency shall be translated into Euro at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of Euro being quoted by the Issue and Paying Agent at approximately 11.00 a.m. (London time) on the date on which the Relevant Agreement (as defined below) in respect of the relevant Tranche was made or such other rate as the Issuer and the Relevant Dealer may agree). The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under " <i>Subscription and Sale</i> ".
<b>Issuance in Series</b>	Instruments will be issued in series (each, a " <b>Series</b> "). Each Series may comprise one or more tranches (" <b>Tranches</b> " and each, a " <b>Tranche</b> ") issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Instruments in bearer form and Instruments in registered form and Instruments in more than one denomination. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments in bearer form and



Instruments in registered form and may comprise Instruments of different denominations.

#### **Form of Instruments**

Instruments may be issued in bearer form or in registered form. In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument or (if so specified in the relevant Final Terms in respect of Instruments to which U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") applies (as so specified in such Final Terms)) a permanent global Instrument. Each such global Instrument which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each such global Instrument which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each temporary global Instrument will be exchangeable for a permanent global Instrument or, if so specified in the relevant Final Terms, for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Final Terms) in registered form in accordance with its terms. Each permanent global Instrument will be exchangeable for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Final Terms) in registered form in accordance with its terms. Instruments in definitive bearer form will, if interest-bearing, have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons and will, if the principal thereof is repayable by instalments, have a grid for recording the payment of principal endorsed thereon or, if so specified in the relevant Final Terms, have payment receipts ("**Receipts**") attached. Instruments in registered form may not be exchanged for Instruments in bearer form unless otherwise specified in the relevant Final Terms.

#### **Eurosystem Eligibility**

If the Global Instruments are stated in the applicable Final Terms to be issued in NGN form, on or prior to the original issue date of the Tranche, the Global Instruments will be delivered to a Common Safekeeper and Euroclear and Clearstream, Luxembourg will be informed whether or not the Instruments are intended to be held in a manner to enable them to be considered as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem ("**Eurosystem eligible collateral**").

Depositing the Global Instruments intended to be held as Eurosystem eligible collateral with a Common Safekeeper does not necessarily mean that the Instruments will be recognised as Eurosystem eligible collateral either upon issue, or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met. In the case of Instruments issued in NGN form which are not intended to be held as Eurosystem eligible collateral as of their issue date, should the

Eurosystem eligibility criteria be amended in the future so that such Instruments are capable of meeting the eligibility criteria, such Instruments may then be deposited with Euroclear or Clearstream, Luxembourg as Common Safekeeper.

<b>Currencies</b>	Instruments may be denominated in any currency or currencies subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
<b>Status of Instruments</b>	Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.
<b>Status of the Guarantee</b>	The obligations of the Guarantor under the Guarantee are, unless otherwise specified in the applicable Final Terms, unsubordinated.
<b>Issue Price</b>	Instruments may be issued at any price, as specified in the relevant Final Terms. The issue price and the principal amount of the relevant Tranche of Instruments will be determined before filing of the relevant Final Terms of each Tranche on the basis of the then prevailing market conditions.
<b>Maturities</b>	<p>Instruments may have any maturity of not less than one month, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/ or central bank requirements.</p> <p>Where Instruments have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried out from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of Section 19 of FSMA by the Issuer.</p>
<b>Redemption</b>	Instruments will be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms.
<b>Early Redemption</b>	Early redemption will, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, be permitted for taxation reasons as mentioned in " <i>Terms and Conditions of the Instruments - Early Redemption for Taxation Reasons</i> ", but will otherwise be permitted only to the extent specified in the relevant Final Terms.
<b>Interest</b>	Instruments shall be interest-bearing. Interest may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
<b>Denominations</b>	Instruments will be issued in such denominations as may be specified in the relevant Final Terms, subject to a minimum denomination of €100,000 (or, if the Instruments are denominated in a currency other than Euro, the equivalent

amount in such currency at the date of issue) in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC, and in compliance with all applicable legal and/or regulatory and/or central bank requirements. In the event that Condition 1.05(c) is stated in the relevant Final Terms as being applicable, the Clearing Systems will not permit trades other than in the denominations specified in the Final Terms or in integral multiples thereof.

**Taxation**

Payments in respect of Instruments 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 imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will (subject to certain exceptions described below) pay such additional amounts as will result in the holders of Instruments (the "**Holders**") or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required. In addition to certain customary exceptions, no such additional amounts shall be payable to: (a) Holders who are resident for tax purposes in Spain; and (b) Holders of Instruments in respect of whose Instruments the Issuer or the Guarantor does not receive such information from the Issue and Paying Agent in a timely manner as may be required in order to comply with the applicable Spanish tax reporting obligations (see "*Terms and Conditions of the Instruments - Taxation*" and "*Taxation and Disclosure of Information in Connection with Payments*").

**Negative Pledge**

The Instruments will have the benefit of a negative pledge as described in Condition 4 (*Negative Pledge*).

**Cross Default**

The Instruments will have the benefit of a cross default as described in Condition 7 (*Events of Default*).

**Information requirements under Spanish Tax Law**

Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, income obtained in respect of the Instruments will not be subject to withholding tax in Spain, **provided that** the Issue and Paying Agent provides the Issuer and the Guarantor, in a timely manner, with certain information relating to the Instruments. See "*Taxation and Disclosure of Information in Connection with Payments*".

If the Issue and Paying Agent fails to provide the Issuer and the Guarantor with the required information described under "*Taxation in the Kingdom of Spain — Information about the Instruments in Connection with Payments*" in a timely manner, the Issuer will be required to withhold tax and pay income in respect of the relevant Instruments net of the Spanish withholding tax applicable to such payments (as at the date of this Base Prospectus, at the rate of 21 per cent.).

If this were to occur, affected Holders will receive a refund of the amount withheld, with no need for action on their part, if the Issue and Paying Agent submits the required information to the Issuer and the Guarantor no later than the 10<sup>th</sup> calendar day of the month immediately following the relevant payment date. In addition, Holders may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Neither the Issuer nor the Guarantor will pay additional amounts in respect of any such withholding tax.

None of the Issuer, the Guarantor, the Arranger, the Dealers, the Registrars or any clearing system (including Euroclear and Clearstream, Luxembourg) assume any responsibility therefor.

**Governing Law**

The terms and conditions of the Instruments, all related contractual documentation and all non-contractual obligations arising out of or in connection with the terms and conditions of the Instruments and all related contractual documentation will be governed by English law, **provided that** the status of the Instruments and of the Guarantee and the provisions relating to the appointment of the Commissioner and the Syndicate of Holders are governed by Spanish law. See "*Terms and Conditions of the Instruments - Law and Jurisdiction*".

**Listing and Trading**

Applications have been made for Instruments issued using this Base Prospectus to be admitted during a period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange.

**Terms and Conditions**

The "*Terms and Conditions of the Instruments*" set out herein will be applicable to each Series of Instruments issued subject to Law 13/1985. Final terms will be prepared in respect of each Tranche of Instruments (the "**Final Terms**"). The terms and conditions applicable to each Tranche will be those set out herein under "*Terms and Conditions of the Instruments*" as completed by the relevant Final Terms.

**Enforcement of Instruments  
Global Form**

In the case of Instruments in global form, Holders' rights will be supported by a Deed of Covenant dated 10 June 2014, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.

**Clearing Systems**

Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.

**Selling Restrictions**

For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material under the laws of the United States of America, the United Kingdom, Japan and the Kingdom of Spain, see "*Subscription and Sale*". Additional restrictions may apply to each Series, as specified in the relevant Final Terms.

**Ratings**

Tranches of Instruments may be rated or unrated and, if rated, such ratings will be specified in the relevant Final Terms. It shall also be specified if the relevant credit rating agency is or is not established in the EEA and whether such agency is or is not registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

**Redenomination and Exchangeability**

The relevant Final Terms will indicate whether the Issuer may elect that, with effect from the Redenomination Date, the Instruments of that Tranche (if the currency of such Tranche is not the Euro) shall be redenominated in Euro (if Redenomination is specified) or become exchangeable for Instruments denominated in Euro (if Exchangeability is specified).

## RISK FACTORS

*Any investment in the Instruments is subject to a number of risks. Prior to investing in the Instruments, prospective investors should carefully consider risk factors associated with any investment in the Instruments, the Telefónica Group's business and the industry(ies) in which the Telefónica Group operates, together with all other information contained in this Base Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Instruments" below or elsewhere in this Base Prospectus have the same meanings in this section.*

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

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

The Telefónica Group's business is conditioned 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 the Company which could affect its business, financial position, reputation, corporate image and brand and its results, are as follows:

### **Risks relating to the Group**

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

Telefónica's international presence enables the diversification of its activities across countries and regions, but entails the need of considering various legislations, as well as the political and economic environments of the countries in which it operates. Any adverse developments or even just uncertainties in this regard, or possible exchange-rate or sovereign-risk fluctuations may adversely affect the business, financial position, cash flows and/or the performance of some of the Group's economic and financial indicators.

With respect to the economic environment, the Telefónica Group's business is impacted by overall economic conditions in each of the countries in which it operates. 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. The main macroeconomic factors that could have an adverse impact on consumption and, accordingly, on the level of demand for the Group's services and finally, on Telefónica Group's results, are: the shortage of credit in an environment of adjustment of banks' balance sheets; the evolution of the labour market; the worsening of consumer confidence, with an increase in saving rates as an immediate consequence; or the needs for greater fiscal adjustment, which would negatively impact on the household income levels and corporate investments, expenses and revenues.

This economic risk might be significant in some European countries which are on the road to recovery but are rebounding more slowly due to financial constraints that must continue to be addressed. According to the European Economic and Financial Affairs Council, the European economy is expected to grow 1.2% in 2014, mainly as a consequence of weak private consumption growth in certain economies. In this region, the Telefónica Group generated 47% of the Group's total revenues in 2013 (including 22.7% in Spain, 11.7% in the UK and 8.6% in Germany).

Also, the impact of the sovereign debt crisis and the rating downgrades in certain Eurozone countries should be taken into account. Any additional deterioration in the sovereign debt markets, doubts about developments in European projects (such as implementation of the banking union project, the results of the European elections or progress towards fiscal integration), as well as further credit restrictions by the banking sector could have an adverse effect on the Telefónica's ability to access funding and/or liquidity which could have a significant adverse effect on the Group's businesses, financial position, results of

operations and cash flows. In addition, the Group's business may be affected by other possible effects from the economic crisis, including a possible insolvency of key customers and suppliers.

In Latin America, the most important challenge is the exchange-rate risk in Venezuela and Argentina (with a sustained accelerated depreciation of the peso against the U.S. dollar), given the negative impact that a higher than expected depreciation in their currencies could have on cash flows from both countries. The economic outlook for the entire region suggests that growth rates will remain stable at around 3%, supported by solid domestic demand fundamentals. The international scenario, despite being not so favourable as in the past periods, will remain to have a relatively benign impact on the region, except for, among others, potential periods of volatility linked to the evolution of the developed financial markets (especially long-term interest rates in the United States affected by the U.S. Federal Reserve's intervention that are not discounted in the market), a greater than envisaged economic slowdown in Asia (a key region for Latin America), and the slow progress being made with structural reforms projects in the majority of these countries which limits potentially higher growth rates. The most significant internal macroeconomic risk factors in the region would be the very high inflation rates in Venezuela and Argentina that could lead to economic stagnation in these countries, the delicate situation of Venezuela's public finance, and the deterioration in the external accounts of countries such as Argentina, Brazil, Chile and Peru; though with very different funding outlooks for the latter three (favourable) than the first.

In relation to the political environment, the Group's investments and operations in Latin America could be affected by a series of risks related to economic, political and social factors in these countries, collectively denominated "country risk.". On this point, approximately 15% of the Group's revenues in the telephony business are generated in countries that do not have investment grade status (in order of importance Venezuela, Argentina, Ecuador, Guatemala, Nicaragua, El Salvador and Costa Rica), and other countries are only one notch away from losing this threshold. Also note that despite clear improvements in Brazil, recent announcements by the ratings agencies considering a possible downgrading of its credit rating could, depending on the extent of the downgrading, result in strong exchange-rate volatility due to an outflow of investments, especially strong in fixed-income.

Among the factors included in the concept of "country risk" are highlighted:

- government regulation or administrative policies may change unexpectedly, including changes that modify the terms and conditions of licences and concessions and their renewal (or delay their approvals) which could negatively affect the Group's interests in such countries;
- abrupt exchange-rate fluctuations mainly due to situations of high levels of inflation and "twin deficits" (in public finance and the external sector) with the resulting exchange-rate overvaluation. This movement could lead to strong exchange-rate depreciation in the context of a floating exchange rate regime, to a significant devaluation off the back of abandoning fixed exchange rates regimes, or to the introduction of varying degrees of restrictions on capital movement. For example, in Venezuela, the official U.S. dollar to bolívar fuerte exchange rate is established by the Central Bank of Venezuela and the Minister of Finance, with an alternative market for attracting foreign currency through the Sistema Complementario de Administración de Divisas (SICAD) fortnightly auctions. Additionally, the acquisition of foreign currencies by Venezuelan or Argentinean companies (in some cases) to pay foreign debt or dividends is subject to the pre-authorisation of the relevant authorities. Also, the Argentinean peso is following a sustained accelerated depreciation against the U.S. dollar;
- governments may expropriate or nationalise assets, or make adverse tax decisions, or increase their participation in the economy and in companies;
- economic-financial downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations in such countries; and
- maximum profit margins limits may be imposed in order to limit the prices of goods and services through the analysis of cost structures. Thus, in Venezuela, a maximum profit margin has been introduced that will be set annually by the Superintendencia for Defense of Socioeconomic Rights.

***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, interest rates or financial investment risks.***

At 31 December 2013, 71% of the Group's net debt (in nominal terms) had its interest rates fixed over a year, while 23% was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to a change in short-term interest rates at 31 December 2013: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica has a financial position at that date would lead to an increase in financial expenses of €118 million, (ii) whereas a 100 basis points decrease in interest rates in all currencies except the euro, the U.S. dollar and the pound sterling (these to zero rates in order to avoid negative rates), would lead to a reduction in financial expenses of €55 million. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and bearing in mind the derivative financial instruments arranged.

According to the Group's calculations, the impact on results and specifically changes in the value of a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of €42 million, primarily due to the weakening of the bolívar fuerte and, to a lesser extent, the Argentinean peso. These calculations had been made assuming a constant currency position with an impact on profit or loss at 31 December 2013 including derivative instruments in place.

The Telefónica Group uses a variety of strategies to manage this risk, mainly through the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. Furthermore, 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 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 performance, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the development and implementation of the Company's strategic plan, as well as the development and implementation of new technologies or the renewal of licences require a substantial amount of financing.

The performance of financial markets in terms of liquidity, cost of credit, access and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the pace of economic recovery, the health of the international banking system and the concerns regarding the burgeoning deficits of some European countries. The worsening international financial market credit conditions caused by some of these factors could make it more difficult and more expensive to refinance existing financial debt or arrange new debt if necessary, and more difficult and costly to raise funds from the Group's shareholders, and may negatively affect the Group's liquidity. At 31 December 2013, gross financial debt scheduled to mature in 2014 amounted to €9,214 million (which includes: (i) the net position of derivative financial instruments, certain current payables and (ii) €582 million of notes with an option of early repayment and no contractual obligation to be repaid), and gross financial debt scheduled to mature in 2015 amounted to €6,802 million. Despite having covered gross debt maturities of 2014 and 2015 by available cash and lines of credit at 31 December 2013, possible difficulties to maintain the current safety margin, or the risk that this could be significantly and unexpectedly exhausted, could force Telefónica to use resources allocated for other investments or commitments for payment of its financial debt, which could have a negative effect on the Group's businesses, financial position, results of operations or cash flows.

Although the Group maintains liquidity coverage on 24-month maturities, obtaining financing on the international capital markets could also be restricted, in terms of access and cost, if Telefónica's credit ratings are revised downwards, either due to lower solvency or operating performance, or as a result of a downgrade in the rating for Spanish sovereign risk by rating agencies. Any of these situations could have a negative impact on the Group's ability to deal with debt maturities.

Moreover, market conditions could make it harder to renew existing undrawn credit lines, 10% of which, at 31 December 2013, initially mature prior to 31 December 2014.



## Risks relating to the Group's Industry

*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 regulations in different countries, and additionally, many of the services provided 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 spectrum availability. Among the main risks of this nature are the spectrum and licences/concessions, rates, universal service regulation, fiber networks, privacy, functional separation of businesses and network neutrality.

Thus, 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, eventually, revocation or failure to renew these licences, authorisations or concessions, or the granting of new licences to competitors for the provisions of services in a specific market.

The Telefónica Group pursues its licence renewals in the terms referred in their respective contractual conditions, though it cannot guarantee that it will always complete this process successfully or under the most beneficial terms for the Group. In many cases complying with certain obligations is required, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines, revision of the contractual terms, or even the revocation of the licence, authorisation or concession. Additionally, the Telefónica Group could be affected by regulatory actions carried out by the antitrust authorities. These authorisations could prohibit certain actions, such as new acquisitions or specific practices, create obligations or lead to heavy fines. Any such measures implemented by the competition 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 government concessions:*

The "Digital Single Market" package of measures is currently being amended by the European Parliament to include important measures affecting, *inter alia*, spectrum regulation. Although these measures are not yet final, they could have significant implications as they include new provisions on secondary markets, criteria to apply at auctions, renewals and terms of licences, etc.

In 2015/2016, in Germany, it is expected that frequencies in the 900/1800 MHz band licences, expiring at the end of 2016, will be renewed. The German regulator has adopted a proposal decision envisaging an auction of spectrum in the 900 MHz, 1800 MHz, 700 MHz and 1500 MHz bands. Furthermore, it is proposed, for operators holding 900 MHz GSM band licences, the reservation of 2X5 MHz in this band. The aforementioned reservation entails a 99% population coverage obligation. Moreover, European and national regulators are reviewing the implications of the merger of Telefónica Germany and E-Plus, and any potential remedies or conditions. Remedies could affect the spectrum finally available. In Spain, it is expected that the previously auctioned frequencies in the 800 MHz band from the digital dividend, will be allocated on 1 January 2015. For its part, in the UK a significant increase in the annual licence fees charged for the use of the spectrum in 900 and 1800 MHz band has been proposed by the regulator Ofcom and a decision is under discussion, which outcome is uncertain.

Main allocation criteria for the 700 MHz band (Digital Dividend II) will be defined in coming years in Europe. This could involve facing new cash outflow ahead of schedule (most likely scenario is currently seen as to have this spectrum between 2018 and 2021).

In Latin America, spectrum auctions will take place entailing potential outflows to obtain new licences or to meet the coverage requirements associated with these licences. Specifically, the following procedures are in progress or expected to take place in 2014:

- Brazil: Auction of the 700 MHz band. Allocation of frequencies in the 700 MHz band for fixed-line and mobile telephone and broadband services has been approved. A public consultation for the auction conditions draft has been launched by Anatel. This draft approaches some important matters, such as the obligations, for the winning bidders, to afford the costs of spectrum cleaning,

the costs of digitalization of television channels and the costs of distribution of digital equipment to low-income families. Simultaneously, Anatel has also launched a public consultation to regulate the coexistence of mobile services and television services in 700MHz.

- Ecuador: Negotiations underway to obtain additional frequencies in the 1900 MHz band.
- El Salvador: The auction of one block in the 1900 MHz band and another in the AWS band has been postponed, although this issue might be resolved in the coming months.
- Venezuela: Auction in the AWS band (1710-2170 MHz frequencies) and in the 2.5 GHz band, has been suspended.
- Argentina: Argentina's government plans to auction high-speed wireless licenses later this year 2014 in the AWS and 700 MHz bands

On the other hand, in Colombia the ICT Ministry issued a Resolution on 27 March 2014 to renew 850 MHz/1900 MHz licences for 10 additional years. The issue of the reversion of assets will be discussed during the liquidation of the concession contract, considering the terms of the contract and the review of the Constitutional Court about the Law 422 de 1998, which established the reversion only of the frequencies. In Peru, an application for partial renewal of the concessions for the provision of the fixed-line service for another five years has been made, although assurance has been given that the concession will remain in force until November 2027. Also, a new law has been enacted establishing mobile virtual network operator (MVNOs) and Rural Mobile Infrastructure Operators (RMIOs) in the Peruvian market. In Mexico, it is envisaged, in development of the constitutional reform enacted due to the "Pact for Mexico" political initiative, the creation of a wholesale network publicly owned which will offer wholesale services in the 700 MHz band, the funding and the marketing model of this project have not been determined as at the date of this Prospectus.

On the other hand, Telefonica Chile was awarded spectrum on the 700 MHz band in March 2014. On March 27, Telefonica signed in Panama the renewal contract, paying 108 Million USD, granting the use of spectrum for 20 additional years from February 5, 2016 to February 4, 2036. Telefónica UK was awarded two 10 MHz blocks of spectrum in the 800 MHz band in 2013 to roll out a national 4G network. In Spain, the following licence extensions have been granted: in the 900 MHz band, 4 MHz from July 2025 to December 2030 and 1 MHz from February 2015 to December 2030, likewise, in the 1800 MHz band a 20 MHz licence has been extended from 2028 to December 2030. Moreover, in 2013, Telefónica also obtained spectrum licences in Uruguay (2x5 MHz in the 1900 MHz band), Colombia (30 MHz in the AWS band) and Peru (20+20 MHz in the 1700 MHz band). In 2013 Telefónica Brazil requested the amendment of the terms of authorisation for the "L" band in order to relocate the blocks of radiofrequencies. Currently, the "L" band is located in the 3G radiofrequencies (1.9/2.1GHz). The notice of the "L" band provided for such relocation and the request ensured a more efficient use of the spectrum for Telefónica Brazil. CapEX associated with the new spectrum in 2013 amounted to €1,224 million.

In 2012, Telefónica Ireland was awarded spectrum in the 800, 900 and 1800 MHz bands. In Brazil, Telefónica was awarded a block of the 2500 MHz "X" band (20+20 MHz), including the 450 MHz band in certain states. In the spectrum auction, Telefónica Brazil had to compensate the former licencees of this bandwidth, used for multichannel multipoint distribution services. The other operators also awarded spectrum shall, in turn, compensate Telefónica Brazil. Part of these compensation requirements is being legally contested. In Venezuela, the concession agreement between Telefónica Venezolana and the Regulator for an additional 20 MHz in the 1900 MHz band was executed. Telefónica Móviles Chile, S.A. was awarded radiofrequencies for 4G technology in the 2.6 GHz band (2x20 MHz), and in Nicaragua Telefónica was granted 36 MHz in the 700 MHz band.

The Company's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed above or any others in which it operates or its capacity to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on the Company's ability to maintain the quality of existing services, which may adversely affect the Group's financial condition, results of operations and cash flows.

*Regulation of wholesale and retail charges:*

In terms of roaming, the regulated "Eurotariffs" will be reduced in July 2014, as per the Regulation approved in 2012. The structural roaming solutions which could lead to a price decrease in the intra-European Union roaming services, will also take effect in July 2014. Furthermore, the packet of "Digital Single Market" measures mentioned above also includes a proposal to eliminate European Union roaming charges in July 2016 (the European Parliament has brought forward the "end of roaming" to 15 December 2015) as well as international charges.

The decreases in wholesale mobile network termination rates in Europe are also noteworthy. In the UK, wholesale mobile network termination rates have been reduced to 0.845 pence/minute from 1 April 2014 (representing a 0.3% reduction compared to the previous rates), while the termination rate in Germany was set at 0.0179 euro/minute as from 31 December 2013 (3.24% lower than the previous termination rates). The European Commission has requested that the German regulator withdraw or amend its latest decision on mobile termination rates. There is a risk that the European Commission will initiate infringement proceedings against Germany, and rates may be further reduced. In Spain, the schedule for reducing mobile network termination rates has reached the target rate (0.0109 euro/minute) in July 2013, representing close to 61% lower than the wholesale prices in force until that date. As from July 2013, the target price reached will remain in force until new target prices are set. The Spanish regulator has yet to make its decision on this matter. Based on a High Court ruling in Ireland, a mobile termination rate of €0.026 (euro/minute) was provisionally imposed (more favourable than the figure initially proposed by the regulator), applicable from 1 July 2013 (representing 29.35% lower the previous termination rates). The Irish regulator is also developing a more adverse cost model based on long-run incremental cost (LRIC) price calculation, which is expected to be announced in July 2014.

Also, in Latin America, there are moves to review mobile termination rates leading to these being reduced. Thus, for example, developments in Mexico are among the most relevant, where the Federal Institute of Telecommunications (IFT) has declared "America Movil Group" a dominant operator in the telecommunications market and as a result of that, on 26 March 2014 it introduced, among other, special regulations on asymmetric interconnection rates, however such secondary telecommunications laws have not yet been approved. The Company's competitive position may benefit to a greater or lesser extent depending on the scope of these measures. Telefónica México has filed an administrative appeal against the 2011 resolutions of the Federal Telecommunications Commission of México (Cofetel) regarding mobile network termination rates (representing a 61% reduction compared to the previous rates). As of the date of this Prospectus, no ruling has been made on this appeal. Once these appeals have been concluded, the rates applied may be further reduced retroactively. As of the date of this Prospectus, IFT has not approved the termination rates for 2012, 2013, or 2014.

In Brazil, in October 2011, the regulator (Anatel) approved the fixed-mobile rate adjustment regulation, which provides a progressive reduction of these rates until 2014 through a reduction factor, which will be deducted from the inflation, and implying a reduction of approximately 29% in 2012-2014. However, the Plano Geral de Metas de Competição (PGMC) of the end of 2012 extended application of the reduction to 2015 and amended the rates for 2014 and 2015 (75% of the 2013 rate in 2014 and 50% of the 2013 rate in 2015). A draft law has been prepared in Brazil to abolish the basic telephony service monthly fee. "Price protection" practices (reimbursement of price differences of a product to customers if this falls within a relative short period of time) may also have a negative effect, both in economic and image terms.

In Chile, a process to set new fixed-line termination charges is ongoing. A Tariff Decree has been issued for mobile networks covering the 2014-2019 five-year period. The new Tariff Decree entered into effect on 25 January 2014 and implies a reduction of 73.4% with respect to the previous rates. In Ecuador the rate-related risks also concern a reduction in rural and urban telephony charges, a reimbursement of top-up balances, as well as rounding to the nearest minute.

The implementation of the Enabling Act (*Ley Habilitante*) in Venezuela also confers full powers to the President to implement price controls measures, and it is therefore expected that it will not be possible to raise Movistar retail rates in line with high Venezuela inflation. In relation to mobile termination rates with the national operator of reference, these have been reduced 6% compared to the previous rates.

In Peru, the previously applicable rate was reduced by 24.24% in October 2013.

In Colombia, a decision was adopted establishing a gradual reduction for termination mobile rates. Regarding the termination model for time, the reduction for 2014 is 19.8 % and 24.6% for 2015. For the capacity model the reduction will be 10.9% for 2014 and 12.3% for 2015. In relation with fix networks (for extended local networks) the reduction will be 50% for 2014 and 100% for 2015. The OECD has recommended additional reductions for termination mobile rates and the regulator is expected to present a project in the third quarter of 2014.

*Regulation of universal services:*

The European Commission on its formal obligation to review the Universal Service Directive will launch a public consultation whose objective will be to modify the scope of their obligations and include, at a European level, far higher broadband speeds than are currently provided. Depending on the terms set forth in the new regulation, implementation at a local level could lead to higher costs for both the universal service provider and the operators forced to finance the Universal Service.

The regulator in Brazil has modified the universal service targets. This represents a risk on the Company's positive balance resulted from the fulfilment of 2003 universal service targets, whose implementation was less costly than the initially established targets, leaving a positive balance for the Company.

The new requirements that cause this positive balance could apply until 2025, and extend beyond on issues such as, for example, rural telephony services and the expansion of the backhaul network. Rural telephony services are another risk in Brazil given the obligations arising from the switched fixed-line telephone services model and the obligations to provide mobile coverage in certain rural areas of the country.

*Regulation of fiber networks:*

It is expected that in 2014 the Spanish National Competition Authority (*Comisión Nacional de los Mercados y la Competencia*) will carry out a consultation and decide on regulatory obligations for broadband market regulation in Spain. New regulation will apply to NGN (Next Generation Networks) for, at least, three years. This could increase Telefónica's regulatory obligations in Spain.

*Regulations on privacy:*

In Europe, a new Data Protection Regulation is in the European legislative process which, at the date of this Prospectus, is not expected to end before the fourth quarter of 2014. This could lead to certain critical provisions laid down in the current draft of the Regulation (presently under debate) being worded in such a way that stops or hinders Telefónica from launching some services, that focus on the processing of personal data.

In Brazil, triggered by the approval of Civil Rights Framework for Internet Governance, which provides some generic rules about data protection, it is believed that, soon, new regulation on data protection will be launched, which would make the use of personal data of telecom services users difficult.

*Regulation of functional separation:*

The new principles established in Europe's common regulatory framework, adopted in 2009 and transposed in the national legislation of each Member State in which Telefónica operated during 2011 and 2012, could result in greater regulatory pressure on the local competitive environment. Specifically, this framework supports the possibility of national regulators, in specific cases and under exceptional conditions, forcing operators with significant market power and vertically-integrated operators to separate their wholesale and retail businesses at a functional level. They would therefore be required to offer equal wholesale terms to third-party operators that acquire these products.

*Regulation of network neutrality:*

In Europe, application of the current regulatory framework means that it is likely that during 2014, the Body of European Regulators for Electronic Communications (BEREC) and national regulators will strengthen their supervision of operators with regard to blocking of access, discrimination of applications or Internet service quality. The European Parliament and the Council are simultaneously debating the draft of the European Digital Market Regulation proposed by the European Commission, in particular concerning network neutrality, network management or differentiation of Internet access service

characteristics. All of them are aspects of great importance that have a direct impact on potential business models that can be developed in the future.

As at the date of this Prospectus, Telefónica has presence in countries where net neutrality has already been ruled, such as Chile, Colombia, Peru and more recently Brazil, but this remains a live issue and with varying degree of development in the other countries. In Germany, the Economy Minister published a draft law on 20 June 2013 to regulate neutrality, especially with regard to blocking and discrimination of content and Internet services. The text is pending approval possibly in 2014.

If changes to regulation such as those described above, or otherwise, occur in the various jurisdictions where the Telefónica Group operates, it could have a material adverse effect its business and results of operations.

***Customers' perceptions of services offered by the Company may put it at a disadvantage compared to competitors' offerings.***

Customers' perceptions of the services and products offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects the Company's competitive position relative to other technology sector companies, and its ability to extract the value generated during this process of transformation. Failure to do so appropriately could have an adverse impact on the Group's financial condition, results of operations and cash flows.

***Company may not be able to adequately foresee and respond to technological changes and sector trends.***

In a sector characterised by rapid technological change, it is essential to be able to offer the products and services demanded by the market, and consider the impacts of changes in the life cycle of technical assets, finely adjust margins, and select the right investments to make.

The Telefónica Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt to constant technological changes taking place in the industry.

To compete effectively in these markets, the Telefónica Group needs to successfully market its products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets, anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so appropriately could have an adverse impact on the Group's financial condition, results of operations and cash flows.

New products and technologies arise constantly, while the development can render obsolete the products and services the Telefónica Group offers and the technology it uses. This means that Telefónica must invest in the development of new products, technology and services so it can continue to compete effectively with current or future competitors, and which may result in the decrease of the Group's profits and revenue margins. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are deriving from mobile Internet and connectivity services that are being launched. Research and development costs amounted to €1,046 million and €1,071 million in 2013 and 2012, respectively, representing 1.8% and 1.7% of the Group's consolidated revenue, respectively. One technology that telecommunications operators, including Telefónica (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, such as Internet speed of up to 100MB or HD television services. However, substantial investment is required to deploy these networks, which entails fully or partially substituting copper loop access with optic fiber. An increasing demand for the capabilities offered by these new networks to end users exist, however, the high level of the investments requires a continuous analysis of the return on investment.

The explosion of the digital market, and entry of new players in the communications market, such as Mobile Virtual Network Operators (MVNOs), Internet companies or device manufacturers, may cause the loss of value of certain assets, and affect its ability to generate income. Therefore, it is necessary to update the business model, encouraging the pursuit of incomes and additional efficiencies to those followed

traditionally. Failure to do so appropriately could have an adverse impact on the Group's financial condition, results of operations and cash flows.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to respond the Company's operating requirements is a key factor to be taken into account with respect to the commercial development, customer satisfaction and business efficiency.

***The Company depends on the 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 the operation, and may cause contingencies or damages to the Company's image in the event that inappropriate practices were produced by a participant in the supply chain.

As of 31 December 2013, the Telefónica Group depends on 8 handset suppliers and 12 network infrastructure suppliers, which together accounted for 80% of orders. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements.

If these suppliers fail to deliver products and services to the Telefónica Group on a timely basis, it could jeopardise network deployment and expansion plans, which in some cases could adversely affect the Telefónica Group's ability to satisfy its licence terms and requirements or have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

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

Unanticipated network interruptions as a result of system failures, including those due to network, hardware or software or cyber-attacks, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm the Telefónica Group's image and reputation.

Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and other physical and logical security. However, these measures are not always effective. Although the Telefónica Group has insurance policies to cover this type of incidents and risks, these policies may not be sufficient to cover all possible monetary losses, although the claims and loss in revenue caused by service interruptions to date have been covered by these policies.

***The telecommunications industry may be affected by the possible effects of electromagnetic fields, emitted by mobile devices and base stations, may have on human health.***

In some countries, there is a concern regarding potential effects of electromagnetic fields, emitted by mobile devices and base stations, on human health. This public concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructures necessary to ensure quality of service, and affected the deployment criteria of new networks and digital services such as smart meters development.

There is a consensus between various expert groups and public health agencies, including the World Health Organisation (WHO), who claim that at the moment there have not been established risks for exposure to low frequency signals in mobile communications. The scientific community is still investigating this issue especially on mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionising Radiation Protection Committee (ICNIRP) have been internationally recognised. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Society's worries about radiofrequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting where transmitters and cell sites can be located, how they operate, the use of the Group's mobile telephones and the massive deployment of smart meters and other products using mobile technology. This could lead to the Company being unable to expand or improve its mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health, may negatively affect the business, financial conditions, results and cash flows of the Telefónica Group.

***Possible regulatory, business, economic or political changes 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 cost. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognise impairment losses in goodwill, intangible assets or fixed assets. Although the recognition of impairments of property, plant and equipment, intangible assets and financial 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 impairment losses on certain of its investments, affecting the results of the year in which they were made. Thus, with respect to the investment in Telco, S.p.A. ("**Telco**"), value adjustments were made in fiscal years 2012 and 2013 for €1,277 million and €267 million, respectively. Also in 2012, the revision of the value of Telefónica operations in Ireland, resulted in a negative impact of €527 million.

***Telefónica Group's networks carry and store huge 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.***

Telefónica Group's networks carry and store huge volumes of confidential, personal and business data, through both voice and data traffic. Telefónica stores increasing quantities and types of customer data in both business and consumer segments. Despite best efforts to prevent it, Telefónica may be found liable for the loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks 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.

Telefónica'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 the loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which Telefónica 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.

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

Telefónica and Telefónica Group companies are party to lawsuits, tax claims 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 cash flows. In particular, regarding tax and antitrust claims, Telefónica Group has open judicial procedures in Peru concerning the clearance of previous years' income tax, which contentious-administrative appeal is currently on its way; as well as in Brazil CADE's (*Conselho Administrativo de Defesa Econômica*) as regards the acquisition of a 50% stake in Vivo and tax open procedures, primarily relating to the CIMS (tax on telecommunication services).

**Risks Relating to Withholding**

***Risks in relation to Spanish Taxation***

The Issuer and the Guarantor are required to receive certain information relating to the Instruments. If such information is not received by the Issuer or the Guarantor, as the case may be, in a timely manner, the Issuer will be required to apply Spanish withholding tax to any payment of interest in respect of the relevant Instruments, or to income arising from the payment of Instruments issued below par.

Under Spanish Law 13/1985 and Royal Decree 1065/2007, each as amended, payments of income in respect of the Instruments will be made without withholding tax in Spain **provided that** the Issue and Paying Agent provides the Issuer and the Guarantor in a timely manner with a certificate containing certain information relating to the Instruments in the Spanish language substantially in the form set out in Exhibit I, attached hereto.

This information must be provided by the Issue and Paying Agent to the Issuer and the Guarantor, before the close of business on the Business Day (as defined in the Terms and Conditions of the Instruments) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Instruments (each a "**Payment Date**") is due.

The Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments. If, despite these procedures, the relevant information is not received by the Issuer and the Guarantor on each Payment Date, the Issuer will withhold tax at the then-applicable rate (as at the date of this Base Prospectus, 21 per cent.) from any payment in respect of the relevant Instruments. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

The Issue and Paying Agency Agreement provides that the Issue and Paying Agent will, to the extent applicable, comply with the relevant procedures to deliver the required information concerning the Instruments to the Issuer and the Guarantor in a timely manner See "*Taxation in the Kingdom of Spain — Information about the Instruments in Connection with Payments*".

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 Dealers assumes any responsibility therefor.

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. In the opinion of the Issuer and the Guarantor, payments in respect of the Instruments will be made without deduction or withholding of taxes in Spain **provided that** the relevant information about the Instruments is timely submitted by the Issue and Paying Agent to them, notwithstanding the information obligations of the Issuer 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.

#### ***Risks in relation to Instruments held by Spanish corporate entities***

Despite the Issuer's and the Guarantor's opinion that the Instruments are not placed in Spain (on the basis that there will be no public offer into Spain, as contemplated in "*Subscription and Sale -The Kingdom of Spain*") for the purposes of the exemption from withholding tax on payments to Spanish corporate Holders (as described in "*Taxation and Disclosure of Information in Connection with Payments - 2. Legal Entities with Tax Residency in Spain*"), the Spanish tax authorities may determine that the Instruments have been placed, totally or partially, in Spain and that the exemption referred to above does not apply to any of the Instruments.

If such determination were made, under "*Terms and Conditions of the Instruments - Taxation*" paragraph (ii), the Issuer would be required to make a withholding at the applicable rate, as at the date of this Base Prospectus 21 per cent., on payments of interest under the Instruments and no additional amounts will be payable by the Issuer or the Guarantor in such circumstances.

#### ***U.S. Foreign Account Tax Compliance Withholding***

The U.S. "Foreign Account Tax Compliance Act" (or "FATCA") imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Instruments are in global form and held within the clearing systems, in all but the most remote



circumstances, it is not expected that FATCA will affect the amount of any payments received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payments) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer or the Guarantor, as the case may be, has no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Furthermore, if an amount in respect of U.S. withholding tax were to be deducted or withheld from any payments on the Instruments, the Issuer would not, pursuant to the conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding of such tax.

#### ***Risks Relating to the Comisario***

Under Spanish law, the Issuer is required to appoint a commissioner (*comisario*) (the "**Commissioner**") in relation to the Instruments. The Commissioner owes certain obligations to the Syndicate of Holders (as described in the regulations governing the relevant Syndicate of Holders). However, prospective investors should note that the Commissioner will be an individual appointed by the Issuer and that such individual may also be an employee or officer of the Issuer or the Guarantor.

#### ***Withholding under the EU Savings Tax Directive***

As described in "*Taxation and Disclosure of Information in connection with Payments – EU Savings Tax Directive*" below, in accordance with the requirement of the EU Savings Tax Directive, certain Member States have opted to apply a withholding system in relation to payments of Interest or of other similar income, deducting tax at a rate of 35 per cent.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions) nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### ***Risks Relating to the Insolvency Law***

In the event of Instruments specified in the Final Terms as being subordinated, the obligations of the Issuer with respect to subordinated Instruments will be subordinated and unsecured and will rank junior to all unsubordinated obligations of the Issuer. Although subordinated Instruments may pay a higher rate of interest than comparable instruments which are not subordinated, there is a risk that an investor in subordinated Instruments may not recover all or part of its investment in the event of insolvency (*concurso*) of both the Issuer and the Guarantor.

#### ***Risk Relating to the Instruments***

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

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which is already issued). If the Instruments 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 Instruments issued under the Programme to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such applications will be accepted, that any particular Tranche of

Instruments will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Instruments.

***The Instruments may be redeemed prior to maturity.***

If in the case of any particular Tranche of Instruments the relevant Final Terms specifies that the Instruments are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Instruments at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Instruments.

***Because Instruments in global form 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.***

Instruments issued under the Programme may be represented by one or more global Instruments. Such global Instruments will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant global Instrument, investors will not be entitled to receive definitive Instruments. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Instruments. While the Instruments are represented by one or more global Instruments, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Instruments are represented by one or more global Instruments the Issuer and the Guarantor will discharge their payment obligations under the Instruments by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global Instrument must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Instruments. 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 Instruments.

Holders of beneficial interests in the global Instruments will not have a direct right to vote in respect of the relevant Instruments. 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. Similarly, holders of beneficial interests in the global Instruments will not have a direct right under the global Instruments to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Instruments but will have to rely upon their rights under the Deed of Covenant.

**Risks relating to Instruments denominated in Renminbi**

A description of risks which may be relevant to an investor in Instruments denominated in Renminbi ("**Renminbi Instruments**") are set out below.

***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of Renminbi Instruments.***

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

In respect of Renminbi foreign direct investments ("**FDI**"), the People's Bank of China ("**PBoC**") promulgated the *Administrative Measures on Renminbi Settlement of Foreign Direct Investment* (外商直

接投資人民幣結算業務管理辦法) (the "**PBoC FDI Measures**") on 13 October 2011 as part of PBoC's detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On 14 June 2012, PBoC issued a circular setting out the operational guidelines for FDI. Under the PBoC FDI Measures, special approval for FDI and shareholder loans from PBoC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBoC is still necessary.

On 3 December 2013, the Ministry of Commerce of the PRC ("**MOFCOM**") promulgated the *Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment* (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

As the PBoC FDI Measures, the MOFCOM Circular and the PBoC Shanghai FTZ Circular are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

There is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Instruments denominated in Renminbi.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Instruments and the Issuer's or Guarantor's ability to source Renminbi outside the PRC to service Renminbi Instruments.***

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While PBoC has established Renminbi clearing and settlement mechanisms for participating banks in Hong Kong, Macau, Singapore and Taiwan through settlement agreements on the clearing of Renminbi business with Bank of China (Hong Kong) Limited in Hong Kong, Bank of China, Macau Branch in Macau, Industrial and Commercial Bank of China, Singapore Branch in Singapore and Bank of China, Taipei Branch in Taiwan (each, a "**Renminbi Clearing Bank**"), and are in the process of establishing Renminbi clearing and settlement mechanisms in France, Germany and the United Kingdom (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Instruments. To the extent the Issuer or the Guarantor is required to source Renminbi in

the offshore market to service its Renminbi Instruments, there is no assurance that the Issuer or the Guarantor will be able to source such Renminbi on satisfactory terms, if at all.

***Investment in the Renminbi Instruments is subject to exchange rate risks***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The Issuer and the Guarantor will make all payments of interest and principal with respect to the Renminbi Instruments in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Instruments in that foreign currency will decline.

***Investment in the Renminbi Instruments is subject to currency risk***

If the Issuer is not able, or it is impracticable for it, to satisfy its obligation to pay interest and principal on the Renminbi Instruments as a result of Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions), the Issuer shall be entitled, on giving not less than five or more than 30 calendar days' irrevocable notice to the investors prior to the due date for payment, to settle any such payment in U.S. Dollars on the due date at the U.S. Dollar Equivalent (as defined in the Conditions) of any such interest or principal, as the case may be.

***Investment in the Renminbi Instruments is subject to interest rate risks***

The PRC Government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Instruments may carry a fixed interest rate, the trading price of the Renminbi Instruments will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Instruments propose to sell their Renminbi Instruments before their maturity, they may receive an offer lower than the amount they have invested.

***Payments with respect to the Renminbi Instruments may be made only in the manner designated in the Renminbi Instruments***

All payments to investors in respect of the Renminbi Instruments will be made solely (i) for so long as the Renminbi Instruments are represented by global certificates held with the common depositary or common safekeeper, as the case may be, for Clearstream Banking *société anonyme* and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or (ii) for so long as the Renminbi Instruments are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Neither the Issuer nor the Guarantor can be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

- (1) English language translations of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2013 including the notes thereto, as set out on pages 3 to 165 of the document entitled "Audit Report, Consolidated Annual Financial Statements, and Consolidated Management Report, All for the Year Ended December 31, 2013", and the auditors' report attached thereto;
- (2) English language translations of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2012 including the notes thereto, as set out on pages 3 to 198 of the document entitled "Audit Report, Consolidated Annual Financial Statements, and Consolidated Management Report All for the Year Ended December 31, 2012", and the auditors' report attached thereto;
- (3) English language translations of the unaudited interim consolidated financial information of the Guarantor for the 3 months ended 31 March 2014, as set out in the document entitled "Results January – March 2014";
- (4) English language translations of the financial statements of the Issuer for the year ended 31 December 2013 including the notes thereto, as set out on pages 3 to 29 of the document entitled "Telefónica Emisiones, S.A. (Sole shareholder company) Financial Statements and Management Report for the year ended December 31, 2013", and the auditors' report attached thereto;
- (5) English language translations of the financial statements of the Issuer for the year ended 31 December 2012 including the notes thereto, as set out on pages 3 to 24 of the document entitled "Telefónica Emisiones, S.A. (Sole shareholder company) Financial Statements and Management Report for the year ended December 31, 2012", and the auditors' report attached thereto;
- (6) the Terms and Conditions of the Instruments as set out on pages 17-46 of the Base Prospectus dated 8 July 2005 relating to the Programme (the "**2005 Conditions**");
- (7) the Terms and Conditions of the Instruments as set out on pages 19-47 of the Base Prospectus dated 5 July 2006 relating to the Programme (the "**2006 Conditions**");
- (8) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2007 relating to the Programme (the "**2007 Conditions**");
- (9) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2008 relating to the Programme (the "**2008 Conditions**");
- (10) the Terms and Conditions of the Instruments as set out on pages 20-48 of the Base Prospectus dated 3 July 2009 relating to the Programme (the "**2009 Conditions**");
- (11) the Terms and Conditions of the Instruments as set out on pages 22-50 of the Base Prospectus dated 23 June 2010 relating to the Programme (the "**2010 Conditions**");
- (12) the Terms and Conditions of the Instruments as set out on pages 23-52 of the Base Prospectus dated 20 June 2011 relating to the Programme (the "**2011 Conditions**");
- (13) the Terms and Conditions of the Instruments as set out on pages 20-49 of the Base Prospectus dated 12 June 2012 relating to the Programme (the "**2012 Conditions**"); and
- (14) the Terms and Conditions of the Instruments as set out on pages 23-54 of the Base Prospectus dated 12 June 2013 relating to the Programme (the "**2013 Conditions**").

Translations in English have been translated from the original Spanish, and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy, the Spanish language version of the relevant document prevails.

For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the documents above may be inspected during normal business hours at the registered/head office of the Issuer and the Guarantor, and in addition, such documents may be viewed on the following website: [www.telefonica.com](http://www.telefonica.com).

Any information contained in the documents listed at (1) to (14) (inclusive) above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus.

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following are the Terms and Conditions of the Instruments which, as completed in relation to any Instruments by Part A of the relevant Final Terms, will be applicable to each Series of Instruments, provided that the text contained herein in italics is included for information and shall not form part of the Terms and Conditions:*

The Instruments of each Tranche are constituted by a public deed of issuance (the "**Public Deed of Issuance**") to be executed before a Spanish notary public and to be registered with the Mercantile Registry of Madrid on or prior to the issue date, and which shall contain, among other information, the terms and conditions of the Instruments. The Instruments are issued pursuant to and in accordance with an amended and restated issue and paying agency agreement (as amended, supplemented, restated or replaced from time to time, the "**Issue and Paying Agency Agreement**") dated 10 June 2014 and made between Telefónica Emisiones, S.A.U. (the "**Issuer**"), Telefónica, S.A. (the "**Guarantor**"), The Bank of New York Mellon, London Branch in its capacities as Issue and Paying Agent (the "**Issue and Paying Agent**", which expression shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such) and as principal registrar (the "**Principal Registrar**", which expression shall include any successor to The Bank of New York Mellon, London Branch in its capacity as such), The Bank of New York Mellon (Luxembourg), S.A. in its capacity as alternative registrar (the "**Alternative registrar**", which expression shall include any successor to The Bank of New York Mellon (Luxembourg), S.A. in its capacity as such) and the paying agents named therein (the "**Paying Agents**", which expression shall include the Issue and Paying Agent and any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement). The Instruments have the benefit of a deed of covenant (the "**Deed of Covenant**") dated 10 June 2014 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the "**Guarantee**") dated 10 June 2014, executed by the Guarantor in favour of, *inter alia*, the Holders (as defined below). Copies of the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Principal Registrar and the Alternative registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a "**Series**"), and each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") of Instruments. Each Tranche will be the subject of final terms (each, "**Final Terms**"), a copy of which will be available for inspection during normal business hours at the specified office of the Issue and Paying Agent and/or, as the case may be, the Registrar (as defined in Condition 2.02). References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons (as defined in Condition 1.06) and Receipts (as defined in Condition 1.07) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Instruments of the relevant Tranche or Series.

For so long as any of the Instruments is represented by a Permanent Global Instrument or Temporary Global Instrument (as defined below) held on behalf of Euroclear Bank S.A./N.V. (Euroclear) and/or Clearstream Banking, société anonyme (Clearstream, Luxembourg) (the "**Clearing Systems**") each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the Holder of a particular nominal amount of such Instruments (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Instruments standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the Holder of such nominal amount of such Instruments for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Instruments, for which purpose the bearer of the relevant Bearer Instrument in global form or the registered Holder of the relevant Registered Instrument in global form shall be treated by the Issuer, the Guarantor and any Paying Agent as the Holder of such nominal amount of such Instruments in accordance with and subject to the terms of the relevant Temporary Global Instrument or Permanent Global Instrument and the expression Holder and related expressions shall be construed accordingly.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as completed by the Final Terms.

## 1. **Form and Denomination**

- 1.01 Instruments are issued in bearer form ("**Bearer Instruments**") or in registered form ("**Registered Instruments**"), as specified in the Final Terms, and are serially numbered. Registered Instruments will not be exchangeable for Bearer Instruments unless the Final Terms specifies otherwise.

### *Bearer Instruments*

- 1.02 The Final Terms shall specify whether U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") or U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") shall apply. Each Tranche of Bearer Instruments is represented upon issue by a temporary global Instrument (a "**Temporary Global Instrument**"), unless the Final Terms specifies otherwise or the TEFRA C Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a permanent global Instrument (a "**Permanent Global Instrument**").

Interests in the Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument; or
- (ii) if so specified in the Final Terms, definitive instruments in bearer form ("**Definitive Instruments**") and/or (in the case of a Series comprising both Bearer Instruments and Registered Instruments and if so specified in the Final Terms) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument, will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant Clearing System for whose account the Temporary Global Instrument is held) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Final Terms, in each case, without any requirement for certification.

- 1.03 The bearer of any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.
- 1.04 Unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments and are subject to Condition 1.03, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant Clearing System for whose account the Temporary Global Instrument is held) has been received by Euroclear or Clearstream, Luxembourg or any such other relevant Clearing System. Payments of amounts due in respect of a Permanent Global Instrument or (subject to Condition 1.03) a Temporary Global Instrument (if the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments) will be made through Euroclear or Clearstream, Luxembourg or any other relevant Clearing System without any requirement for certification.



- 1.05 Interests in a Permanent Global Instrument will be exchanged by the Issuer in whole but not in part only for Definitive Instruments and/or (in the case of a Series comprising both Bearer and Registered Instruments and if so specified in the Final Terms) Registered Instruments, (a) if an Event of Default (as defined in Condition 7.01) occurs in respect of any Instrument of the relevant Series; or (b) if any of Euroclear, Clearstream, Luxembourg and any other relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of public holidays), announces an intention to cease business permanently or in fact does so or announces its intention to withdraw its acceptance of the Instruments for clearance and settlement through its system or in fact does so; or (c) if so specified in the Final Terms, at the option of the Holder of such Permanent Global Instrument upon such Holder's request, in all cases at the cost and expense of the Issuer. In order to exercise the option contained in (c) of the preceding sentence, the Holder must, not less than 45 days before the date upon which the delivery of such Definitive Instruments and/or Registered Instruments is required, deposit the relevant Permanent Global Instrument with the Issue and Paying Agent at its specified office with the form of exchange notice endorsed thereon duly completed. If the Issuer does not make the required delivery of Definitive Instruments and/or Registered Instruments by 6.00 p.m. (London time) on the day on which the relevant notice period expires or, as the case may be, the thirtieth day after the day on which such Permanent Global Instrument becomes due to be exchanged and, in the case of (a) above, such Instrument is not duly redeemed (or the funds required for such redemption are not available to the Issue and Paying Agent for the purposes of effecting such redemption and remain available for such purpose) by 6.00 p.m. (London time) on the thirtieth day after the day at which such Instrument became immediately redeemable such Permanent Global Instrument will become void in accordance with its terms but without prejudice to the rights conferred by the Deed of Covenant.
- 1.06 Interest-bearing Definitive Instruments have attached thereto at the time of their initial delivery coupons ("**Coupons**"), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. Interest-bearing Definitive Instruments, if so specified in the Final Terms, have attached thereto at the time of their initial delivery a talon ("**Talon**") for further coupons and the expression "**Coupons**" shall, where the context so requires, include Talons.
- 1.07 Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") which are Definitive Instruments, have endorsed thereon a grid for recording the repayment of principal or, if so specified in the Final Terms, have attached thereto at the time of their initial delivery, payment receipts ("**Receipts**") in respect of the instalments of principal.

### *Denomination*

#### *Denomination of Bearer Instruments*

- 1.08 Bearer Instruments are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms (subject to a minimum denomination of €100,000 in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue)). Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

In the event that Condition 1.05(c) is stated in the relevant Final Terms as being applicable, the Clearing Systems will not permit trades other than in the denominations specified in the Final Terms or in integral multiples thereof.

#### *Denomination of Registered Instruments*

- 1.09 Registered Instruments are in the minimum denomination specified in the Final Terms (subject to a minimum denomination of €100,000 in the case of Instruments to be admitted to trading on a regulated market as defined in Article 4, paragraph 1, point 14 of Directive 2004/39/EC (or, if the Instruments are denominated in a currency other than Euro, the equivalent amount in such currency at the date of issue)) or integral multiples thereof.

### *Currency of Instruments*

1.10 The Instruments are denominated in such currency as may be specified in the Final Terms. Any currency may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

### **2. Title and Transfer**

2.01 Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the "**Holders**" of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons and shall, in relation to Instruments represented by a Temporary Global Instrument or Permanent Global Instrument, be construed as provided above.

2.02 Title to Registered Instruments passes by registration in the register which shall be kept by the Registrar pursuant to the Issue and Paying Agency Agreement. For the purposes of these Terms and Conditions, "**Registrar**" means, in relation to any Series comprising Registered Instruments, the Principal Registrar or, as the case may be, the Alternative Registrar, as specified in the Final Terms, **provided always that** where such Series is listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, "**Registrar**" shall mean the Registrar with its specified office in Luxembourg. References herein to the "**Holders**" of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

2.03 The Holder of any Bearer Instrument, Coupon or Registered Instrument 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 thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

### *Transfer of Registered Instruments and exchange of Bearer Instruments for Registered Instruments*

2.04 A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (**provided that** such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

2.05 If so specified in the Final Terms, the Holder of Bearer Instruments may exchange the same for the same aggregate principal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Issue and Paying Agent or of the Registrar together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.06) where the exchange date would, but for the provisions of Condition 2.06, occur between the Record Date (as defined in Condition 9B.03) for such payment of interest and the date on which such payment of interest falls due.

2.06 Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar or the Issue and Paying Agent after the Record Date in respect of any payment due in respect of Registered Instruments shall be

deemed not to be effectively received by the Registrar or the Issue and Paying Agent until the day following the due date for such payment.

For the purposes of these Terms and Conditions,

- (i) "**Relevant Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to the Issue and Paying Agent, in the place where the specified office of the Issue and Paying Agent is located;
- (ii) the "**exchange date**" shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.05; and
- (iii) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.04.

2.07 The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, the Issue and Paying Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issue and Paying Agent or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

2.08 No Holder may require the transfer of a Registered Instrument to be registered or a Temporary Global Instrument or, as the case may be, Permanent Global Instrument to be exchanged for a Registered Instrument (i) during the period of 15 days ending on the due date for redemption of that Instrument; (ii) during the period of 15 days prior to any date on which Instruments may be redeemed by the Issuer at its option pursuant to Condition 6.03 or (iii) after any such Instrument has been drawn for redemption in whole or in part.

### 3. **Status of the Instruments and the Guarantee**

#### 3A *Status – Unsubordinated Instruments*

This Condition 3A is applicable in relation to Instruments specified in the Final Terms as being unsubordinated or not specified as being subordinated ("**Unsubordinated Instruments**").

The Instruments constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (unless they qualify as subordinated debts under Article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the "**Law 22/2003**")) in the event of insolvency (*concurso*) of the Issuer will at all times rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, except for such payment obligations that are preferred by law under Articles 84, 90 and 91 of Law 22/2003.

*Interest on the Instruments accrued but unpaid as at the commencement of any insolvency proceeding (concurso) relating to the Issuer under Spanish law shall thereupon constitute subordinated obligations of the Issuer ranking below its unsecured and unsubordinated obligations. Under Spanish law, no further interest on the Instruments shall be deemed to accrue from the date of any declaration of insolvency.*

#### 3B *Status – Subordinated Instruments*

Instruments may be issued on a subordinated basis ("**Subordinated Instruments**"), as specified in the Final Terms.

The Subordinated Instruments constitute direct, unsecured and subordinated obligations of the Issuer and in the event of insolvency (*concurso*) of the Issuer will at all times rank *pari passu* among themselves and *pari passu* with all other present and future contractually subordinated obligations of the Issuer, except for subordinated obligations pursuant to Articles 92.3 to 92.7 of Law 22/2003, subordinated obligations

prescribed by law and subordinated obligations which are expressed to rank junior to the Subordinated Instruments.

*In the event of insolvency (concurso) of the Issuer, under Law 22/2003, claims relating to the Subordinated Instruments will fall within the category of "subordinated debts" (créditos subordinados, as defined in Law 22/2003). The obligations of the Issuer under the Subordinated Instruments, whether on account of principal, interest or otherwise, are subordinated to all other unsubordinated obligations of the Issuer. After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Issuer will meet such subordinated debts in the following order and on a pro rata basis within each class: (i) claims lodged belatedly or inaccurately in the context of insolvency proceedings (concurso); (ii) contractually subordinated debt (such as the Subordinated Instruments); (iii) certain interest (such as interest due on the Instruments accrued and unpaid until the commencement of the insolvency proceedings (concurso)); (iv) fines; (v) claims of creditors which are specially related to the Issuer; (vi) debt arising from transactions set aside by Spanish courts in the context of insolvency proceedings (rescisión concursal) and in respect of which the court has determined that the relevant creditor has acted in bad faith and (vii) credits arising from agreements with reciprocal obligations, as referred to in articles 61, 62, 68 and 69 of the Law 22/2003, whenever the court rules, prior to the administrators' report of insolvency (administración concursal), that the creditor has, on a repetitive basis, impeded the performance of the agreement to the detriment of the insolvency proceedings.*

### 3C *Status – Unsubordinated Guarantee*

This Condition 3C is applicable to all Instruments other than those which are specified in the Final Terms as being guaranteed on a subordinated basis.

3C.01 Pursuant to the Guarantee, the Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Instruments. The obligations of the Guarantor under the Guarantee (which expression includes any covenant which may be given pursuant to Condition 18.01(a)(iii)) constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) (unless they qualify as subordinated credits under Article 92 of the Law 22/2003) in the event of the insolvency (*concurso*) of the Guarantor will at all times rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, except for such payment obligations that are preferred by law under Articles 84, 90 and 91 of Law 22/ 2003.

3C.02 The Guarantor undertakes not to evidence by means of a Spanish Public Document (as defined below) any Relevant Indebtedness of the Guarantor or any guarantee or surety given by the Guarantor in respect of any Relevant Indebtedness of any other Person unless, not later than one day prior thereto, the obligations of the Guarantor under the Guarantee are also notarised or intervened as aforesaid at the expense of the Guarantor except that the provisions of this Condition 3C.02 shall not apply to such Relevant Indebtedness which is, pursuant to mandatory provisions of the laws of the Kingdom of Spain, required to be notarised or intervened as aforesaid.

**"Spanish Public Document"** means a public deed granted before, or a document or instrument witnessed by, a Notary (*escritura pública otorgada ante, o póliza o efecto intervenido por, Notario*).

From the entry into force of the Law 22/2003 on 1 September 2004, and in accordance with the insolvency procedures (*concurso*) regulated therein, creditors whose rights arise from a Spanish Public Document, including Holders, do not have a preference to enforce their rights and do not rank ahead of other creditors whose rights may be recognised by virtue of a document which is not a Spanish Public Document.

### 3D *Status – Subordinated Guarantee*

Subordinated Instruments will be guaranteed on a subordinated basis.

The payment obligations of the Guarantor under the Guarantee in relation to Subordinated Instruments constitute direct, unsecured and subordinated obligations of the Guarantor and in the event of insolvency (*concurso*) of the Guarantor will at all times rank *pari passu* among themselves and *pari passu* with all

other present and future contractually subordinated obligations of the Guarantor, except for subordinated obligations pursuant to Articles 92.3 to 92.7 of Law 22/2003, subordinated obligations prescribed by law and subordinated obligations which are expressed to rank junior to the Guarantee.

*In the event of insolvency (concurso) of the Guarantor, under Law 22/2003, claims relating to the Subordinated Guarantee will fall within the category of "subordinated debts" (créditos subordinados, as defined in Law 22/2003). After payment in full of unsubordinated debts, under article 92 of Law 22/2003, the Guarantor will meet such subordinated debts in the following order and pro rata within each class: (i) claims lodged belatedly or inaccurately in the context of insolvency proceedings; (ii) contractually subordinated debt (such as the claims under the Subordinated Guarantee); (iii) certain interest; (iv) fines; (v) claims of creditors which are specially related to the Guarantor; (vi) debt arising from transactions set aside by Spanish courts in the context of insolvency proceedings (rescisión concursal) and in respect of which the court has determined that the relevant creditor has acted in bad faith; and (vii) credits arising from agreements with reciprocal obligations, as referred to in articles 61, 62, 68 and 69 of Law 22/2003, whenever the court rules, prior to the administrators' report of insolvency (administración concursal), that the creditor has, on a repetitive basis, impeded the performance of the agreement to the detriment of the bankruptcy proceedings.*

#### 4. **Negative Pledge**

This Condition 4 applies to Unsubordinated Instruments only.

So long as any of the Instruments of a Series remains outstanding (as defined in the Issue and Paying Agency Agreement) each of the Issuer and the Guarantor undertakes that it will not create or have outstanding any Encumbrance (as defined below) upon the whole or any part of its assets, present or future, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by the Issuer, the Guarantor or by any other Person (as defined below) unless (a) such Instruments are equally and rateably secured therewith, or (b) such other security is provided as the Syndicate (as defined in Condition 13) of the relevant Series shall approve, in each case for as long as such Relevant Indebtedness shall be so secured; **provided, however, that** the foregoing restriction shall not apply to any Encumbrance securing Relevant Indebtedness issued or guaranteed by the Guarantor, the Issuer or any other Person if the Relevant Indebtedness so secured (i) was originally offered, distributed or sold primarily to residents of the Kingdom of Spain, (ii) by its terms matures within one year of its date of issue, or (iii) the Encumbrance affects the assets of an entity which, when the Encumbrance was created, was unrelated to the Issuer or the Guarantor, and which was subsequently acquired by the Issuer or the Guarantor; and **provided, further, that** nothing in this Condition 4 shall limit the ability of the Issuer or the Guarantor, as the case may be, to grant or permit to subsist Encumbrances over any or all of their respective present or future assets to secure Relevant Indebtedness issued or guaranteed by the Issuer, the Guarantor or any other Person, to the extent that the aggregate principal amounts so secured do not exceed 5 per cent. of the consolidated net tangible assets (as defined below) of the Guarantor, as reflected in the most recent statement of financial position (prepared in accordance with IFRS at the date of such computation and as applied by the Guarantor) prior to the time such Relevant Indebtedness was issued or guaranteed.

As used in these Terms and Conditions, "**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof, "**Encumbrance**" means any mortgage, pledge, lien or other charge, and "**Relevant Indebtedness**" means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by, bonds, notes or other securities which, in any of the above cases, is or are, or is or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognised securities market. For the purposes of avoiding any doubt in respect of asset-backed financings originated by the Issuer or the Guarantor, the expression "**obligation for the payment of borrowed money**" as used in the definition of Relevant Indebtedness does not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in the Kingdom of Spain need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.

As used in this Condition 4, "**consolidated net tangible assets of the Guarantor**" means the total amount of assets of the Guarantor and its consolidated Subsidiaries (as defined below), including investments in unconsolidated subsidiaries, (as defined below) after deduction of (i) goodwill in consolidation and (ii) intangible assets; and "**Subsidiary**" means any company in respect of which the

Guarantor owns, directly or indirectly, more than half of the voting rights of the shares of such company, or when the Guarantor owns half or less of the voting power but controls such company, i.e. has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

## 5. Interest

### *Interest*

5.01 Instruments may be interest-bearing or non interest-bearing, as specified in the Final Terms. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.09.

### *Interest-bearing Instruments*

5.02 Instruments which are specified in the Final Terms as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate payable in arrear on each Interest Payment Date.

### *Floating Rate Instruments*

5.03 If the Final Terms specifies the Interest Rate applicable to the Instruments as being a Floating Rate it shall also specify which page (the "**Relevant Screen Page**") on the Reuters Screen or any other information vending service shall be applicable. If such a page is so specified, the Interest Rate applicable to the relevant Instruments for each Interest Accrual Period shall be determined by the Calculation Agent on the following basis:

- (i) the Calculation Agent will determine the Reference Rate (or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of the Reference Rates) in the relevant currency for a period of the duration of the relevant Interest Accrual Period on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Interest Rate for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
  - (A) one rate shall be determined as if the Relevant Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
  - (B) the other rate shall be determined as if the Relevant Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate so appears for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period or if the Relevant Screen Page is unavailable, then the Calculation Agent shall determine such rate or rates in accordance with the process specified in (iii) to (v) below as if such rate(s) were the Reference Rate;

- (iii) if, on any Interest Determination Date, no such Reference Rate so appears (or, as the case may be, if fewer than two such Reference Rates so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations of the Reference Rate and will determine the arithmetic mean (rounded as aforesaid) of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) at which deposits in the relevant currency are offered by four major banks in the London interbank market or, in the case of Instruments denominated or payable in Euro, the Euro zone interbank market (unless otherwise specified in the relevant Final Terms), selected by the Calculation Agent, at approximately the Relevant Time on the Interest

Determination Date to prime banks in the London interbank market in the case of LIBOR or in the Euro zone interbank market in the case of EURIBOR for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;

- (iv) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates so quoted; or
- (v) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates quoted by four major banks in the Relevant Financial Centre (or, in the case of Instruments denominated in Euro, in such financial centre or centres within the Euro zone as the Calculation Agent may select) selected by the Calculation Agent, at approximately 11.00 a.m. (Relevant Financial Centre time (or local time at such other financial centre or centres as aforesaid)) on the first day of the relevant Interest Accrual Period for loans in the relevant currency to leading European banks for a period for the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Interest Rate applicable to such Instruments during each Interest Accrual Period will be the sum of the Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) so determined **provided, however, that**, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to such Instruments during such Interest Accrual Period will be the sum of the Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) determined in relation to such Instruments in respect of the last preceding Interest Accrual Period.

#### ***ISDA Determination***

5.04 If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Instruments for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and
- (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
  - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

- (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate by requesting appropriate quotations for such rate to four major banks in the London interbank market, in accordance with the process specified in 5.03(iii) to (v).

#### ***Maximum or Minimum Rate of Interest***

- 5.05 If any Maximum or Minimum Rate of Interest is specified in the Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.

#### ***Accrual of Interest***

- 5.06 Interest shall accrue on the Outstanding Principal Amount of each Instrument during each Interest Accrual Period from the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 6.10) or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (both before and after any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which the Issue and Paying Agent having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

#### ***Interest Amount(s), Calculation Agent and Reference Banks***

- 5.07 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the "**Interest Amount(s)**") in respect of each denomination of the Instruments (in the case of Bearer Instruments) and the minimum denomination (in the case of Registered Instruments) for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount to be notified to the Issue and Paying Agent, the Registrar (in the case of Registered Instruments), the Issuer, the Guarantor, the Commissioner, the Holders in accordance with Condition 14 and, if the Instruments are listed on a stock exchange and such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the relevant stock exchange. The Interest Amounts (**provided that** any modifications are *de minimis*) and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Instruments become due and payable under Condition 7, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or



calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer, the Guarantor, the Commissioner and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer and the Guarantor will procure that there shall at all times be appointed a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

### *Calculations and Adjustments*

- 5.08 The amount of interest payable in respect of each Instrument for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Instruments are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination. Renminbi denominated Fixed Rate Instruments will have a variable coupon amount applying the "Actual/365 (Fixed)" Day Count Fraction (as defined below). The amount of interest payable in respect of any Instrument for any period for which a Fixed Coupon Amount is not specified shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount by the Day Count Fraction (as defined in Condition 5.09), rounding the resulting figure as described below and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Instrument divided by the Calculation Amount. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, (e) in the case of Renminbi denominated Fixed Rate Instruments, all amounts will be rounded to the nearest CNY0.01, CNY0.005 and, the case of Hong Kong dollar denominated Fixed Rate Instruments, to the nearest HK\$0.01, HK\$0.005, being rounded upwards and (e) all amounts denominated in Euro or any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

### *Definitions*

- 5.09 In these Terms and Conditions, unless the context otherwise requires, the following terms shall have the meanings set out below:

**"Additional Business Centre"** means the city or cities specified as such in the relevant Final Terms.

**"Applicable Business Day Convention"** means the Business Day Convention which may be specified in the Final Terms as applicable to any date in respect of the Instruments unless the Final Terms specifies **"No Adjustment"** in relation to any date in which case such date shall not be adjusted in accordance with any Business Day Convention. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Instruments.

**"Banking Day"** means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city.

**"Business Day"** means:

- (i) in relation to Instruments denominated or payable in Euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to Instruments denominated or payable in Renminbi, a day on which commercial banks and foreign exchange markets settle Renminbi payments in Hong Kong; and
- (iii) in relation to Instruments payable in any other currency, a day on which commercial banks are open for business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant currency and in each (if any) Additional Business Centre.

**"Business Day Convention"** means a convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day and the following terms, where specified in the Final Terms and used in conjunction with the term "Business Day Convention" in relation to any date applicable to any Instruments, shall have the following meanings:

- (i) **"Following Business Day Convention"** means that such date shall be postponed to the first following day that is a Business Day;
- (ii) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) **"Preceding Business Day Convention"** means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (iv) **"FRN Convention"** or **"Eurodollar Convention"** means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms as the Specified Period after the calendar month in which the preceding such date occurred, **provided that:**
  - (a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

**"Calculation Agent"** means such agent as may be specified in the Final Terms as the Calculation Agent.

**"Calculation Amount"** has the meaning given in the Relevant Final Terms.

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (**"Calculation Period"**), such day count fraction as may be specified in the Final Terms and:

- (i) If **"Actual/Actual (ICMA)"** is specified hereon and the Calculation Period is equal to or shorter than the Regular Period (as defined below) during which it falls, the relevant Day Count Fraction will be the actual number of days in the Calculation Period divided by

the product of (A) the actual number of days in such Regular Period and (B) the number of Regular Periods in any year;

- (ii) If "**Actual/Actual (ICMA)**" is specified hereon and the Calculation Period is longer than one Regular Period, interest will be calculated on the basis of the sum of:
  - (a) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (b) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) If "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) If "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (v) If "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (vi) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vii) if "**30E/360**" or "Eurobond Basis" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (viii) if "**30E/360 (ISDA)**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

For the purposes of this definition of Day Count Fraction "**Regular Period**" means:

- (i) in the case of Instruments where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

- (ii) in the case of Instruments where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Instruments where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (for example, Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor).

"**Euro zone**" means the zone comprising the Member States of the European Union that participate or are participating in the European Monetary Union and that adopt or have adopted the Euro as their lawful currency.

"**First Interest Payment Date**" means the date specified in the relevant Final Terms.

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms.

"**Interest Accrual Period**" means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period **provided always that** the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity.

"**Interest Commencement Date**" means the date of issue of the Instruments (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

"**Interest Determination Date**" means, in respect of any Interest Accrual Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

- (i) in the case of Instruments denominated in Euro, on the second Business Day prior to the first day of such Interest Accrual Period; or
- (ii) in the case of Instruments denominated in Pounds Sterling, the first day of such Interest Accrual Period; or
- (iii) in any other case, the date falling two London Banking Days prior to the first day of such Interest Accrual Period.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention at such Specified Period of calendar months following the date of issue of the Instruments (in the case of the First Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date **provided always**

**that** the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity.

**"Interest Period End Date"** means the date or dates specified as such in the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Instruments.

**"Interest Rate"** means the rate or rates (expressed as a percentage *per annum*) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Instruments specified in the Final Terms.

**"ISDA Definitions"** means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the Final Terms) as published by the International Swaps and Derivatives Association, Inc.).

**"Law 13/1985"** means Law 13/1985 of 25 May on investment ratios, capital adequacy and information requirements for financial intermediaries (*Ley 13/1985, de 25 de mayo, de coeficientes de inversión, recursos propios y obligaciones de información de los intermediarios financieros*) as amended by Law 19/2003 of 4 July on foreign capital movements and financial transactions and on certain measures to prevent money laundering (*Ley 19/2003, de 4 de Julio, sobre el régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior y sobre determinadas medidas de prevención del blanqueo de capitales*); Law 23/2005 of 18 November on Certain Tax Measures to Promote Productivity (*Ley 23/2005, de 18 de noviembre, de reformas en materia tributaria para el impulso a la productividad*); Law 4/2008 of 23 December that abolishes the Spanish Net Wealth Tax, generalises the VAT monthly refund system and introduces other tax measures (*Ley 4/2008, de 23 de diciembre, por la que se suprime el gravamen del Impuesto sobre el Patrimonio, se generaliza el sistema de devolución mensual en el Impuesto sobre el Valor Añadido, y se introducen otras modificaciones en la normativa tributaria*); and Law 6/2011, of 11 April.

**"LIBOR"** means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (for example, Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor).

**"Margin"** has the meaning given in the relevant Final Terms.

**"Maturity Date"** has the meaning given in the relevant Final Terms.

**"Outstanding Principal Amount"** means, in respect of an Instrument, its principal amount less, in respect of any Instalment Instrument, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.06 or otherwise as indicated in the Final Terms.

**"Reference Banks"** means such banks as may be specified in the Final Terms as the Reference Banks or, if none is specified, "Reference Banks" has the meaning given in the ISDA Definitions, *mutatis mutandis*.

**"Reference Rate"** means EURIBOR or LIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms.

**"Relevant Financial Centre"** means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of "Business Day" in the ISDA Definitions.

**"Relevant Time"** means the time as of which any rate is to be determined as specified in the Final Terms or, if none is specified, at which it is customary to determine such rate.

**"Reuters Screen"** means, when used in connection with a designated page and any designated information, the display page so designated on the Reuter Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying such information).

**"Specified Period"** has the meaning given in the relevant Final Terms.

**"TARGET2"** 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; and

**"TARGET Settlement Day"** means any day on which TARGET2 is open for the settlement of payments in Euro.

## 6. **Redemption and Purchase**

### *Redemption at Maturity*

- 6.01 Unless previously redeemed, or purchased and cancelled, or unless such Instrument is stated in the Final Terms as having no fixed maturity date, each Instrument shall be redeemed at its final redemption amount (the **"Final Redemption Amount"**) (which shall be its Outstanding Principal Amount) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts (**"Instalment Amounts"**) as may be specified in the Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Final Terms.

### *Early Redemption for Taxation Reasons*

- 6.02 If, in relation to any Series of Instruments, (i) as a result of any change in the laws, regulations or rulings of the Kingdom of Spain or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings which becomes effective on or after the date of issue of such Instruments or any other date specified in the Final Terms, (1) the Issuer or, as the case may be, the Guarantor (if a demand were made under the Guarantee) would be required to pay additional amounts as provided in Condition 8 or (2) the Guarantor or any Subsidiary of the Guarantor is or would be required to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payment (whether in respect of principal, premium, interest or otherwise); (ii) in each case, the payment of such additional amount in the case of (1) above or such deduction or withholding in the case of (2) above cannot be avoided by the Issuer or the Guarantor or such Subsidiary taking reasonable measures available to it and (iii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor to the Commissioner (as defined in Condition 13) and the Issue and Paying Agent of a certificate signed by one director of the Issuer or two directors of the Guarantor stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the **"Early Redemption Amount (Tax)"**) (which shall be their Outstanding Principal Amount or such other redemption amount as may be specified in the Final Terms), together with accrued interest thereon **provided, however, that** no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest

period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

If, pursuant to Condition 18.02(ii)(a), a Person into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets has been or would be required to pay any additional amounts as therein provided, each Series of Instruments may be redeemed at the option of such Person in whole, but not in part, in accordance with the first paragraph of this Condition 6.02, which paragraph shall apply *mutatis mutandis*.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.06.

#### ***Optional Early Redemption (Call)***

6.03 If this Condition 6.03 is specified in the Final Terms as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Final Terms, redeem all (but not, unless and to the extent that the Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Optional Redemption Amount (Call)**") (which shall be their Outstanding Principal Amount or such other redemption amount as may be specified in the Final Terms), together with accrued interest thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.06.

6.04 The appropriate notice referred to in Condition 6.03 is a notice given by the Issuer to the Holders of the Instruments of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than 30 days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates ("**Optional Redemption Date(s) (Call)**") or a day falling within such period ("**Call Option Period**"), as may be specified in the Final Terms and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the Optional Redemption Amount (Call) at which such Instruments are to be redeemed.

#### ***Partial Redemption***

6.05 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Conditions 6.03 and 6.04:

- in the case of Bearer Instruments (other than a Temporary Global Instrument or Permanent Global Instrument), the Instruments to be redeemed shall be drawn by lot in accordance with applicable Spanish law requirements in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair;
- in the case of a Temporary Global Instrument or a Permanent Global Instrument, the Instruments to be redeemed shall be selected in accordance with the rules of Euroclear



and/ or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amounts, at their discretion) and/or any other relevant clearing system; and

- in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, **provided always that** the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any competent authority, stock exchange and/or quotation system (if any) on which the relevant Instruments may have been admitted to listing, trading and/or quotation.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.07 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

#### ***Optional Early Redemption (Put)***

- 6.06 If this Condition 6.06 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the "**Optional Redemption Amount (Put)**") (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in the Final Terms), together with accrued interest thereon. In order to exercise such option, the Holder must, not less than 45 days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates ("**Optional Redemption Date(s) (Put)**") or a day falling within such period ("**Put Period**") as may be specified in the Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 9A.06 apply)) during normal business hours at the specified office of, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed early redemption notice ("**Put Notice**") in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Temporary Global Instrument or Permanent Global Instrument or Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.04 to 2.07 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The Holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Issuer of its option to redeem such Instrument under either Condition 6.02 or 6.03.

#### ***Purchase of Instruments***

- 6.07 The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries (as defined in Condition 18) may at any time purchase Instruments in the open market or otherwise and at any price **provided that** all unmatured Receipts and Coupons appertaining thereto are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of Instruments alike.

#### ***Cancellation of Redeemed and Purchased Instruments***

- 6.08 All unmatured Instruments redeemed in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold. Unmatured Instruments, Receipts and Coupons

purchased in accordance with this Condition 6 may, at the option of the Issuer, be cancelled, reissued or, as the case may be, resold.

***Further Provisions applicable to Redemption Amount and Instalment Amounts***

6.09 The provisions of Condition 5.07 and the last paragraph of Condition 5.08 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent (as defined in Condition 5.09).

6.10 References herein to "**Redemption Amount**" shall mean, as appropriate, the Final Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Optional Redemption Amount (Call), Optional Redemption Amount (Put) and Early Termination Amount.

**7. Events of Default**

7.01 If any of the following events (each an "**Event of Default**") occurs and is continuing:

- (i) the Issuer fails to pay, and the Guarantor fails to honour the Guarantee with respect to payments of, any principal, premium (if any) or interest due in respect of the Instruments of the relevant Series or any of them and such default continues for a period of 21 days; or
- (ii) the Issuer fails to perform any other obligation arising from the Instruments of that Series or the Guarantor fails to perform any other obligation arising under the Guarantee of such Instruments and such failure continues for more than 60 days (90 days if the failure to perform relates to an obligation of the Issuer or the Guarantor arising under Condition 18) following the service by the Commissioner or, failing which, any Holder on the Issuer and the Guarantor of a written notice specifying such failure and requiring it to be remedied, and stating that such notice is a "Notice of Default" hereunder; or
- (iii) the Issuer or the Guarantor fails to fulfil (taking into account any applicable grace periods) any payment obligation in excess of €100,000,000 or its equivalent in any other currency under any Relevant Indebtedness or under any guarantee or suretyship provided for under any Relevant Indebtedness of others, and this failure remains uncured for 30 days; or
- (iv) the holders of any Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of €100,000,000 or its equivalent in any other currency as a result of the Issuer or the Guarantor entering into a transaction described under Condition 18, which transaction constitutes an event of default in respect of such other Relevant Indebtedness; or
- (v) (1) the Issuer or the Guarantor announces its inability to meet its financial obligations; or (2) a court commences insolvency proceedings against the Issuer or Guarantor; or (3) the Issuer or Guarantor goes into liquidation, unless it is done in connection with a merger or other form of business combination with another company and that company assumes all the obligations of the Issuer or the Guarantor, as the case may be, in connection with the Instruments; or (4) the Issuer or Guarantor makes a filing seeking relief under any applicable bankruptcy or insolvency laws; or
- (vi) the Guarantee ceases to be valid or legally binding for any reason,

then the Commissioner, acting upon a resolution of the Syndicate of Holders of the Instruments in respect of all of the Instruments of the relevant Series or any Holder of an Instrument of the relevant Series in respect of such Instrument and **provided that** such Holder does not contravene the resolution of the Syndicate (if any) may, by written notice to the Issuer and the Guarantor, declare that such Instruments or Instrument (as the case may be) and (if the Instruments or Instrument are or is interest-bearing) all interest then accrued but unpaid on such Instruments or Instrument (as the case may be) shall be forthwith due and payable, whereupon the same shall (to the extent permitted by applicable Spanish law) become immediately due and payable at its early termination amount (the "**Early Termination Amount**") (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in the Final Terms),

together with all interest accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Instruments of the relevant Series shall have been cured.

*Law 22/2003 provides, among other things, that: (i) any claim may become subordinated if it is not reported to the insolvency administrators within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to fifteen days), (ii) provisions in a contract granting one party the right to terminate on the other's insolvency may not be enforceable, (iii) interest accrued and unpaid until the commencement of the insolvency proceedings (concurso) (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated, and (iv) accrual of interest (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall be suspended from the date of the declaration of insolvency.*

## 8. **Taxation**

8.01 All amounts payable by or on behalf of the Issuer or the Guarantor, as the case may be, (whether in respect of principal, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Instrument or Coupon:

- (i) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with the Kingdom of Spain other than (a) the mere holding of such Instrument or Coupon or (b) the receipt of principal, interest or other amount in respect of such Instrument or Coupon; or
- (ii) to, or to a third party on behalf of, a Holder who fails 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, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or
- (iii) in relation to any estate, inheritance, gift, sales, transfer or similar taxes; or
- (iv) to, or to a third party on behalf of, a Holder if the Issuer or the Guarantor does not receive in a timely manner certain information about the Instruments of such Holder as it is required by the applicable Spanish tax laws and regulations, including a duly executed and completed certificate from the Issue and Paying Agent, pursuant to Law 13/1985 of May 25, as amended, and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, this Directive; or
- (vi) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting such relevant Instrument or Coupon to another Paying Agent in a Member State of the European Union; or

- (vii) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of thirty days; or
- (viii) to, or to a third party on behalf of an individual resident for tax purposes in the Kingdom of Spain if the Spanish tax authorities determine that payments made to such individuals are not exempt from Spanish withholding tax and require a withholding to be made; or
- (ix) to, or to a third party on behalf of, a Holder who is a fiduciary, a partnership, a limited liability company or anything other than the sole beneficial owner of that payment, to the extent to which that payment would be required by the laws of Spain 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 any additional amounts had it been the Holder; or
- (x) 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.

8.02 For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14.

8.03 If the Issuer or the Guarantor becomes subject generally at any time (as a result of change in domicile for taxation purposes only) to any taxing jurisdiction other than the Kingdom of Spain references in Condition 6.02 and Condition 8.01 to the Kingdom of Spain shall be read and construed as references to the Kingdom of Spain and/or to such other jurisdiction(s).

8.04 Any reference in these Terms and Conditions to "principal" and/or "interest" in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "**principal**" shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "**interest**" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

See "*Taxation in the Kingdom of Spain – Information about the Instruments in Connection with Payments*" for a fuller description of certain tax considerations relating to the Instruments and the formalities that must be followed so that Holders may receive the payments under the Instruments free from Spanish withholding tax.

## 9. **Payments**

### 9A **Payments – Bearer Instruments**

9A.01 This Condition 9A is applicable in relation to Instruments in bearer form.

9A.02 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Instrument which is a Definitive Instrument with Receipts will be made against presentation of the Instrument together with the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Instrument to which they relate will not represent any obligation of the Issuer. Accordingly, the presentation of an Instrument without the relative Receipt or the presentation of a Receipt without the Instrument to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

9A.03 Payment of amounts in respect of interest on Bearer Instruments will be made:

- (i) in the case of a Temporary Global Instrument or Permanent Global Instrument, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States and, in the case of a Temporary Global Instrument, upon due certification as required therein;
- (ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States; and
- (iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Definitive Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 9A.04 applies) the United States.

9A.04 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 9A.07 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.

9A.05 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day and a local banking day (both as defined in Condition 9D.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment, except in the case of Instruments where the Specified Currency is Renminbi, by cheque on any local banking day or, in the case of all currencies, will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located, and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, if appropriate, Condition 5.09.

9A.06 Each Definitive Instrument initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

- (i) if the Final Terms specifies that this paragraph (i) of Condition 9A.06 is applicable (and, in the absence of specification, this paragraph (i) shall apply to Definitive Instruments which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted

being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount;

- (ii) if the Final Terms specifies that this paragraph (ii) of Condition 9A.06 is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Instruments which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;
- (iii) in the case of Definitive Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and
- (iv) in the case of Definitive Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 9A.06 notwithstanding, if any Definitive Instruments should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Definitive Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Definitive Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Definitive Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

- 9A.07 In relation to Definitive Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9A.04 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

## **9B Payments – Registered Instruments**

- 9B.01 This Condition 9B is applicable in relation to Instruments in registered form.
- 9B.02 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments will be made by the relevant Paying Agent against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Instruments at the specified office of the relevant Registrar. If the due date for payment of the Redemption Amount of any Registered Instrument is not a Relevant Financial Centre Day (as defined in Condition 9D.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a

subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.09.

- 9B.03 Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Registered Instrument is being held is open for business.
- 9B.04 Notwithstanding the provisions of Condition 9D.02, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be made in the currency in which such amount is due, except in the case of Instruments where the Specified Currency is Renminbi, by cheque (in the case of payment in sterling, drawn on a town clearing branch of a bank in the city of London) and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.06) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the relevant Registrar and the relevant Registrar has acknowledged such application for payment to be made by the relevant Paying Agent to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.09.

**9C *Payments in respect of Instruments where the Specified Currency is Renminbi***

All payments in respect of any Instruments where the Specified Currency is Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in Hong Kong, in the case of Registered Instruments the details of which appear on the Register at the close of business on the fifth business day before the due date for payment, and in all cases in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in Hong Kong).

***Payments – General Provisions***

- 9D.01 Save as otherwise specified in these Terms and Conditions, this Condition 9D is applicable in relation to Instruments whether in bearer or in registered form.
- 9D.02 Payments of amounts due (whether principal, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due (a) except in the case of Instruments where the Specified Currency is Renminbi, by cheque (in the case of payment in sterling, drawn on a town clearing branch of a bank in the city of London) or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.
- 9D.03 For the purposes of these Terms and Conditions:
- (i) "**Relevant Financial Centre Day**" means, in the case of any currency other than Euro or Renminbi, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other place specified in the Final Terms or in the case of payment in Euro, a TARGET Settlement Day, and in the case of

Renminbi, a day on which commercial banks and foreign exchange markets settle Renminbi payments in Hong Kong; and

- (ii) "**local banking day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon.

9D.04 No commissions or expenses shall be charged to the holders of Instruments or Coupons in respect of such payments.

**9E Payment of U.S. Dollar Equivalent**

9E.01 This Condition 9E is applicable in relation to Instruments where the Specified Currency is Renminbi.

9E.02 Notwithstanding the foregoing, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy payments of principal or interest (in whole or in part) in respect of the Instruments when due in Renminbi, the Issuer shall, by sending an irrevocable notice not less than five or more than 30 calendar days prior to the due date for payment to the Holders and the Issue and Paying Agent, settle any such payment (in whole or in part) in U.S. Dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi denominated amount. In case the Issuer needs to satisfy payments of principal or interest in part in Renminbi and in part in U.S. Dollars, it shall to the extent possible make payment to each Holder in the same pro rata amount of Renminbi and U.S. Dollar in accordance with the rules of the clearing system(s) from time to time.

9E.03 For the purposes of these Conditions, "**U.S. Dollar Equivalent**" means the Renminbi amount converted into U.S. Dollars using the Spot Rate for the relevant Determination Date.

For this purpose:

"**Renminbi Dealer**" means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in Hong Kong;

"**Determination Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, Beijing, London, TARGET and in New York City;

"**Determination Date**" means the day which is two Determination Business Days before the due date for any payment of the relevant amount under these Conditions;

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the PRC and Hong Kong;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**Illiquidity**" means where the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest or principal (in whole or in part) in respect of the Instruments as determined by the Issuer in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers;

"**Inconvertibility**" means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Instruments in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date and it is impossible for the Issuer, due to an event beyond its control or any other applicable laws in the Kingdom of Spain, to comply with such law, rule or regulation);



**"Non-transferability"** means the occurrence of any event that makes it impossible for the Issuer to transfer Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong and outside the PRC or from an account outside Hong Kong and outside the PRC to an account inside Hong Kong, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date and it is impossible for the Issuer, due to an event beyond its control or any other applicable laws in Austria, to comply with such law, rule or regulation);

**"PRC"** means the People's Republic of China which, for the purpose of these Conditions, shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan; and

**"Spot Rate"** means the spot CNY/U.S. Dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in Hong Kong for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent will determine the Spot Rate at or around 11 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. Dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuters Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

## **9F Redenomination**

9F.01 Where Redenomination is specified in the relevant Final Terms as being applicable, the Issuer may, without the consent of the Holders of the Instruments, the Receipts and the Coupons, on giving at least 30 days' prior notice to the Commissioner and the Holders of the Instruments in accordance with Condition 14, elect that, with effect from the Redenomination Date (as defined below) specified in the notice, the Instruments shall be redenominated in Euro.

9F.02 The election will have effect as follows:

- (i) each Specified Denomination (as defined below) and, in the case of Fixed Rate Instruments, each amount specified on the Coupons will be deemed to be denominated in such amount of Euro as is equivalent to its denomination or the amount of interest so specified in the Relevant Currency (as defined below) at the Established Rate (as defined below), rounded down to the nearest Euro 0.01;
- (ii) after the Redenomination Date, all payments in respect of the Instruments, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Instruments to the Relevant Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee, or at the option of the payee, by a Euro cheque;
- (iii) if the Instruments are Fixed Rate Instruments and interest for any period ending on or after the Redenomination Date is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (i) the number of those days falling in a leap year divided by 366 and (ii) the number of those days falling in a non-leap year divided by 365);
- (iv) if the Instruments are Floating Rate Instruments the relevant Final Terms will specify any relevant changes to the provisions relating to interest; and

- (v) such other changes shall be made to these Terms and Conditions as the Issuer may decide, after consultation with the Issue and Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to Instruments denominated in Euro or to enable the Instruments to be consolidated with Other Instruments (as defined below) whether or not originally denominated in the Specified Currency (as defined below) or Euro. Any such other changes will not take effect until after they have been notified to the Holders of the Instruments in accordance with Condition 14.

## 9G Exchangeability

Where Exchangeability is specified in the applicable Final Terms as being applicable, the Issuer may without the consent of the Holders of the Instruments, the Receipts and the Coupons, on giving at least 30 days' prior notice to the Commissioner and the Holders of the Instruments in accordance with Condition 14, elect that, with effect from the Redenomination Date or such later date for payment of interest under the Instruments as it may specify in the notice, the Instruments shall be exchangeable for Instruments expressed to be denominated in Euro in accordance with such arrangements as the Issuer may decide, with the approval of the Issue and Paying Agent and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

Definitions: In these Terms and Conditions, the following expressions have the following meanings:

- (i) "**Established Rate**" means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into Euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty;
- (ii) "**Euro**" means 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;
- (iii) "**Other Instruments**" means, at any time, any one or more series of other instruments of the Issuer which have the same or substantially the same terms and conditions (as then in effect and which have not lapsed and/or the rights in respect of which have not been exercised) as the Instruments (other than in relation to the currency of original denomination and/or denomination and/or the terms and conditions relating to business days or interest accrual bases and/or the stock exchange(s) if any on which such instruments are listed and/or the clearing system(s) on which such instruments are cleared and settled and/or redenomination into Euro and/or notices);
- (iv) "**Redenomination Date**" means any date for payment of interest under the Instruments or any date specified by the Issuer in the notice given to the Holders of Instruments pursuant of paragraph 9D.01 above or, if the country of the Specified Currency is not one of the countries then participating in the third stage of European economic and monetary union pursuant to the Treaty, the date which falls on or after such later date as it does so participate;
- (v) "**Specified Currency**" means the currency specified in the relevant Final Terms;
- (vi) "**Specified Denomination**" means the denomination specified in the relevant Final Terms;
- (vii) "**Treaty**" means the Treaty establishing the European Communities as amended by the Treaty on European Union.

## 10. Prescription

- 10.01 Claims against the Issuer for payment, whether of principal and interest or otherwise, in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.02) for payment thereof.
- 10.02 In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9A.06 or the due date for the payment of which would

fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

## 11. **The Paying Agents, the Registrars and the Calculation Agent**

- 11.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent) or the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or another Calculation Agent **provided that** they will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city which is not a Member State of the European Union, (iv) so long as the Instruments are listed on the Official List and/or any other competent authority, stock exchange and/or quotation system and the rules of the Financial Conduct Authority and/or such other competent authority, stock exchange and/or quotation system so require, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar each with a specified office in London and/or in such other place as may be required by such other stock exchange, (v) in the circumstances described in Condition 9A.04, a Paying Agent with a specified office in New York City, (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, this Directive (in the case of (i), (ii), (iii) and (vi) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer, failing whom the Guarantor, to the Holders in accordance with Condition 14.
- 11.02 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and the Guarantor and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

## 12. **Replacement of Instruments**

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Final Terms (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments) ("**Replacement Agent**") and if the Instruments are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system, subject to all applicable laws and the requirements of any competent authority, stock exchange and/or quotation system on which the Instruments are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Replacement Agent may require. Mutilated or defaced Instruments, Receipts and Coupons must be surrendered before replacements will be delivered therefor. In case any such lost, stolen, mutilated, defaced or destroyed Instrument, Receipt or Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefor, pay such Instrument, Receipt or Coupon.

### 13. **Syndicate of Holders of the Instruments and Modification**

The Holders of the Instruments of a relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Holders (the "**Regulations**"). The Regulations contain rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer and shall be attached to the Public Deed of Issuance. A set of pro forma Regulations is included in the Issue and Paying Agency Agreement. A provisional Commissioner will be appointed for each Syndicate. Upon the subscription of the Instruments, the Commissioner will call a general meeting of the Syndicate, the duty of which shall be to ratify or oppose the acts of the Commissioner, confirm his appointment or appoint a substitute and to ratify the Regulations.

Provisions for meetings of the Syndicate of Holders of the Instruments will be contained in the Regulations and the Issue and Paying Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Issue and Paying Agent and the relevant Commissioner, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of a resolution of the relevant Syndicate of Holders of Instruments.

For the purposes of these Terms and Conditions,

- (i) "**Commissioner**" means the trustee (*comisario*) within the meaning of the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*) of each Syndicate of Holders of the Instruments; and
- (ii) "**Syndicate**" means the syndicate (*sindicato*) within the meaning of the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*).

### 14. **Notices**

#### ***To Holders of Bearer Instruments***

14.01 Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the Final Terms, 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 or, if permitted by the relevant stock exchange, in the case of Instruments represented by a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein. The Issuer and the Guarantor shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers) or, as the case may be, on the fourth weekday after the date of such delivery to Euroclear and Clearstream, Luxembourg and/or such other clearing system. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

#### ***To Holders of Registered Instruments***

14.02 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been

validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day.

***To the Issuer and the Guarantor***

- 14.03 Notices to the Issuer may be delivered to the Managing Director at the specified office for the time being of the Issuer. Notices to the Guarantor may be delivered to the Deputy General Manager of Capital Markets at the specified office for the time being of the Guarantor.

***To the Commissioner***

- 14.04 Copies of any notice given to any Holders of the Instruments will be also given to the Commissioner of the Syndicate of Holders of the Instruments of the relevant Series.

**15. Further Issues**

The Issuer may from time to time, without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series.

**16. Currency Indemnity**

The currency in which the Instruments are denominated or, if different, payable, as specified in the Final Terms or, in the case of Instruments which have been redenominated pursuant to Condition 9F, the Euro (the "**Contractual Currency**"), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

**17. Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. **Substitution; Merger, Consolidation, etc. Only on Certain Terms**

18.01 Provided the Instruments remain subject to Law 13/1985 at all times, the Guarantor or any of its Subsidiaries (as defined below) (each a "**Substitute Debtor**") may, without the consent of the Holders of any Instruments, Receipts or Coupons, assume the obligations of the Issuer (or any previous Substitute Debtor) under and in respect of any Instruments upon:

- (a) **Deed poll:** the execution of a deed poll (the "**Deed Poll**") by the Substitute Debtor and (if the Substitute Debtor is not the Guarantor) the Guarantor in a form which gives full effect to such assumption and which includes (without limitation):
  - (i) a covenant by the Substitute Debtor in favour of the Holders of the relevant Instruments to be bound by these Terms and Conditions as if it had been named herein and therein as the Issuer;
  - (ii) if the Substitute Debtor is incorporated, domiciled or resident for tax purposes in a territory other than the Kingdom of Spain, a covenant by the Substitute Debtor corresponding to the provisions of Condition 8 with the addition of such territory to the references to the Kingdom of Spain;
  - (iii) if the Substitute Debtor is not the Guarantor, a covenant by the Guarantor in favour of the Holders of the relevant Instruments guaranteeing the obligations of the Substitute Debtor under and by virtue of the Deed Poll; and
  - (iv) an acknowledgment of the right of the Commissioner and all Holders of the relevant Instruments to the production of the Deed Poll; and
- (b) **Legal opinion:** the delivery by the Issuer to the Issue and Paying Agent and the Commissioner of an opinion of independent legal advisers of recognised standing to the effect that:
  - (i) the Deed Poll constitutes legal, valid, binding and enforceable obligations of the Substitute Debtor and, if the Substitute Debtor is not the Guarantor, the Guarantor;
  - (ii) the relevant Instruments constitute legal, valid, binding and enforceable obligations of the Substitute Debtor; and
  - (iii) if the Substitute Debtor is not the Guarantor, the Guarantee constitutes legal, valid, binding and enforceable obligations of the Guarantor in respect of all sums from time to time payable by the Substitute Debtor in respect of the relevant Instruments.

Upon the assumption by the Substitute Debtor of the Issuer's obligations under and in respect of the relevant Instruments, and **provided that** immediately after giving effect to such assumption, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, the Issuer shall be released from such obligations and, thereafter, all references in the relevant Instruments and the Coupons to the Issuer shall be deemed to be references to the Substitute Debtor.

"**Subsidiary**" means in relation to any Person, any other Person (whether or not now existing) which is controlled directly or indirectly, or more than 50% of whose issued equity share capital (or equivalent) is then held or beneficially owned by, the first Person and/or any one or more of the first Person's Subsidiaries, and "**control**" means the power to appoint the majority of the members of the governing body or management of, or otherwise to control the affairs and policies of, that Person.

The Deed Poll shall be deposited with and held by the Issue and Paying Agent until all the obligations of the Issuer under and in respect of the relevant Instruments have been discharged in full. Notice of the assumption by the Substitute Debtor of the Issuer's obligations under and in respect of the relevant Instruments shall promptly be given to the Holders of the relevant Instruments.

18.02 Neither the Issuer nor the Guarantor shall consolidate with or merge (which term shall include for the avoidance of doubt a scheme of arrangement) into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and neither the Issuer nor the Guarantor shall permit any Person to consolidate with or merge into the Issuer or the Guarantor or convey, transfer or lease its properties and assets substantially as an entirety to the Issuer or the Guarantor, unless:

- (i) in the case the Issuer or the Guarantor shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Issuer or the Guarantor substantially as an entirety shall be a corporation, partnership or trust, shall be organised and validly existing, under the laws of the jurisdiction of its organisation and shall expressly assume the due and punctual payment of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Issuer to be performed or observed and, in the case of the Guarantor, the due and punctual payment of the principal, premium (if any) and interest due in respect of the Instruments and the performance or observance of every covenant under these Terms and Conditions on the part of the Guarantor to be performed or observed;
- (ii) if the Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to whom the Issuer or the Guarantor has conveyed, transferred or leased its properties or assets is a Person organised and validly existing under the laws of a jurisdiction other than the Kingdom of Spain, such Person agrees to indemnify the Holders of the Instruments against (a) any tax, assessment or governmental charge imposed on any such Holder or required to be withheld or deducted from any payment to such Holder as a consequence of such consolidation, merger, conveyance, transfer or lease; and (b) any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease;
- (iii) immediately prior to the consummation of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred;
- (iv) the consummation of such transaction must not cause an Event of Default under these Terms and Conditions or the Guarantee which the Issuer or the Guarantor, as the case may be, does not reasonably believe that can be cured within 90 days from the date of such transaction; and
- (v) the Issuer or the Guarantor has delivered to the Issue and Paying Agent a certificate signed by one director of the Issuer or one director of the Guarantor and an opinion of counsel (as defined below), each stating that such consolidation, merger, conveyance, transfer or lease comply with this Condition and that all conditions precedent herein provided for relating to such transaction have been complied with.

Upon any consolidation of the Issuer or the Guarantor with, or merger of the Issuer or the Guarantor into, any other Person or any conveyance, transfer or lease of the properties and assets of the Issuer or the Guarantor substantially as an entirety in accordance with this Condition 18.02, the successor Person formed by such consolidation or into which the Issuer or the Guarantor is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Guarantor, as the case may be, under these Terms and Conditions with the same effect as if such successor Person had been named as the Issuer or the Guarantor herein, as the case may be, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under these Terms and Conditions and the Instruments.

For the purposes of this Condition 18.02, "**opinion of counsel**" means a written opinion of independent legal advisers of recognised standing or internal legal counsel for the Issuer or the Guarantor.

18.03 For so long as Law 13/1985 applies to the Instruments, the Guarantor shall maintain direct or indirect ownership of the whole of the voting rights in respect of the shares of the Issuer or, following a substitution in accordance with Condition 18.01, the relevant Substitute Debtor.

## 19. **Law and Jurisdiction**

19.01 Save as described below, the Instruments and all non-contractual obligations arising out of or in connection with the Instruments, the Issue and Paying Agency Agreement, the Deed of Guarantee (except Clause 5 (*Status*)) and the Deed of Covenant are governed by English law. Condition 3 and the provisions of Condition 13 relating to the appointment of the Commissioner and the Syndicate of Holders, as well as Clause 5 (*Status*) of the Deed of Guarantee, are governed by Spanish law.

19.02 The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Instruments (including a dispute relating to the existence, validity or termination of the Instruments or any non-contractual obligations arising out of or in connection with the Instruments or the consequences of their nullity).

19.03 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.

19.04 Condition 19.03 is for the benefit of the Holders only. As a result, nothing in this Condition 19 (*Law and Jurisdiction*) 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.

19.05 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 Telefonica UK Limited, 260 Bath Road, Slough, SL1 4DX, 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 Issue and Paying 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 Issue and Paying 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 and to Proceedings elsewhere.

The Instruments are issued in accordance with requirements prescribed by Spanish company law. On the insolvency (*concurso*) of the Issuer or the Guarantor, the Law 22/2003 will determine the ranking of the Instruments and/or the Guarantee, and will prevail over certain provisions of Terms and Conditions of the Instruments and/or the Guarantee.

## 20. **Rights of Third Parties**

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



## FORM OF GUARANTEE

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

**THIS GUARANTEE** is issued on 10 June 2014

**BY**

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

**IN FAVOUR OF** the Holders (as defined in the Terms and Conditions of the Instruments) and the Relevant Account Holders (as defined in the Deed of Covenant referred to below).

**WHEREAS**

- (A) Telefónica Emisiones, S.A.U. (the "**Issuer**"), the Guarantor and others have established a programme (the "**Programme**") for the issuance of debt instruments, in connection with which Programme they have entered into, *inter alia*, an amended and restated issue and paying agency agreement (the "**Issue and Paying Agency Agreement**") dated 10 June 2014 and made between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as issue and paying agent (the "**Issue and Paying Agent**", which expression shall include any successor issue and paying agent) and others and the Issuer has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 10 June 2014.
- (B) Instruments will be issued on a listed basis. The Base Prospectus relating to the Programme has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), which is the competent authority for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the Instruments. Applications have been made to the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**") for Instruments issued using the Base Prospectus within 12 months from the date hereof to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange.
- (C) The Guarantor has agreed, upon the terms set out herein, to guarantee the payment of all sums expressed to be payable from time to time by the Issuer in respect of Instruments issued under the Programme and under the Deed of Covenant as of or subsequent to the date hereof.

**NOW THIS DEED WITNESSES** as follows:

- 1. **INTERPRETATION AND BENEFIT OF DEED OF GUARANTEE**
  - 1.1 Unless otherwise defined herein or unless the context requires otherwise, expressions defined in the Terms and Conditions of the Instruments (the "**Conditions**" and each a "**Condition**") or the Deed of Covenant have the same meanings in this Guarantee except where the context requires otherwise or unless otherwise stated.
  - 1.2 Any Instruments issued under the Programme on or after the date of this Deed of Guarantee shall have the benefit of this Guarantee but shall not have the benefit of any subsequent deed of guarantee relating to the Programme (unless expressly so provided in any such subsequent deed).
  - 1.3 Any reference in this Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
  - 1.4 All references in this Guarantee to an agreement, instrument or other document (including the Issue and Paying 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.
  - 1.5 Headings and sub-headings are for ease of reference only and shall not affect the construction of this Guarantee.

## 2. **GUARANTEE AND INDEMNITY**

2.1 The Guarantor hereby unconditionally and irrevocably guarantees:

- (a) to the Holder of each Instrument the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of such Instrument 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 relevant Instrument for payments by the Issuer in respect thereof, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Instrument in accordance with the Terms and Conditions of such Instruments and which the Issuer has failed to pay; and
- (b) 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 Terms and Conditions of the relevant Instruments 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 the Holder of each Instrument and to each Relevant Account Holder that, if any sum referred to in Clause 2.1 is not recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Instrument or 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 such Instrument 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. **TAXATION**

The Guarantor covenants in favour of each Holder and Relevant Account Holder that it will duly perform and comply with the obligations expressed to be assumed by it in Condition 8.

## 4. **PRESERVATION OF RIGHTS**

4.1 The obligations of the Guarantor hereunder shall be deemed to be undertaken as principal obligor and not merely as surety.

4.2 The obligations of the Guarantor hereunder shall be continuing obligations notwithstanding any settlement of account or other matter or thing 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 or in respect of any Instrument or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Instruments 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 nor the rights, powers and remedies conferred upon the Holders of Instruments and the Relevant Account Holders by this Guarantee or by law shall be discharged, impaired or otherwise affected by:

- (a) the winding up, bankruptcy (*concurso*), moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership;
- (b) any of the obligations of the Issuer under or in respect of any of the Instruments or the Deed of Covenant being or becoming illegal, invalid or unenforceable;

- (c) time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under or in respect of any of the Instruments or the Deed of Covenant;
- (d) any amendment to, or any variation, waiver or release of, any obligation of the Issuer under or in respect of any of the Instruments or the Deed of Covenant or any security or other guarantee or indemnity in respect thereof; or
- (e) 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 of the Instruments, the Relevant Account Holders or any of them by this Guarantee or by law.

4.4 Any settlement or discharge between the Guarantor and the Holders of the Instruments, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders of the Instruments, 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 provision or enactment relating to bankruptcy, insolvency (*concurso*) or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders of the Instruments and the Relevant Account holders shall 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 of an Instrument or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Guarantee or by law:

- (a) to make any demand of the Issuer, other than the presentation of the relevant Instrument;
- (b) to take any action or obtain judgment in any court against the Issuer; or
- (c) 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 Instrument, presentment, demand, protest and notice of dishonour.

4.6 The Guarantor agrees that, so long as any sums are or may be owed by the Issuer in respect of the Instruments or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, the Guarantor will not exercise any right which the Guarantor may at any time have by reason of the performance by the Guarantor of its obligations hereunder:

- (a) to claim any contribution from any other guarantor of the Issuer's obligations under or in respect of the Instruments or the Deed of Covenant;
- (b) to take the benefit (in whole or in part) of any security enjoyed in connection with any of the Instruments or the Deed of Covenant by any Holder of an Instrument or Relevant Account Holder; or
- (c) to be subrogated to the rights of any Holder of an Instrument or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor under this Guarantee.

## 5. STATUS

The Guarantor undertakes that its obligations hereunder will at all times rank as described in Condition 3.

## 6. DELIVERY

A duly executed original of this Guarantee shall be delivered promptly after execution to the Issue and Paying 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 all instruments then outstanding from time to time occurs and no further Instruments can be issued under the Programme. A certified copy of this Guarantee may be obtained by the Commissioner and any Holder of an Instrument or any Relevant Account Holder from the Issue and Paying Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder of an Instrument or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 13 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 of instruments and Relevant Account Holders. This Clause shall not limit any right of any Holder of an Instrument or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. **CONTRACTUAL CURRENCY**

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgement given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Holder of an Instrument and each Relevant Account Holder on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Holder of an Instrument or each Relevant Account Holder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent course of action.

8. **TERMS AND CONDITIONS OF THE INSTRUMENTS**

The Guarantor hereby undertakes to comply with and be bound by those provisions of the Conditions which relate to it or which are expressed to relate to it.

9. **BENEFIT OF GUARANTEE**

9.1 This Guarantee shall take effect as a deed poll for the benefit of the Holders of the Instruments and the Relevant Account Holders from time to time.

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

9.3 The Guarantor may not assign or transfer all or any of its rights, benefits or obligations hereunder.

9.4 Any Instruments issued under the Programme on or after the date of this Guarantee shall have the benefit of this Guarantee but shall not have the benefit of any subsequent deed of guarantee relating to the Programme (unless expressly so provided in any such subsequent deed).

10. **PARTIAL INVALIDITY**

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.

11. **MODIFICATION**

This Guarantee may be modified by the Guarantor in respect of the Instruments of any Series with the sanction of a resolution of the General Meeting of the Syndicate of Holders of the Instruments of such Series.

12. **NOTICES**

12.1 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

Fax: + 34 91 727 1397

Attention: Miguel Escrig Meliá

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 of the Instruments in the manner prescribed for the giving of notices in connection with the Instruments.

12.2 Every communication sent in accordance with Clause 12.1 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.

13. **LAW AND JURISDICTION**

13.1 This Guarantee and all non-contractual obligations arising out of or in connection with it are governed by, and construed in accordance with, English law. The status of this Guarantee is governed by Spanish Law.

13.2 The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with this Guarantee (including a dispute relating to non-contractual obligations arising from or in connection with this Guarantee, or a dispute regarding the existence, validity or termination of this Guarantee or any non-contractual obligations arising out of or in connection with the Guarantee or the consequences of its nullity).

13.3 The parties agree that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue to the contrary.

13.4 Clause 13.2 is for the benefit of the Holders of the Instruments and the Relevant Account Holders only. As a result, nothing in this Clause 13 prevents the Holders of the Instruments or the 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 of the Instruments and the Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

13.5 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 Telefonica UK Limited, 260 Bath Road, Slough, SL1 4DX, United Kingdom, or, if different, its registered office for the time being or at any address of the Guarantor 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 Guarantor, the Guarantor shall, on the written demand of any Holder of an Instrument 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 of an Instrument or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor or to the specified office of the Issue and Paying Agent. Nothing in this paragraph shall affect the right of any Holder of an Instrument or Relevant Account Holder to serve process

in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

**IN WITNESS** whereof this Guarantee has been executed as a deed by the Guarantor and is intended to be and is hereby delivered on the date first above written.

**EXECUTED** as a deed                    )  
by **TELEFÓNICA, S.A.**                    )  
acting by:                                    )

## FORM OF FINAL TERMS

Final Terms dated [•]

**TELEFÓNICA EMISIONES, S.A.U.**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments]  
Unconditionally and Irrevocably Guaranteed by TELEFÓNICA, S.A.  
under the EUR 40,000,000,000 Programme for the Issuance of Debt Instruments**

### PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth on pages 24 to 57, inclusive, of the Base Prospectus dated 10 June 2014 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Instruments and must be read in conjunction with such Base Prospectus.

Full information on the Issuer, the Guarantor and the offer of the Instruments described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement(s) to it] [is] [are] available for viewing at [www.telefonica.com](http://www.telefonica.com) and copies may be obtained from Gran Vía, 28, 28013 Madrid (being the registered office of the Issuer), at the offices of The Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of The Bank of New York Mellon (Luxembourg), S.A. at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg.]

[Terms used herein shall be deemed to be defined as such for the purposes of the [•] Conditions (the "**Conditions**") incorporated by reference in the Base Prospectus dated 10 June 2014. This document constitutes the Final Terms relating to the issue of Instruments described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 10 June 2014 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes the Prospectus Directive, save in respect of the Conditions which are set forth in the base prospectus dated [•] and are incorporated by reference in the Base Prospectus.

Full information on the Issuer, the Guarantor and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 10 June 2014 [and the supplement(s) to it dated [•] and [•]]. The Base Prospectuses [and the supplement(s) to it] are available for viewing at [www.telefonica.com](http://www.telefonica.com) and copies may be obtained from Gran Vía, 28, 28013 Madrid (being the registered office of the Issuer), at the offices of The Bank of New York Mellon, London Branch at One Canada Square, London E14 5AL and at the offices of The Bank of New York Mellon (Luxembourg), S.A. at Vertigo Building – Polaris, 2-4 rue Eugène Ruppert, L-2453 Luxembourg.]

- |    |        |                 |                              |
|----|--------|-----------------|------------------------------|
| 1. | (i)    | Issuer:         | Telefónica Emisiones, S.A.U. |
|    | (ii)   | Guarantor:      | Telefónica, S.A.             |
| 2. | (i)    | Series Number:  | [•]                          |
|    | [(ii)] | Tranche Number: | [•]                          |

[(iii) Date on which the Instruments become fungible:	[Not Applicable/The Instruments shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Instrument for interests in the Permanent Global Instrument, as referred to in paragraph 21 below [which is expected to occur on or about [•]].]
3. Specified Currency or Currencies:	[•]
4. Aggregate Nominal Amount:	[•]
[(i) [Series]:	[•]
[(ii) Tranche:	[•]
5. Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•] (if applicable)]
6. (i) Specified Denominations:	[•]
(ii) Calculation Amount:	[•]
7. (i) Issue Date:	[•]
(ii) Interest Commencement Date:	[[•]/Issue Date/Not Applicable]
8. Maturity Date:	[•]/[Interest Payment Date falling in or nearest to [•]]
9. Interest Basis:	[•per cent. Fixed Rate]  [[•] month [EURIBOR]/[LIBOR] +/- [•] per cent. Floating Rate]  (See paragraph [14/15] below)
10. Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Instruments will be redeemed on the Maturity Date at [[•]/[100]] per cent. of their nominal amount.
11. Change of Interest or Redemption/Payment Basis:	[On [•]]/[See paragraphs 14 and 15 below]/[Not Applicable]
12. Put/Call Options:	[Put Option]/[Not Applicable]  [Call Option]/[Not Applicable][See paragraph [16/17] below]
13. (i) Status of the Instruments:	[Senior/Subordinated]
(ii) Status of the Guarantee:	[Senior/Subordinated]
[(iii) [Date [Board] approval for issuance of Instruments obtained:	[•] [and [•], respectively]]



## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	<b>Fixed Rate Instrument Provisions</b>	[Applicable/Not Applicable]
(i)	Rate[(s)] of Interest:	[•] per cent. <i>per annum</i> [payable [annually/ semi-annually/quarterly/monthly] in arrear]
(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]/[Additional Business Centre(s)]]/[not adjusted]
(iii)	Fixed Coupon Amount[(s)]:	[[•] per Calculation Amount]/[Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Instruments and to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Fixed Rate Instruments, being rounded upwards.]
(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•] / [Not applicable]
(v)	Day Count Fraction:	[Actual/Actual (ICMA) / Actual/Actual (/ISDA) / Actual/365 (Fixed) / Actual/360 / 30/360 / 30E/360 / 30E/360 (ISDA)]
(vi)	[Determination Dates:	[•] in each year / [Not Applicable]]
15.	<b>Floating Rate Instrument Provisions</b>	[Applicable/Not applicable]
(i)	Interest Period(s):	[•]
(ii)	Specified Period:	[•]/[Not Applicable]
(iii)	Specified Interest Payment Dates:	[Not applicable]/[Interest shall be payable [annually/semi-annually/quarterly/monthly] in arrear on [•], [•], [•] and [•]] in each year commencing on [•], up to and including the Maturity Date, subject to adjustment in accordance with the Business Day Convention set out in (v) below]
(iv)	[First Interest Payment Date]:	[•]
(v)	Business Day Convention:	[FRN Convention/Floating Rate Convention/Eurodollar Convention Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention Preceding Business Day Convention/ No Adjustment]
(vi)	Additional Business Centre(s):	[[•]/Not Applicable]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]

- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Issue and Paying Agent): [•] shall be the Calculation Agent
- (ix) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [[•] month [LIBOR]/[EURIBOR]]
  - Interest Determination Date(s): [•]
  - Relevant Screen Page: [•]
  - Relevant Time: [•]
  - Relevant Financial Centre: [•]
- (x) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [•]
  - Designated Maturity: [•]
  - Reset Date: [•]
- (xi) [Linear Interpolation: Not Applicable / Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): [+/-][•] per cent. *per annum*
- (xiii) Minimum Rate of Interest: [•] per cent. *per annum*
- (xiv) Maximum Rate of Interest: [•] per cent. *per annum*
- (xv) Day Count Fraction: [Actual/Actual (ICMA) / Actual/Actual (/ISDA) / Actual/365 (Fixed) / Actual/360 / 30/360 / 30E/360 / 30E/360 (ISDA)]

#### PROVISIONS RELATING TO REDEMPTION

16. **Call Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount(s) of each Instrument: [•] per Calculation Amount
  - (iii) If redeemable in part: [Applicable/Not Applicable]
  - Aggregate principal amount to be redeemed: [•]
17. **Put Option** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [•]
  - (ii) Optional Redemption Amount(s) of each Instrument: [•] per Calculation Amount

18. **Final Redemption Amount of each Instrument** [•] per Calculation Amount
19. **Early Redemption Amount**  
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [Not applicable/[•] per Calculation Amount]
20. **Early Termination Amount** [Not applicable/[•] per Calculation Amount]

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

21. **Form of Instruments:** **[Bearer Instruments:**  
[Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
[Temporary Global Instrument exchangeable for Definitive Instruments on [•] days' notice]  
[Permanent Global Instrument exchangeable for Definitive Instruments on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]  
**[Registered Instruments]**
22. New Global Instrument: [Yes]/[No]
23. Relevant Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[•]]
24. Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): [No.] / [Yes. As the Instruments have more than 27 Coupon payments, Talons may be required if, on exchange into definitive form, more than 27 Coupon payments are still to be made.]
25. Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made: [Not Applicable/[•]]
26. Redenomination, renominatisation and reconventioning provisions: [Not applicable/The provisions in Condition 9F (*Redenomination*) apply/ The provisions in Condition 9G (*Exchangeability*) apply]
27. Consolidation provisions: [Not applicable/The provisions in Condition 15 (*Further Issues*) apply]
28. Instruments where the Specified Currency is Renminbi: Party responsible for calculating the Spot Rate: [•] shall be the Calculation Agent
29. Commissioner: [•]

**SIGNED** on behalf of  
**TELEFÓNICA EMISIONES, S.A.U.:**

By: .....  
Duly authorised

**SIGNED** on behalf of  
**TELEFÓNICA, S.A.:**

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Admission to trading [[Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Instruments to be admitted to trading on the Regulated Market of the London Stock Exchange with effect from [•].]]
- (ii) Estimate of total expenses related to admission to trading: [•]

### 2. RATINGS

- Ratings: The Instruments to be issued have been rated:
- [Standard & Poor's Credit Market Services France SAS: [•]]
- [Moody's Investors Service España, S.A.: [•]]
- [Fitch Ratings Limited: [•]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business.]/[•]/[Not Applicable]

### 4. REASONS FOR THE OFFER

[The net proceeds of the issuance of the Securities will be allocated [•]]/[Not Applicable]

### 5. [Fixed Rate Instruments only – YIELD

- Indication of yield: [•] *per annum*
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

### 6. OPERATIONAL INFORMATION

- ISIN: [•]
- Common Code: [•]
- Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/[•]]
- Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [•]

Names and addresses of additional Paying Agent(s) (if any): [•]/[Not Applicable]

**DISTRIBUTION**

7. U.S. Selling Restrictions: [Reg. S Compliance Category 2] [TEFRA D / TEFRA not applicable]

**[THIRD PARTY INFORMATION]**

[[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced inaccurate or misleading.]

## **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche of Instruments will either be applied by the Issuer to meet part of its general financing requirements or if, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms in the section entitled "Reasons for the Offer".

## TELEFÓNICA EMISIONES, S.A.U.

### Introduction

Telefónica Emisiones, S.A.U. (the "Issuer") was incorporated for an indefinite period on 29 November 2004 as a *Sociedad Anónima Unipersonal* (limited liability company with a sole shareholder) registered in the Commercial Registry of Madrid at Tome 20,733, Book 0, Sheet 77, Section 8, Page M-367261, Registration 1. The registered office of the Issuer is at Gran Vía 28, 28013 Madrid, Spain, the Shareholder's office free telephone helpline number (Spain) is +34 900 111 004 and the Investor Relations telephone number is +34 91 482 87 00. The authorised share capital of the Issuer is €62,000 represented by 62,000 registered shares having a nominal value of €1 each, numbered 1 to 62,000. The share capital of the Issuer is fully subscribed and paid up by Telefónica, S.A. as the sole shareholder.

The Issuer is governed by the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*).

### Business

The objects of the Issuer are the issue of *participaciones preferentes* (preferred securities) and/or other financial instruments.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the establishment and listing of the Programme and matters referred to as contemplated in this Base Prospectus and the authorisation, execution, delivery and performance of the other documents to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

The principal events that have occurred since 31 December 2013 are set forth below:

- On 31 January 2014 the Issuer redeemed £296 million of its notes, issued on 28 December 2006. The notes were guaranteed by Telefónica, S.A.;
- On 3 February 2014 the Issuer redeemed €2,000 million of its notes, issued on 3 February 2009. The notes were guaranteed by Telefónica, S.A.;
- On 7 February 2014 the Issuer redeemed €1,500 million of its notes, issued on 7 February 2007. The notes were guaranteed by Telefónica, S.A.;
- On 26 March 2014 the Issuer issued two-year notes in an aggregate principal amount of €200 million under the Programme approved by the FCA (formerly known as the Financial Services Authority) in London on 12 June 2013;
- On 10 April 2014 the Issuer issued three-year notes in an aggregate principal amount of €200 million under the Programme. On 4 June 2014 the Issuer reopened these notes. The total amount of the tap issuance was €100 million, increasing the total amount of the series of instruments outstanding to €300 million. These notes are guaranteed by Telefónica, S.A.; and
- On 27 May 2014 the Issuer issued eight-year notes in an aggregate principal amount of €1,250 million under the Programme. These notes are guaranteed by Telefónica, S.A.

### Directors

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal occupation</u>	<u>Principal External Activities</u>
Eduardo Álvarez Gómez	Director	Head of Financing Director at Telefónica, S.A. Joint and several Director of Telefónica Participaciones,



Name	Principal occupation	Principal External Activities
Juan Francisco Gallego Arrechea	Director	S.A.U. Director of Telefónica Europe, B.V.  Iberbanda, S.A. Alianca Atlántica Holding, B.V. Taetel, S.A. Telefónica Emisiones, S.A. (Joint and Several Director) Telefónica Participaciones, S.A. (Joint and Several Director)

The business address of each of the directors of the Issuer is Distrito Telefónica, Edificio Central, c/Ronda de la Comunicación, s/n, 28050 Madrid.

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 auditors of the Issuer, Ernst & Young, S.L. are registered auditors in Spain in the *Registro Oficial de Auditores de Cuentas*, with registration number S0530.

## TELEFÓNICA, S.A.

### 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 registered office of the Guarantor is at Gran Vía 28, 28013 Madrid, Spain, telephone number (Spain) +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), Baa2 (negative outlook), BBB+ (negative outlook), respectively, by S&P, Moody's and Fitch. Telefónica has been assigned short term credit ratings of A2, P2 and F2, 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.

The following significant events have occurred in 2013:

- On 8 February 2013, the bolívar fuerte was devalued from 4.3 bolívares fuertes per U.S. dollar to 6.3 bolívares fuertes per U.S. dollar.

The exchange rate of 6.3 bolívares fuertes per U.S. dollar has been used in the conversion of the financial information of Venezuelan subsidiaries for the whole year 2013. The principal impacts of the devaluation of the bolívar fuerte have been the following:

- The decrease of the Telefónica Group's net assets in Venezuela as a result of the conversion to euro at the new exchange rate with a balancing entry in Group equity of approximately €1,000 million, based on the net assets as at 31 December 2012.
- Increase in the net financial debt resulting from application of the new exchange rate to the net asset value in bolívar fuerte of approximately €873 million, as per the balance as at 31 December 2012.

The income and cash flows from Venezuela will be converted at the new devalued closing exchange rate as of 1 January 2013.

- On 20 February 2013, Telefónica UK Limited ("**Telefónica UK**") was awarded two 10 MHz blocks in the 800 MHz spectrum band in the UK spectrum auction.

The total investment by Telefónica UK in new frequencies amounted to €719 million.

- On 26 March 2013, Telefónica placed 90,067,896 treasury shares (representing 1.979% of its share capital) to qualified and professional investors, at €10.80 per share. These shares were the total treasury shares position of Telefónica as of that date. The terms and conditions of this sale and the final share price were duly notified by the company to the Spanish National Securities and Exchange Commission (the "**CNMV**").
- On 24 April 2013, the Board of Directors of Telefónica approved, upon the prior favourable report from its Nominating, Compensation and Corporate Governance Committee, the appointment as member and Chairman of the Audit and Control Committee of its independent director Mr. Carlos Colomer Casellas, to replace (having completed his legal term as Chairman) the independent director Mr. Gonzalo Hinojosa Fernández de Angulo, who remains as member of the aforementioned Committee.

Likewise, the Company's Board of Directors resolved to appoint Mr. Gonzalo Hinojosa Fernández de Angulo as member and Chairman of the Regulation Committee, to replace as

chairman the independent director Mr. Pablo Isla Álvarez de Tejera, who remains as member of the aforementioned Committee.

- On 30 April 2013, Telefónica reached an agreement with Corporación Multi Inversiones ("CMI"), for the sale of 40% of Telefónica's stake in its subsidiaries in Guatemala, El Salvador, Nicaragua and Panama. The transaction amounted to 500 million U.S. dollars plus a variable amount of up to 72 million U.S. dollars, according to the future evolution of the transferred assets. Following the fulfilment of the conditions to which the closing of the sale was subject, the closing of the transaction took place on 2 August 2013.
- On 31 May 2013, Telefónica's Annual General Shareholders' Meeting took place on second call, with an attendance, present or represented, of 54.47 % of the share capital. In such meeting, all the resolutions submitted by the Board of Directors for deliberation and vote were approved by majority of votes.

Also, on 31 May 2013, the Board of Directors of Telefónica, upon the prior favourable report of the Nominating, Compensation and Corporate Governance Committee, adopted the resolutions listed below:

- To re-elect the directors Mr. José María Abril Pérez and Mr. Javier de Paz Mancho, as members of the Executive Commission.
- To appoint the director Mr. Ignacio Moreno Martínez as a member of the Audit and Control Committee; Service Quality and Customer Service Committee; and Regulation Committee.
- To appoint the director Mr. Julio Linares López as a member of the Strategy Committee.
- To accept the resignation of the director Mr. Pablo Isla Álvarez de Tejera as member of the Service Quality and Customer Service Committee and to appoint the Director Mr. Javier de Paz Mancho member of the aforesaid Committee.
- To create an Institutional Affairs Committee, which will be composed of the following Directors: Mr. Javier de Paz Mancho, Mr. Alfonso Ferrari Herrero, Mr. Gonzalo Hinojosa Fernández de Angulo, Mr. Antonio Masanell Lavilla, Mr. Fernando de Almansa Moreno-Barreda and Mr. Julio Linares López, who will assume its presidency.
- To eliminate the International Affairs Committee and the Human Resources, Corporate Reputation and Responsibility Committee.

Finally, the Board of Directors of the Company, as requested by the Nominating, Compensation and Corporate Governance Committee, has resolved to appoint the Director Mr. Alfonso Ferrari Herrero, Coordinating Independent Director ("Lead Director"), in accordance with article 32 of the Company's Bylaws approved by the Annual General Shareholders' Meeting held on such date.

- On 24 June 2013, Telefónica reached an agreement with Hutchison Whampoa Group for the total divestment by the Telefónica Group of its shares of Telefónica Ireland, Ltd. The value of the sale totalled €850 million, including an initial cash consideration of €780 million at closing of the transaction, and an additional deferred payment of €70 million based on the completion of agreed financial objectives. The transaction is subject, among other conditions, to the relevant competition approvals.
- On 23 July 2013, Telefónica and its German listed subsidiary Telefónica Deutschland Holding AG (hereinafter, "**Telefónica Deutschland**") entered into an agreement (amended on 26 August 2013) with the Dutch company Koninklijke KPN N.V. (hereinafter, "**KPN**") under which Telefónica Deutschland committed itself to acquire the shares of the German subsidiary of KPN, E-Plus Mobilfunk GmbH & Co. KG (hereinafter, "**E-Plus**") delivering to KPN, as consideration, 24.9% of the shares of Telefónica Deutschland and €3,700 million.

Telefónica committed to subsequently acquire from KPN 4.4% of Telefónica Deutschland for a total amount of €1,300 million, and, as a result of the acquisition, KPN's stake in Telefónica Deutschland will be reduced to 20.5%.

Telefónica also committed to subscribe the proportional corresponding share in the capital increase approved by Telefónica Deutschland in the Extraordinary General Meeting held on 11 February 2014, to finance the cash consideration of the transaction.

The closing of this transaction is subject to certain conditions of which only the relevant authorisation from the Competition Authority remains pending as at the date of this Base Prospectus.

- On 18 September 2013 two issuances of undated deeply subordinated reset rate guaranteed securities of Telefónica Europe B.V., with the subordinated guarantee of Telefónica were issued and paid-up, with a face value of €1,125 million in the case of the 5 Year Non-Call Securities, and €625 million in the case of the 8 Year Non-Call Securities.
- On 24 September 2013, Telefónica and the remaining shareholders of the Italian company Telco, (which holds a capital stake of 22.4% of the voting share capital of Telecom Italia S.p.A. ("**Telecom Italia**")) reached an agreement by virtue of which Telefónica subscribed for and paid out a capital increase in Telco through the contribution of €324 million in cash, receiving in return non-voting shares of Telco. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco remained unchanged (i.e. 46.18%), although its interest in the total share capital of Telco has increased to 66%. The current governance structure remained unaffected, including the obligation by Telefónica not to participate in or influence any decisions which could affect the markets in which both Telefónica and Telecom Italia are present. Further details are provided in the Strategic Partnership section.
- On 25 September 2013, the Board of Directors of Telefónica, pursuant to the resolution passed at the Shareholders' Meeting of Telefónica held on 31 May 2013, fixed 6 November 2013 as the date for the dividend distribution charged to unrestricted reserves, of a fixed gross amount of €0.35 for each Company share issued, in circulation, and carrying entitlement to this distribution.
- On 5 November 2013, Telefónica reached an agreement with PPF Group N.V. to sell 65.9% of Telefónica Czech Republic, a.s. ("**Telefónica Czech Republic**") for approximately 306 Czech Crowns per share in cash (approximately €2,467 million at the date of the agreement). The transaction was completed on 28 January 2014, after obtaining the relevant regulatory authorisation.
- On 26 November 2013 an issuance of undated deeply subordinated reset rate guaranteed securities of Telefónica Europe B.V., with the subordinated guarantee of Telefónica for a nominal amount of GBP 600 million and callable after the seventh anniversary of the issue date was settled.
- On 18 December 2013, the Board of Directors of Telefónica approved, upon the prior favourable report from the Nominating, Compensation and Corporate Governance Committee, the appointment of the Vice-Chairman of the Board of Directors, Mr. Julio Linares López, as a member of the Innovation Board Committee of Telefónica.

### **Recent Developments**

The following significant events have occurred since 31 December 2013:

- On 24 January 2014, Exchange Agreement No. 25 came into force, which regulates the sale of foreign currency in the Republic of Venezuela for certain sectors and items. This Agreement does not amend the exchange rate of 6.3 bolívares fuertes per U.S. dollar, which has applied since Exchange Agreement No. 14 was approved on 8 February 2013, except for: (i) cash for travelling abroad and remittances to individuals domiciled abroad; (ii) payment of operations inherent to national civil aviation and the international air transportation public service; (iii) operations inherent to insurance activity; (iv) leasing and service agreements, agreements for the import of intangible assets, payments of rental contracts for networks, and payments

corresponding to the telecommunications sector; and (v) foreign investments and payments of royalties, use and exploitation of patents, trademarks and franchises, as well as technology import and technical assistance agreements.

Requests for the liquidation in U.S. dollars of the aforementioned concepts will be settled, at the foreign exchange rate resulting from the allocations conducted through the Complementary System for Administration of Foreign Currency (SICAD). The SICAD allocation as of 15 January 2014 resulted in an exchange rate of 11.36 bolívares fuertes per U.S. dollar. Nonetheless, the aforesaid Agreement stipulates that the liquidation of foreign currency operations requested before the Central Bank of Venezuela before Exchange Agreement No. 25 came into force, will be settled at the exchange rate established in the 8 February 2013 Exchange Agreement, i.e. at a rate of 6.3 bolívares fuerte per U.S. dollar.

The change to the currency exchange system introduced in the aforesaid Agreement will take effect in the Telefónica Group's consolidated financial statements from the moment it comes into force, on 24 January 2014. It is therefore a subsequent event that does not impact the consolidated financial statements, as the previous exchange rate of 6.3 bolívares fuertes per U.S. dollar was in force as at the year ended 31 December 2013 and up to 24 January 2014 for all foreign currency transactions.

The main aspects to be considered in 2014 are as follows. In order to estimate the impacts in euro, the rate used is the exchange rate resulting from the SICAD allocation as of 15 January 2014, amounting to 11.36 bolívares fuertes per U.S. dollar, which will vary throughout 2014.

- The decrease of the Telefónica Group's net assets in Venezuela as a result of the conversion to euro at the new exchange rate with a balancing entry in Group equity of approximately €1,800 million, based on the net assets as at 31 December 2013.
- As part of the decrease mentioned in the preceding paragraph, the value in euro of the net financial assets denominated in bolívar fuerte will decrease by approximately €1,200 million, as per the balance sheet as at 31 December 2013.

On the other hand, it should be noted that Exchange regulations in Venezuela are in constant evolution. Thus, on 20 February 2014, the Government of Venezuela announced a complementary currency system identified as "SICAD 2", in addition to those already in existence, which will revoke the Act of Illicit Exchange ("*Ley de Ilícitos Cambiarios*") and will create an alternative market with bands of exchange rates, which will be regulated by the Central Bank of Venezuela. However, as of the date of authorisation for issue of this Prospectus, the system described in such announcement or the corresponding measures have not yet been formalised.

- On 28 January 2014, after obtaining the relevant regulatory approval, the sale of Telefónica Czech Republic, was completed. Subsequent to the sale, Telefónica holds a 4.9% stake in Telefónica Czech Republic.
- On 26 February 2014, the Board of Directors of Telefónica approved the implementation of a new organisational structure focused on clients and that incorporates the digital offering as the main focus for commercial policies. The structure aims to give greater visibility to local operations, bringing them closer to the corporate decision-making centre, simplifying the global structure and strengthening the transverse areas to make the decision-making process more efficient.

Within this framework, Telefónica has created the role of the Chief Commercial Digital Officer, who will be responsible for fostering revenue growth. On the cost side, the Company has strengthened the role of the Chief Global Resources Officer. Both Officers will report directly to the Chief Operating Officer (COO), as will the local business CEOs for Spain, Brazil, Germany and the United Kingdom, in addition to the Latin American Unit, now without Brazil.

The new model integrates the activities carried out to date by Telefónica Digital Limited, Telefónica Europe Plc ("**Telefónica Europe**") and Telefónica Latin America (Latam) into the Global Corporate Centre, thus simplifying the organisation.

- On 27 February 2014, the Board of Directors of Telefónica has agreed, regarding the 2014 dividend, to determine the amount thereof at €0.75 per share, payable in two tranches:
  - €0.35 per share by means of a "scrip dividend" in the fourth quarter of 2014.
  - €0.40 per share in cash in the second quarter of 2015.
- On 31 March 2014, two issuances of undated deeply subordinated reset rate guaranteed securities of Telefónica Europe B.V., with the subordinated guarantee of Telefónica were issued and paid-up, with a face value of €750 million in the case of the 6 Year Non-Call Securities, and €1,000 million in the case of the 10 Year Non-Call Securities.
- On 6 May 2014, Telefónica submitted a binding offer for the acquisition of 56% of the share capital of Distribuidora de Televisión Digital, S.A. (DTS), directly or indirectly owned by Promotora de Informaciones, S.A. (PRISA). On 2 June 2014, after the due process of negotiation, Telefónica's subsidiary Telefónica de Contenidos, S.A.U. formalised a purchase agreement with Promotora de Informaciones, S. A. (PRISA). The price agreed amounts to €750 million, subject to customary adjustments at closing. The closing of this purchase agreement is subject to obtaining the relevant authorisation of the competition authorities and to the approval of a representative panel of the banks financing Promotora de Informaciones, S.A. (PRISA).
- On 7 May 2014 Telefónica paid a dividend of €0.40 per share in cash corresponding to the second tranche of the 2013 dividend which in total amounted to €0.75 per share.
- On 30 May 2014 Telefónica's Annual General Shareholders' Meeting took place on second call with the attendance, present or represented, of 54.81% of the share capital. In this meeting, all the resolutions submitted by the Board of Directors for deliberation and approval were approved by majority of votes.

## Business Overview

### 2013 highlights

The following table and description summarise the accesses of the Telefónica Group over the years ended 31 December 2013 and 2012:

ACCESSES	2012 December	2013 December	Percentage variation (%) 2012/2013
	<i>Unaudited figures (thousands)</i>		
Final Clients Accesses .....	<b>310,088.3</b>	<b>316,759.9</b>	<b>2.2%</b>
Fixed telephony accesses <sup>(1)(2)(3)</sup> .....	40,002.6	39,338.5	(1.7)%
Internet and data accesses .....	19,402.6	19,102.0	(1.5)%
Narrowband .....	653.2	510.8	(21.8)%
Broadband <sup>(4)(5)</sup> .....	18,596.2	18,447.8	(0.8)%
Other <sup>(6)</sup> .....	153.1	143.4	(6.3)%
Mobile accesses .....	247,346.9	254,717.2	3.0%
Prepay .....	165,821.9	165,557.0	(0.2)%
Contract <sup>(2)(8)</sup> .....	81,525.0	89,160.3	9.4%
Pay TV .....	3,336.2	3,602.2	8.0%
Wholesale Accesses .....	<b>5,731.3</b>	<b>6,358.5</b>	<b>10.9%</b>
Unbundled loops .....	3,308.8	3,833.4	15.9%
Shared ULL .....	183.5	130.6	(28.9)%
Full ULL .....	3,125.3	3,702.9	18.5%
Wholesale ADSL .....	845.4	866.9	2.5%
Other .....	1,577.1	1,658.2	5.1%
<b>Total Accesses</b> .....	<b>315,819.6</b>	<b>323,118.4</b>	<b>2.3%</b>

#### Note:

- Telefónica Spain mobile accesses include since 2013 the accesses of Tuenti. Figures for the year ended 31 December 2012 have been revised for comparison.

<sup>(1)</sup> PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.

- (2) In the second quarter of 2013, 209 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.
- (3) ADSL, satellite, optical fiber, cable modem and broadband circuits.
- (4) In the second quarter of 2013, 511 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.
- (5) Retail circuits other than broadband.
- (6) The first quarter of 2013 includes the disconnection of 114 thousand inactive accesses in Czech Republic.

Telefónica managed a total of almost 323 million accesses at the end of 2013, up 2.3% year-on-year, driven by contract mobile customers, in particular in the mobile broadband segment, and pay TV accesses. Telefónica Latin America (69% of the total) showed the greatest increase, posting an increase in accesses of +4.2% year-on-year. It is important to note that the variance in accesses is impacted by the sale of the fixed business's residential assets in the UK and the disconnection of some inactive accesses (Czech Republic).

The Telefónica Group's strategy is based on capturing growth in the telecommunications markets and especially on attracting high-value-added customers.

In the mobile segment, contract accesses rose by 9.4% to 89.2 million and now account for 35% of the total mobile customer base (+2 percentage points year-on-year), underlining the focus on the high-value segment.

The Company's mobile broadband accesses stood at 72.8 million in December 2013, maintaining solid growth of 38% year-on-year, and representing 29% of mobile accesses (+7 percentage points year-on-year). Underpinning this growth was the strong performance of smartphones, which achieved a penetration of 27% in terms of mobile Internet tariffs over the customer base (+8 percentage points year-on-year), with net additions of 20.7 million (+35% year-on-year).

Telefónica's customer base includes the consumer and business segments, and therefore is less affected by customer concentration risk.

### Segment Outlook

#### Telefónica Latin America

ACCESSES	2012 December	2013 December	Percentage variation (%) 2012/2013
	<i>Unaudited figures (thousands)</i>		
Final Clients Accesses .....	<b>211,908.0</b>	<b>221,046.7</b>	<b>4.3%</b>
Fixed telephony accesses <sup>(1)</sup> .....	24,153.3	24,526.3	1.5%
Internet and data accesses .....	8,732.5	9,239.7	5.8%
Narrowband .....	209.1	125.5	(40.0)%
Broadband <sup>(2)</sup> .....	8,415.3	9,011.7	7.1%
Other <sup>(3)</sup> .....	108.0	102.6	(5.0)%
Mobile accesses .....	176,595.4	184,507.0	4.5%
Prepay .....	137,141.5	138,076.0	0.7%
Contract .....	39,453.9	46,431.0	17.7%
Pay TV .....	2,426.8	2,773.6	14.3%
Wholesale Accesses .....	<b>47.0</b>	<b>41.5</b>	<b>(11.7)%</b>
Total Accesses Telefónica Latam .....	<b>211,955.1</b>	<b>221,088.2</b>	<b>4.3%</b>
Terra Accesses.....	604.7	412.5	(31.8)%
<b>Total Accesses in Latin America.....</b>	<b>212,559.8</b>	<b>221,500.7</b>	<b>4.2%</b>

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

(2) Includes ADSL, fiber optic, cable modem and broadband circuits.

(3) Remaining retail circuits other than broadband

Evolution of competitive position:

<b>Telefónica Latin América</b>	<b>2012 December</b>	<b>2013 December</b>
<i>Mobile Market Share<sup>(1)</sup></i>		
Brazil .....	29.1%	28.6%
Argentina .....	29.7%	31.4%
Chile .....	38.8%	38.7%
Peru.....	60.0%	59.7%
Colombia .....	21.6%	24.0%
Venezuela .....	32.9%	32.0%
Mexico.....	19.2%	18.5%
Central America.....	29.7%	31.8%
Ecuador.....	29.3%	32.6%
Uruguay.....	37.4%	35.8%

<sup>(1)</sup> Company estimation

<b>Telefónica Latin América</b>	<b>2012 December</b>	<b>2013 December</b>
<i>Share of ADSL<sup>(1)</sup></i>		
Brazil .....	18.8%	16.3%
Argentina .....	30.9%	30.5%
Chile .....	41.2%	40.2%
Peru.....	90.1%	86.9%
Colombia .....	18.1%	18.7%

<sup>(1)</sup> Company estimation

#### ***Main 2013 trends in the mobile business***

- Estimated total market penetration in Latin America at the end of December 2013 was 118% (+2.9 percentage points year-on-year).
- Mobile accesses reached 184.5 million at year end (+4.5% year-on-year growth), with notable growth in accesses in the contract segment (+17.7%) and despite the impact of the application a more restrictive criteria in the calculation of the number of customers for the prepay segment (+0.7%). Contract accesses represented 25% of total mobile accesses and totalled 46.4 million as at 31 December 2013.
- The continued growth in mobile broadband accesses is noteworthy, reaching 43.6 million at year end (increasing year-on-year 60%) leveraged on the strong demand for smartphones, whose access base grew 75% year-on-year and increased its weight by 9 percentage points over the entire mobile access base.
- Net additions stood at 7.9 million for the year, boosted by the 60% year-on-year growth in contract accesses, with 7.0 million new accesses in 2013 (+64% year-on-year).
- Traffic grew by 9% year-on-year, with year-on-year growth reported in all the countries in the region.
- ARPU growth year-on-year was 5.7%, despite the reduction of mobile termination rates. Thus, outgoing ARPU posted year-on-year growth of 8.4%, driven by non-SMS data and the growth in voice traffic.

#### ***Key 2013 trends in the fixed line business***

- Total accesses reached 36.6 million as of 31 December 2013, growing year-on-year by 3%.
- Traditional business accesses stood at 24.5 million, up 1.5% year-on-year, reflecting the acceleration in the capture of new accesses, with net additions of 373 thousand in the year ended 31 December 2013.



- Broadband accesses amounted to 9.0 million (year-on-year growth of 7.1%) with net additions of 596 thousand in the year. Thus, broadband accesses represented 37% of traditional business accesses, increasing 2 percentage points year-on-year.
- Pay TV accesses stood at 2.8 million, with year-on-year growth of 14.3%, with net additions of 347 thousand in the year ended 31 December 2013, despite the commercial repositioning of MMDS (multichannel multipoint distribution service) in Brazil, which resulted in a reduction of 71 thousand clients.

### Brazil

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
	<b>2012/2013</b>		
<i>Unaudited figures</i>			
<i>(thousands)</i>			
<b>BRAZIL</b>			
Final Clients Accesses.....	91,345.4	92,730.0	1.5%
Fixed telephony accesses <sup>(1)</sup> .....	10,642.7	10,747.8	1.0%
Internet and data accesses.....	3,964.3	4,102.0	3.5%
Narrowband.....	137.9	92.1	(33.2)%
Broadband <sup>(2)</sup> .....	3,748.4	3,936.7	5.0%
Other <sup>(3)</sup> .....	78.1	73.2	(6.2)%
Mobile accesses.....	76,137.3	77,240.2	1.4%
Prepay.....	57,335.1	53,551.9	(6.6)%
Contract.....	18,802.2	23,688.3	26.0%
Pay TV.....	601.2	640.1	6.5%
Wholesale Accesses.....	24.4	18.8	(22.8)%
<b>Total Accesses.....</b>	<b>91,369.8</b>	<b>92,748.9</b>	<b>1.5%</b>

<sup>(1)</sup> PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

<sup>(2)</sup> Includes ADSL, fiber optic, cable modem and broadband circuits.

<sup>(3)</sup> Remaining retail circuits other than broadband

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
	<b>2012/2013</b>		
	<b>(local</b>		
	<b>currency)</b>		
<i>Unaudited figures</i>			
<b>BRAZIL</b>			
Traffic (Million minutes) <sup>(1)</sup> .....	113,955	115,698	1.5%
ARPU (EUR).....	8.9	8.0	2.3%

<sup>(1)</sup> From the third quarter of 2013, duplicated traffic was deleted following the integration of fixed and mobile companies.

In 2013, Telefónica Brasil S.A. ("**Telefónica Brasil**") strengthened its competitive positioning in the market; reinforcing its leadership in high value segments of the mobile market through ongoing service innovation and differential coverage and network quality and in the fixed market through a renewed commercial offer and deployment of the fiber network.

In the fixed business, in addition to the fiber network in Sao Paulo, Telefónica Brasil also continued to develop fixed wireless technology, which enables fixed services to be offered in areas where the copper network has not been installed. With the aim of strengthening its portfolio and broadband services, Telefónica Brasil has also relaunched "Vivo Internet Box", which provides mobile Internet associated with a WiFi modem with a capacity of up to 40 GB.

Innovative services continue to be launched, such as the new mobile generation network deployment of both 3G and 4G, which was launched in the second quarter and now covers 73 cities and the launch of "Multivivo", a product which allows data and/or voice to be shared between several devices and that already had 1.4 million users as at the year ended 31 December 2013.

Argentina

	2012 December	2013 December	Percentage variation 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>ARGENTINA</b>			
Final Clients Accesses.....	24,121.9	26,636.7	10.4%
Fixed telephony accesses <sup>(1)</sup> .....	4,762.4	4,833.5	1.5%
Fixed wireless.....	234.6	342.7	46.0%
Internet and data accesses.....	1,755.5	1,848.5	5.3%
Narrowband.....	19.3	12.9	(32.8)%
Broadband <sup>(2)</sup> .....	1,736.3	1,835.5	5.7%
Mobile accesses.....	17,604.0	19,954.7	13.4%
Prepay.....	11,000.0	12,916.6	17.4%
Contract.....	6,604.0	7,038.1	6.6%
Wholesale Accesses.....	14.1	14.0	(0.4)%
<b>Total Accesses.....</b>	<b>24,136.0</b>	<b>26,650.7</b>	<b>10.4%</b>

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

(2) Includes ADSL, fiber optic, cable modem and broadband circuits.

<b>CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA</b>	2012 December	2013 December	Percentage variation (%) 2012/2013 (local currency)
<i>Unaudited figures</i>			
<b>ARGENTINA</b>			
Traffic (Million minutes).....	21,201	22,540	6.3%
ARPU (EUR).....	11.0	9.4	5.9%

In 2013 Telefónica Argentina, S.A. ("**Telefónica Argentina**") consolidated its market leadership thanks to its competitive position and ongoing focus on quality and innovation in its products and services.

Telefónica Argentina launched Quam, a secondary brand to Movistar for mobile telephony services, reflecting its commitment to innovation by being the first telecommunications company to launch an offering of this type in the region. This new offering gives Telefónica access to fresh market segments with a simple proposal that combines various minute, SMS and data bundles and is aimed at ensuring that the youngest customers in the prepay segment are always connected.

Venezuela and Central America

The following tables present combined figures of Venezuela and Central America for the year ended 31 December 2013, and the figures for the year ended 31 December 2012 have been revised for comparison:

	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>VENEZUELA AND CENTRAL AMERICA</b>			
Final Clients Accesses.....	21,686.3	23,491.6	8.3%
Fixed telephony accesses.....	1,500.7	1,426.7	(4.9)%
Fixed wireless <sup>(2)</sup> .....	1,340.5	1,168.7	(12.8)%
Internet and data accesses.....	41.0	12.4	(69.8)%
Narrowband.....	29.7	1.7	(94.3)%
Broadband <sup>(3)</sup> .....	4.9	4.7	(3.9)%
Other <sup>(4)</sup> .....	6.4	6.0	(6.4)%
Mobile accesses.....	19,929.3	21,666.8	8.7%
Prepay.....	18,060.2	19,489.8	7.9%

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
	<i>Unaudited figures</i>		<b>2012/2013</b>
	<i>(thousands)</i>		
Contract .....	1,869.1	2,177.0	16.5%
Pay TV .....	215.3	385.6	79.1%
<b>Total Accesses<sup>(1)</sup></b> .....	<b>21,686.3</b>	<b>23,491.6</b>	<b>8.3%</b>

<sup>(1)</sup> Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

<sup>(2)</sup> Fixed wireless accesses exclude since the first quarter of 2013, 58 thousand accesses included as fixed telephony accesses.

<sup>(3)</sup> Includes ADSL, optical fiber, cable modem and broadband circuits.

<sup>(4)</sup> Retail circuits other than broadband.

<b>CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA</b>	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
	<i>Unaudited figures</i>		<b>2012/2013</b>
	<i>(local currency)</i>		
<b>VENEZUELA AND CENTRAL AMERICA</b>			
Traffic (Million minutes).....	27,536	32,304	17.3%
ARPU (EUR) .....	13.8	11.6	19.4%

During 2013, Telefónica Venezolana, C.A. ("**Telefónica Venezolana**") continued strengthening its unique position thanks to its integrated services offering and the ongoing improvements in network quality and coverage, showing a positive trend both in operational and financial terms throughout the year ended 31 December 2013.

Commercial activity in 2013 was focused on incentivising the consumption of data plans and launching new offerings adapted to customer needs depending on voice, SMS and data demand.

Underlining its commitment to innovation and maintaining a greater access to technology and comfort to its customers, the Telefónica Venezolana began a nationwide rollout of WiFi infrastructure in the fourth quarter of 2013. The goal is to install 1,000 hotspots by 2016, with a view to placing Telefónica Venezolana as the telecommunications company with the largest WiFi network in the country.

#### Chile

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
	<i>Unaudited figures</i>		<b>2012/2013</b>
	<i>(thousands)</i>		
<b>CHILE</b>			
Final Clients Accesses.....	<b>13,142.1</b>	<b>13,625.2</b>	<b>3.7%</b>
Fixed telephony accesses <sup>(1)</sup> .....	1,737.9	1,654.2	(4.8)%
Internet and data accesses .....	940.1	977.5	4.0%
Narrowband.....	5.5	5.2	(5.5)%
Broadband <sup>(2)</sup> .....	932.0	969.9	4.1%
Other <sup>(3)</sup> .....	2.5	2.4	(6.5)%
Mobile accesses .....	10,040.1	10,490.3	4.5%
Prepay.....	7,385.0	7,806.5	5.7%
Contract.....	2,655.1	2,683.8	1.1%
Pay TV .....	424.0	503.2	18.7%
Wholesale Accesses .....	<b>4.9</b>	<b>5.0</b>	<b>2.6%</b>
<b>Total Accesses</b> .....	<b>13,147.0</b>	<b>13,630.2</b>	<b>3.7%</b>

<sup>(1)</sup> PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

<sup>(2)</sup> Includes ADSL, fiber optic, cable modem and broadband circuits.

<sup>(3)</sup> Remaining retail circuits (broadband)

<b>CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA</b>	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013 (local currency)</b>
	<i>Unaudited figures</i>		
<b>CHILE</b>			
Traffic (Million minutes).....	13,064	13,339	2.1%
ARPU (EUR) .....	12.0	10.9	(4.6)%

Telefónica Chile, S.A. ("**Telefónica Chile**") strengthened its leadership position in Chile in 2013 thanks to its innovative services and the ongoing improvement in the quality of its fixed and mobile network.

On 15 November 2013, Telefónica Chile announced the launch of nationwide LTE services, further expanding telecommunications in the country.

In another noteworthy development Telefónica Chile was also granted one of the three blocks of radioelectric spectrum for LTE auctioned in the 700 Mhz band. This will enable a more efficient rollout of the network for the delivery of 4G services, further strengthening Telefónica Chile's position.

#### *Mexico*

	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013</b>
	<i>Unaudited figures (thousands)</i>		
<b>MEXICO</b>			
Mobile accesses.....	19,168.0	20,332.8	6.1%
Prepay.....	17,668.3	18,863.2	6.8%
Contract.....	1,499.7	1,469.7	(2.0)%
Fixed wireless.....	1,158.9	1,558.9	34.5%
<b>Total Accesses.....</b>	<b>20,326.9</b>	<b>21,891.7</b>	<b>7.7%</b>

2013 was a key year for the Mexican telecommunications market following the approval in June 2013 of the new Telecommunications Law that is expected to be implemented in the first half of 2014, initiating a process of structural transformation in the sector.

Telefónica Móviles México, S.A. de C.V. ("**Telefónica México**") launched the "Movistar Ilimitado" plan in April 2013 (plan in the prepaid segment with off-net minute bundles, SMS, data capacity from 50 MB and unlimited on-net calls for top-ups of more than 100 pesos) and the launch of the "Prepago Doble" plan in October 2013, which offers double the balance topped up for all top-ups. Furthermore, in December 2013, the Company initiated the launch of "Plan GigaMove", a new range of data contract plans aimed at high value customers. Depending on the plan chosen, the customer receives up to 3 GB of browsing, 1,500 SMS to any company in Mexico, Spotify Premium, Twitter, Whatsapp, Facebook and unlimited mail. Telefónica México also signed a new deal with the distributor MAZ Tiempo following the agreements made in September 2013 with the mobile virtual network operators Coppel, S.A. de C.V. and Virgin Mobile. An agreement was also reached in January 2013 with NII Holdings, Inc. whereby Telefónica México is to provide Nextel de México, S.A. de C.V. with nationwide voice and data coverage services on its 3G mobile network.

#### *Peru*

	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013</b>
	<i>Unaudited figures (thousands)</i>		
<b>PERU</b>			
Final Clients Accesses.....	<b>20,299.5</b>	<b>20,897.6</b>	<b>2.9%</b>
Fixed telephony accesses <sup>(1)</sup> .....	2,883.4	2,801.5	(2.8)%
Fixed wireless.....	580.3	313.5	(46.0)%
Internet and data accesses .....	1,317.6	1,437.1	9.1%
Narrowband.....	8.2	5.0	(38.7)%

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
			<b>2012/2013</b>
	<i>Unaudited figures</i> (thousands)		
Broadband <sup>(2)</sup> .....	1,288.3	1,411.1	9.5%
Other <sup>(3)</sup> .....	21.0	21.0	-
Mobile accesses .....	15,196.9	15,762.0	3.7%
Prepay.....	11,555.3	11,258.7	(2.6)%
Contract.....	3,641.6	4,503.3	23.7%
Pay TV .....	901.6	897.1	(0.5)%
Wholesale Accesses .....	<b>0.4</b>	<b>0.4</b>	<b>(8.7)%</b>
<b>Total Accesses.....</b>	<b>20,299.9</b>	<b>20,898.0</b>	<b>2.9%</b>

<sup>(1)</sup> PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, 2/6 Access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

<sup>(2)</sup> Includes ADSL, optical fiber, cable modem and broadband circuits.

<sup>(3)</sup> Retail circuits other than broadband.

During 2013, Telefónica Móviles Perú, S.A.C. ("**Telefónica Perú**") continued to consolidate its integrated services offering, focusing on improvements in service quality and on simplifying plans and tariffs. This resulted in a doubling of the speed of fixed broadband while Telefónica Perú also fostered the migration of customers to pay TV bundles with HD channels. In the mobile business, the restructuring of the tariff portfolio in favour of voice and data plans continued to drive smartphone adoption.

Telefónica Perú continued to expand telecommunications in the country, with the grant in the fourth quarter of 2013 of one of the two blocks of radioelectric spectrum for LTE auctioned on 22 July 2013 in the AWS band (2x20 MHz). A 20-year concession contract has been signed for €120 million. Telefónica Perú is aiming to introduce the 4G network to 234 district capitals (around 50% of the population) over the next five years. In keeping with this plan, Telefónica Perú launched commercial 4G services in seven districts of Lima at the end of November 2013.

#### Colombia

	<b>2012</b>	<b>2013</b>	<b>Percentage</b>
	<b>December</b>	<b>December</b>	<b>variation (%)</b>
			<b>2012/2013</b>
	<i>Unaudited figures</i> (thousands)		
<b>COLOMBIA</b>			
Final Clients Accesses.....	<b>14,122.8</b>	<b>14,778.7</b>	<b>4.6%</b>
Fixed telephony accesses <sup>(1)</sup> .....	1,420.4	1,447.1	1.9%
Internet and data accesses .....	714.0	862.2	20.8%
Narrowband.....	8.5	8.5	(0.0)%
Broadband <sup>(2)</sup> .....	705.4	853.7	21.0%
Mobile accesses .....	11,703.6	12,121.7	3.6%
Prepay.....	8,675.2	8,818.5	1.7%
Contract.....	3,028.4	3,303.2	9.1%
Pay TV .....	284.8	347.6	22.1%
Wholesale Accesses .....	<b>3.3</b>	<b>3.3</b>	<b>0.0%</b>
<b>Total Accesses.....</b>	<b>14,126.1</b>	<b>14,782.0</b>	<b>4.6%</b>

<sup>(1)</sup> PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, 2/6 Access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.

<sup>(2)</sup> Includes ADSL, optical fiber, cable modem and broadband circuits.

In 2013 Telefónica Colombia maintained its commercial position since June 2012 following the merger between Telefónica Móviles Colombia, S.A. and Colombia Telecomunicaciones S.A. that strengthened Telefónica Colombia's position in the country's telecommunications sector.

The structural changes implemented by the Colombian regulator ("**CRC**") in the first semester of 2013 continued to boost the telecommunications market through the application of asymmetric mobile

termination rates between the dominant operator and other telecommunications companies (including Telefónica Colombia). In order to adapt to the new regulatory regime and to progress with its commercial repositioning, Telefónica Colombia focused on higher-value customers in 2013 while strengthening the integrated marketing of services.

Telefónica Colombia also secured 30 MHz of spectrum in the AWS band (2x15 MHz) for the provision of LTE services at the auction on 26 June 2013 at a total cost of €109 million. In December 2013 it launched LTE services commercially, in five important cities in the country.

Telefónica Colombia managed a total of 14.8 million accesses at the end of December 2013, for year-on-year growth of 5%.

### Telefónica Europe

ACCESSES	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
Final Clients Accesses .....	<b>97,575.5</b>	<b>95,300.7</b>	<b>(2.3)%</b>
Fixed telephony accesses <sup>(1)(2)</sup> .....	15,849.3	14,812.2	(6.5)%
Internet and data accesses .....	10,065.4	9,449.7	(6.1)%
Narrowband .....	444.1	385.3	(13.2)%
Broadband <sup>(3)</sup> .....	9,576.2	9,023.6	(5.8)%
Other <sup>(4)</sup> .....	45.1	40.8	(9.4)%
Mobile accesses .....	70,751.5	70,210.2	(0.8)%
Prepay .....	28,680.4	27,480.9	(4.2)%
Contract <sup>(5)</sup> .....	42,071.1	42,729.2	1.6%
Pay TV .....	909.3	828.6	(8.9)%
Wholesale Accesses .....	<b>5,684.3</b>	<b>6,317.0</b>	<b>11.1%</b>
<b>Total Accesses</b> .....	<b>103,259.8</b>	<b>101,617.7</b>	<b>(1.6)%</b>

Note: Mobile accesses of Telefónica España include since 2013 the accesses of Tuenti. Figures for the year ended 31 December 2012 have been revised for comparison.

<sup>(1)</sup> Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesses 2/6x30. Includes internal use, VOIP and Naked ADSL.

<sup>(2)</sup> During the second quarter of 2013, 209 thousand accesses were derecognised due to the asset sale of the Fix Business in UK.

<sup>(3)</sup> During the second quarter of 2013, 511 thousand accesses were derecognised due to the asset sale of the Fix Business in UK.

<sup>(4)</sup> Other non-broadband retail circuits.

<sup>(5)</sup> During the first quarter of 2013, 114 thousand inactive accesses were derecognised in the Czech Republic.

The below table shows the evolution of Telefónica's estimated mobile market share:

Telefónica Europe	2012 December	2013 December
<i>Mobile Market Share<sup>(1)</sup></i>		
Spain .....	36.2%	33.9%
United Kingdom .....	26.6%	26.5%
Germany .....	16.7%	16.9%
Czech Republic .....	38.6%	38.7%
Ireland .....	33.0%	31.4%
Slovakia .....	21.1%	23.7%

<sup>(1)</sup> Company estimation

Telefónica Europe	2012 December	2013 December
<i>ADSL Market Share<sup>(1)</sup></i>		
Spain .....	48.8%	47.4%

<sup>(1)</sup> Company estimation

During 2013, Telefónica Europe's portfolio was restructured through the sale of operations in the Czech Republic, which completed in January 2014 after obtaining regulatory approval, and Ireland, pending regulatory approval, and with the announcement of the acquisition of E-Plus by Telefónica Deutschland.

Telefónica Europe included, at the end of 2013, the operations in Spain, United Kingdom, Germany, Czech Republic, Slovakia and Ireland.

Over 2013 Telefónica Europe has updated its commercial offering, with the launch of new tariffs, focused on the capture and growth of data both in the fixed (fiber) and mobile (4G) businesses. In this respect, the strengthening of "Movistar Fusión" in Spain, the commitment to streamline packages and to improve distribution channels in the United Kingdom, and introducing the "O2 Blue All-in" tariffs in Germany, all improved growth in mobile data.

The new "O2 Refresh" tariff was launched in April 2013 and aims to eliminate subsidies and improve the mix of distribution channels and offer customers more flexibility "to change telephones with the same frequency that telephones change". The "O2 Blue All-in" tariffs in Germany are tariffs focused on mobile data.

The greater uptake of 4G services in the United Kingdom and Germany, and the acceleration in the roll out of fiber optic and Pay TV in Spain will be the main pillars of expected growth in 2014.

Total accesses stood at 101.6 million at the end of December 2013 (-1.6% year-on-year) affected by asset disposals in Telefónica UK's fixed consumer business on 1 May 2013 (720 thousand accesses) and the disconnection of 114 thousand accesses of inactive mobile contract customers in the first quarter of 2013 in the Czech Republic.

Main 2013 trends in accesses in the mobile business include the following:

- Mobile accesses totalled 70.2 million for the year ended 31 December 2013, a decline of 0.8% year-on-year, with the contract segment continuing to increase its weight over the reduced total (61% of the base; +1 percentage points vs. 2012).
- Growth in mobile contract customers with a net gain in 2013 of 772 thousand accesses (excluding the disconnection of inactive customers in the Czech Republic). Total net mobile losses in 2013, excluding those disconnections in the Czech Republic, stood at 427 thousand accesses due to the loss of prepay customers.
- Mobile broadband accesses continued to increase and totalled 29.2 million at the end of 2013 (+14.6% year-on-year growth) driven by the growing demand for data and the strong rise in the adoption of smartphones (42% penetration in terms of mobile Internet data tariffs over total mobile customer base, at year-end; +7 percentage points, year-on-year).

Main 2013 trends in accesses in fixed business

- Retail fixed broadband accesses stood at 9.0 million (-5.8% year-on-year) for the year ended 31 December 2013 primarily impacted by the sale of the fixed business's residential assets in the UK (-511 thousand accesses). However, in 2013 an improvement was seen in net adds for the fixed broadband segment especially in the last part of the year, driven by growth in fiber optic in Spain.
- Fixed telephony accesses fell by 6.5%, year-on-year, to 14.8 million for the year ended 31 December 2013 affected by competitive pressures in the market, and by asset disposals in Telefónica UK's fixed consumer business in the second quarter (-209 thousand accesses).

#### Spain

<b>ACCESSES BY COUNTRY</b>	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013</b>
	<i>Unaudited figures (thousands)</i>		
<b>TELEFÓNICA SPAIN</b>			
Final Clients Accesses.....	<b>38,821.7</b>	<b>36,663.6</b>	<b>(5.6)%</b>
Fixed telephony accesses <sup>(1)</sup> .....	11,723.0	11,089.8	(5.4)%
Naked ADSL.....	25.0	22.8	(9.1)%
Internet and data accesses.....	5,779.3	5,899.0	2.1%
Narrowband.....	54.0	38.5	(28.7)%

<b>ACCESSES BY COUNTRY</b>	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013</b>
	<i>Unaudited figures (thousands)</i>		
Broadband <sup>(2)</sup> .....	5,709.3	5,846.8	2.4%
Other <sup>(3)</sup> .....	16.0	13.7	(14.2)%
Mobile accesses .....	20,608.7	19,002.1	(7.8)%
Prepay .....	5,180.5	4,262.7	(17.7)%
Contract .....	15,428.2	14,739.3	(4.5)%
Pay TV .....	710.7	672.7	(5.4)%
Wholesale Accesses .....	<b>4,396.0</b>	<b>4,990.1</b>	<b>13.5%</b>
WLR <sup>(4)</sup> .....	481.2	525.8	9.3%
Unbundled loops .....	3,262.0	3,787.1	16.1%
Shared ULL .....	183.5	130.6	(28.9)%
Full ULL <sup>(5)</sup> .....	3,078.5	3,656.5	18.8%
Wholesale ADSL .....	652.3	676.8	3.8%
Other <sup>(6)</sup> .....	0.5	0.4	(23.9)%
<b>Total Accesses</b> .....	<b>43,217.8</b>	<b>41,653.6</b>	<b>(3.6)%</b>

Note:

- Mobile accesses of Telefónica España include since 2013 accesses of Tuenti. Figures for the year ended 31 December 2012 have been revised for comparison.

(1) Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesses 2/6x30. Includes internal use, VOIP and Naked ADSL.

(2) ADSL, satellite, fiber optic and broadband circuits.

(3) Leases of circuits

(4) Wholesale line rental.

(5) Includes naked shared loops.

(6) Wholesale circuits

<b>CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA</b>	<b>2012 December</b>	<b>2013 December</b>	<b>Percentage variation (%) 2012/2013 (local currency)</b>
	<i>Unaudited figures</i>		
<b>TELEFÓNICA SPAIN</b>			
Traffic (Million minutes) .....	36,382	34,428	(5.4)%
ARPU (EUR) .....	20.6	17.7	(14.3)%
Prepay .....	8.8	7.3	(17.8)%
Contract .....	24.7	21.0	(15.0)%
Data ARPU (EUR) .....	6.5	6.8	4.4%
% non-SMS over data revenues .....	85.2%	92.1%	7.0 pp

Telefónica España's 2013 results indicate the gradual recovery of the business. Revenue stabilised the pace of year-on-year decline over the year and profitability remained steady.

Through 2013, commercial activity continued, especially in fiber and, towards the end of 2013, in pay TV.

The portability figures in the mobile contract segment showed a positive trend towards the end of 2013.

At the end of 2013, "Movistar Fusión" reached 2.9 million customers, and more than one million additional mobile lines, which accounted in the consumer segment for 52% of fixed broadband and 45% of mobile contract customers). There was also a steady improvement in the percentage of new customers and/or customers taking new services.

Fiber customers reach 594 thousand as at 31 December 2013; almost double that in December 2012 (17% of passed homes, amounting to 3.5 million homes).



United Kingdom

ACCESSES BY COUNTRY	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>TELEFÓNICA UK</b>			
Final Clients Accesses.....	23,801.7	23,872.0	0.3%
Fixed telephony accesses <sup>(1)(2)</sup> .....	377.4	208.2	(44.8)%
Internet and data accesses.....	560.1	14.8	(97.4)%
Broadband <sup>(3)</sup> .....	560.1	14.8	(97.4)%
Mobile accesses.....	22,864.2	23,649.0	3.4%
Prepay.....	10,962.9	10,764.7	(1.8)%
Contract.....	11,901.3	12,884.3	8.3%
Wholesale Accesses.....	40.5	31.6	(22.1)%
<b>Total Accesses.....</b>	<b>23,842.2</b>	<b>23,903.6</b>	<b>0.3%</b>

<sup>(1)</sup> Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesses 2/6x30. Includes internal use, VOIP and Naked ADSL

<sup>(2)</sup> In the second quarter of 2013, 209 thousand accesses disconnected after sale of fixed assets in UK

<sup>(3)</sup> In the second quarter of 2013, 511 thousand accesses disconnected after sale of fixed assets in UK.

CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA	2012 December	2013 December	Percentage variation (%) 2012/2013 (local currency)
<i>Unaudited figures</i>			
<b>TELEFÓNICA UK</b>			
Traffic (Million minutes).....	48,250	48,479	0.5%
ARPU (EUR).....	22.5	19.6	(8.8)%
Prepay.....	9.6	7.7	(16.0)%
Contract.....	35.0	29.9	(10.4)%
Data ARPU (EUR).....	11.4	10.4	(4.5)%
% non-SMS over data revenues.....	46.8%	50.0%	3.2 p.p.

In 2013, Telefónica UK's results maintained a solid momentum driven by the introduction of new tariffs. The new "O2 Refresh" tariff launched on 16 April 2013 aims to eliminate subsidies and improve the mix of distribution channels and offer customers more flexibility "to change telephones with the same frequency that telephones change".

Telefónica UK continued working on the deployment of its LTE network, reaching 38% outdoor coverage at the end of 2013. The first 4G customers show increased data consumption (up to 2 times higher average data consumption than 3G customers).

Total accesses reached 23.9 million at the end of December 2013 (+0.3% year-on-year) despite the impact from the disposal of the fixed assets (720 thousand accesses: 209 thousand in fixed telephony accesses and 511 thousand in fixed broadband accesses). Total mobile customers grew 3.4% year-on-year to 23.6 million at the end of December 2013 driven by the consistent mobile contract customer base growth. The contract mix increased 2 percentage points year-on-year to account for 54% of the mobile base. Contract net additions totalled 983 thousand in 2013 driven by solid gross additions, despite the highly competitive environment. Contract churn improved by 0.1 percentage points to 1.0% due to the management of its customer base. Smartphone penetration (as a percentage of mobile data tariffs over total mobile customers) grew 4 percentage points year-on-year and reached 49% by the end of December 2013.

Germany

ACCESSES BY COUNTRY	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>TELEFÓNICA GERMANY</b>			
Final Clients Accesses.....	<b>24,284.9</b>	<b>24,042.0</b>	<b>(1.0)%</b>
Fixed telephony accesses <sup>(1)</sup> .....	2,249.0	2,124.9	(5.5)%
Internet and data accesses.....	2,678.9	2,516.1	(6.1)%
Narrowband.....	302.6	271.7	(10.2)%
Broadband.....	2,376.3	2,244.3	(5.6)%
Mobile accesses.....	19,299.9	19,401.0	0.5%
Prepay.....	9,191.3	9,114.9	(0.8)%
Contract.....	10,108.5	10,286.1	1.8%
Pay TV <sup>(2)</sup> .....	57.2	-	n.s.
Wholesale Accesses.....	<b>1,087.9</b>	<b>1,125.0</b>	<b>3.4%</b>
<b>Total Accesses.....</b>	<b>25,372.8</b>	<b>25,166.9</b>	<b>(0.8)%</b>

Note:

<sup>(1)</sup> Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesess 2/6x30. Includes internal use, VOIP and naked ADSL.

<sup>(2)</sup> In the fourth quarter of 2013, all TV accesses were disconnected.

CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA	2012 December	2013 December	Percentage variation (%) 2012/2013 (local currency)
<i>Unaudited figures</i>			
<b>TELEFÓNICA GERMANY</b>			
Traffic (Million minutes).....	29,519	30,152	2.1%
ARPU (EUR).....	13.8	12.7	(7.9)%
Prepay.....	5.5	5.1	(6.8)%
Contract.....	21.5	19.4	(9.8)%
Data ARPU (EUR).....	6.2	6.2	0.7%
% non-SMS over data revenues.....	56.7%	66.5%	9.8 p.p.

During 2013, the German mobile market remained steady, with differentiated value propositions across segments, channels and regions and increasing commercial spend.

In 2013 Telefónica Europe's portfolio was restructured and has announced the acquisition of E-Plus by Telefónica Deutschland.

The "O2 Blue All-in" tariffs are improving the value of Telefónica's customer base, where the weighting of customers who opt for higher value offers has increased. "O2 Blue All-in" tariffs are mobile data centric tariffs. At the same time, the sale of handsets with LTE technology increased during the year.

As a consequence, the mobile contract customer base grew 1.8% year-on-year, driving mobile accesses to 19.4 million (+0.5% year-on-year). Meanwhile, the contract mix improved 1 percentage point year-on-year to 53%. Smartphone penetration reached 31% at the end of 2013 (+5 percentage points year-on-year), with an encouraging rate of adoption of LTE-enabled handsets. Total net additions amounted 101 thousand in 2013. Mobile contract net adds amounted to 178 thousand in the year. Mobile contract churn reached 1.6% in 2013 (+0.1 p.p. year-on-year). In retail broadband fixed Internet accesses amounted to 2.2 million at the end of December (down 6% year-on-year), despite the broad acceptance of the new "O2 DSL All-in" portfolio and the increasing customer demand for speed.

Czech Republic and Slovakia

ACCESSES BY COUNTRY	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>TELEFÓNICA CZECH REPUBLIC</b>			
Final Clients Accesses.....	7,740.3	7,631.8	(1.4)%
Fixed telephony accesses <sup>(1)</sup> .....	1,499.9	1,389.3	(7.4)%
Naked ADSL.....	285.9	324.9	13.7%
VoIP.....	76.7	86.4	12.7%
Internet and data accesses.....	1,016.1	985.0	(3.1)%
Narrowband.....	87.6	75.1	(14.3)%
Broadband.....	899.4	882.9	(1.8)%
Other.....	29.1	27.1	(6.8)%
Mobile accesses.....	5,082.9	5,101.5	0.4%
Prepay.....	1,891.1	1,866.1	(1.3)%
Contract <sup>(2)</sup> .....	3,191.7	3,235.4	1.4%
Pay TV.....	141.4	156.0	10.3%
Wholesale Accesses.....	159.9	170.4	6.6%
<b>Total Accesses.....</b>	<b>7,900.1</b>	<b>7,802.2</b>	<b>(1.2)%</b>

Note:

<sup>(1)</sup> Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesses 2/6x30. Includes internal use, VOIP and Naked ADSL.

<sup>(2)</sup> First quarter of 2013 includes the disconnection of 114 thousand inactive accesses.

ACCESSES BY COUNTRY	2012 December	2013 December	Percentage variation (%) 2012/2013
<i>Unaudited figures (thousands)</i>			
<b>TELEFÓNICA SLOVAKIA</b>			
Mobile accesses.....	1,354.2	1,539.5	13.7%
Prepay.....	694.9	765.6	10.2%
Contract.....	659.3	773.9	17.4%
<b>Total Accesses.....</b>	<b>1,354.2</b>	<b>1,539.5</b>	<b>13.7%</b>

In 2013, Telefónica Czech Republic launched the "Free" and "Vario" tariffs, a new tariff portfolio, which includes unlimited on net calls and SMS and a higher data focus. Furthermore, these tariffs completely eliminate handset subsidy.

Throughout 2013, Telefónica Europe's portfolio was restructured through the sale of operations in the Czech Republic, which was closed in January 2014 after obtaining regulatory approval.

Telefónica Czech Republic and Telefónica Slovakia, s.r.o. ("**Telefónica Slovakia**") participated in auctions of 4G spectrum in the last quarter of 2013, acquiring the frequencies needed to launch its next generation LTE network. As a result, Telefónica Czech Republic acquired 2 blocks in the 800 MHz bandwidth and subsequently acquired 3 blocks in the 1800 MHz bandwidth and 4 blocks in the 2600 MHz bandwidth. The total amount paid for these frequencies was €108 million. Telefónica Slovakia acquired frequencies in the 800 MHz and 1800 MHz bandwidths, in order to permit the company to construct a high-speed and quality LTE network, for €40 million.

Accesses in the Czech Republic declined 1.2% year-on-year in 2013 due to the declines in fixed telephony accesses. The mobile customer base stood at 5.1 million accesses at the end of 2013, up 0.4% year-on-year, driven by the rise in contract customers (1.4% despite the disconnection of 114 thousand inactive contract mobile customers in the first quarter of 2013 in Czech Republic), which now represent 63% of the total (+1 percentage points year-on-year). In Slovakia, the growth in accesses continued, especially in the contract segment due to the success of the tariffs focused on high value customers.

Smartphone penetration grew 11 p.p. year-on-year, to reach 25% at the end of 2013.

The highlights of operating performance in the fixed telephony businesses are as follows:

- Retail broadband accesses amounted to 883 thousand, year-on-year decrease of 1.8% (net annual loss of 16.6 thousand accesses). VDSL continued its positive trend, and 362 thousand clients have already subscribed to this service, representing 39% of the xDSL customer base.
- Pay TV accesses stood at 156 thousand at the end of 2013, a year-on-year increase of +10.3%, evidencing the success of the new O2 TV proposal leveraged on the new IPTV platform.

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

### ***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 hold, call waiting, call forwarding and three-way calling.
- *Mobile data and Internet services:* Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or 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, Guatemala and Nicaragua.
- *Trunking and paging:* Telefónica provides digital mobile services for closed user groups of clients and paging services in Spain and most of its operations 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 service provider service; portal and network services; retail and wholesale broadband access through ADSL, naked ADSL (broadband connection without the monthly fixed line fee); narrowband switched access to Internet for universal service, 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, Czech Republic 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, or ASP, service, 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' network deployment; and local loop leasing under the unbundled local loop regulation framework). It also includes bit stream services, bit stream naked, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

### ***Digital services***

The main highlights in services developed by Telefónica Digital in 2013 are:

- *Video/TV services:* IPTV services (Internet protocol), over-the-top network television services, and cable and satellite TV. In certain markets, advanced pay TV services are offered, such as high-definition TV (HDTV), Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR).
- *M2M:* M2M includes both M2M connectivity services and end-to-end products in different countries including in-house developments, as the "smart" M2M solution, which enables "smart" meter communications services.
- *e-Health services or telecare:* these services allow tele-assistance through connectivity services to chronic patients, and other eHealth services.
- *Financial services and other payment services:* these services allow customers to make transfers, payments and mobile recharges among other transactions through prepay accounts or bank accounts.
- *Security services:* such as the "Latch" applications, which allows consumers to remotely switch their digital services on and off.
- *Cloud computing services:* these include the Instant Servers services, Telefónica's new global public cloud service for corporate clients. This entails high-performance virtual servers that are optimised for mobile and corporate applications (both fixed and mobile).

### **Sales and Marketing**

Telefónica's sales and marketing strategy is aimed toward reinforcing its market position, generating brand awareness, promoting customer growth and achieving customer satisfaction. Telefónica 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 increasing demand for its mobile Internet and mobile broadband offerings. In connection with these and Telefónica's other sales and marketing initiatives, it markets its products through a broad range of channels, including television,

radio, billboards, telemarketing, direct mail and Internet advertising. Telefónica 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. Telefónica is a global telecommunications services provider and faces significant competition in most of the markets in which it operates. In Europe, its largest competitor is Vodafone Group Plc and in Latin America, its largest competitor is América Móvil S.A.B. de C.V.. Newer competitors, including handset manufacturers, MVNOs, Internet companies and software providers, are also entering the market and offering integrated communications services.

Telefónica competes in its markets on the basis of the price of its services; the quality and range of features; the added value Telefónica endeavours to offer 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, Telefónica 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 Group's Industry – The Group operates in highly competitive markets and the industry in which it operates is subject to continuous technological changes, which requires the Group to continuously adapt to such changes and to upgrade its existing networks.*"

## **Strategic Partnerships**

### ***China United Network Communications Group Co., Ltd. (China Unicom)***

Since 2005, Telefónica has had a stake in China Unicom and its predecessor company. On 6 September 2009 Telefónica entered into a strategic alliance agreement with China Unicom, which provides, among other areas 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 Telefónica 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% and China Unicom obtained 0.87% voting interest in its share capital in October 2009.

Pursuant to the strategic alliance agreement mentioned above, China Unicom has agreed to use its best endeavours to maintain a listing of all the issued ordinary shares of China Unicom on the Hong Kong Stock Exchange. For so long as the strategic alliance agreement with Telefónica is in effect, China Unicom has committed to not (i) offer, issue or sell any significant number of its ordinary shares (including treasury shares), or any securities convertible into or other rights to subscribe for or purchase a significant number of China Unicom's ordinary shares (including treasury shares), to any current major competitor of Telefónica or (ii) make any significant investment, directly or indirectly, in any current major competitor of Telefónica. Telefónica made similar commitments to China Unicom.

The strategic alliance agreement between Telefónica and China Unicom was automatically renewed on 6 September 2012 and is subject to automatic annual renewal, subject to either party's right to terminate on six months' notice. Also, the strategic alliance agreement may be terminated by China Unicom if Telefónica's shareholding in China Unicom drops below 5% of its issued share capital as a result of Telefónica, directly or indirectly, selling, contracting to sell or otherwise disposing of shares in China Unicom or if China Unicom's shareholding in Telefónica drops below 0.5% of Telefónica's issued share capital. In addition, the strategic alliance agreement is subject to termination in the event that either party is in default and automatically terminates on a change of control of China Unicom.

On 28 January 2011, China Unicom completed its acquisition of 21,827,499 Telefónica shares.

On 10 June 2012, Telefónica through its 100% owned subsidiary, Telefónica Internacional, S.A.U., and China Unicom through a 100% owned subsidiary, signed an agreement for the acquisition by this last

company of 1,073,777,121 shares of China Unicom -Hong Kong- Limited, owned by Telefónica, equivalent to 4.56% of the issued share capital of China Unicom.

On 21 July 2012, the aforementioned agreement was complemented by a Supplemental Agreement which determined the acquisition of the shares at a price of HK\$10.02 per share, for a total amount of HK\$10,759,246,752.42 (approximately €1,142 million). The transaction was completed on 30 July 2012 after obtaining the relevant regulatory authorisations.

As of the date of this Prospectus, Telefónica's shareholding in China Unicom amounts 5.01% of its capital stock. Furthermore, Mr. César Alierta, chairman of Telefónica is a member of the Board of Directors of China Unicom while Mr. Chang Xiaobing, chairman of China Unicom, is a member of the Board of Directors of Telefónica.

### ***Telecom Italia***

- Through a series of transactions from 2007 to 2009, Telefónica acquired an indirect holding of 10.49% in the voting shares of Telecom Italia (7.21% of the dividend rights) through its holdings in Telco.
- On 24 September 2013, Telefónica and the remaining shareholders of Telco, (which holds a capital stake of 22.4% of the voting share capital of Telecom Italia) reached an Agreement by virtue of which:
  - Telefónica subscribed for, and paid out a capital increase in, Telco, through the contribution of €324 million in cash, receiving in return non-voting shares of Telco. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco remained unchanged (46.18%), although its interest in the total share capital of Telco has increased to 66%. The current governance structure at Telco remained unaffected, including the obligation by Telefónica of abstaining from participating or influencing in any decisions which could affect the markets in which both, Telefónica and Telecom Italia are present.
  - Subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina), Telefónica will subscribe for and pay out a second capital increase in Telco, through the contribution of €117 million in cash and will receive in return non-voting shares of Telco. As a result of this second capital increase, the interest of Telefónica in the voting share capital of Telco will remain unchanged (46.18%), although its interest in the total share capital will be then increased to 70%.
  - Starting from 1 January 2014, subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina), Telefónica may convert all or a portion of its non-voting shares in Telco into voting shares in Telco, representing no more than 64.9% of the voting share capital of Telco.
  - The Italian shareholders of Telco have granted Telefónica a call option to acquire all of their shares in Telco, whose exercise is subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina). The call option may be exercised by Telefónica starting from 1 January 2014 while the Shareholders Agreement remains in effect, except (i) between 1 June 2014 and 30 June 2014 and between 15 January 2015 and 15 February 2015, and (ii) during certain periods, if the Italian shareholders of Telco request the demerger of Telco.

As at the date of this Prospectus the approvals that are necessary for the implementation of the transactions contemplated in the Agreement dated 24 September 2013, and subscribed between Telefónica and the remaining shareholders of Telco, have not been obtained.

- On 4 December 2013, the Brazilian Antitrust Regulator, Conselho Administrativo de Defesa Econômica (CADE) announced, the two following decisions:
  1. To approve, with the restrictions mentioned below, the acquisition by Telefónica of the entire participation held by Portugal Telecom, SGPS S.A., and PT Móveis - Serviços de

Telecomunicações, SGPS, S.A., (the "**PT Companies**") in Brasilcel N.V., which controlled the Brazilian mobile company, Vivo Participações S.A.

This transaction was approved by ANATEL (the Brazilian Telecommunications Regulation Authority) and the closing (which did not require CADE's prior approval at the time), occurred immediately after ANATEL's approval, on 27 September 2010.

The above mentioned decision has been granted by CADE conditional on:

- (a) The entry of a new shareholder in Vivo, sharing with Telefónica the control of Vivo in conditions identical to those that were applicable to the PT Companies when they had a participation in Brasilcel N.V., or
  - (b) That Telefónica ceases to have any direct or indirect financial interest in TIM Participações S.A.
2. To impose on Telefónica a fine of 15 million Brazilian Reais, for having allegedly breached the spirit and the goal of the agreement signed between Telefónica and CADE (as a condition to the approval of Telefónica's original acquisition of an interest in Telecom Italia in 2007), due to the subscription of non-voting shares of Telco on a recent capital increases. This decision also requires Telefónica to divest such non-voting shares of Telco S.p.A.

The timing for the accomplishment of the conditions and obligations imposed by CADE on both decisions was classified by CADE as confidential and reserved information.

- On 13 December 2013, Telefónica announced, in relation to the two decisions adopted by CADE on during its 4 December 2013 session, that the company considers that the remedies imposed were unreasonable, and therefore, is further analysing the possibility of initiating appropriate legal actions.

In line with such course of action, and to reinforce Telefónica's strong commitment with the previous obligations undertaken by Telefónica to remain separate from Telecom Italia's Brazilian businesses Telefónica, highlighted in the aforementioned announcement that Mr. César Alierta Izuel and Mr. Julio Linares López have decided to resign, with immediate effect, from their positions as Directors of Telecom Italia; and Mr. Julio Linares has decided to resign, with immediate effect, from his position in the slate submitted by Telco for the potential re-election of the Board of Directors of Telecom Italia in the Shareholders Meeting of the aforementioned company, called for 20 December 2013.

For the same reasons, Telefónica indicated that, without prejudice to any of the rights recognised in the Telco Shareholder's Agreement, it has decided for the time being not to avail of its right to appoint two Directors in the Board of Directors of Telecom Italia.

### **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 it is present.

Telefónica highlights the following unresolved legal proceedings or those underway in 2013:

#### *Contentious proceedings in connection with the merger between Terra Networks, S.A. and Telefónica*

On 26 September 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the Prospectus of the Initial Public Offering of shares of Terra Networks, S.A. dated 29 October 1999. The court rejected this claim and ordered the plaintiffs to pay court costs by a ruling issued on 21 September 2009. The plaintiffs appealed this ruling on 4 December 2009 and Telefónica was notified of such appeal on 16 June 2010. Telefónica opposed to the appeal on 5 January 2011. On 23 April 2013, Telefónica was notified a ruling of the Madrid Regional Court dismissing in its entirety the appeal filed by the plaintiffs against the first instance ruling handed down in 2009, confirming the rulings of the decision under appeal and ordering appellants to pay court costs. The ruling became firm on 29 May 2013, with no further appeals possible.



*Cancellation of the UMTS licence granted to Quam GMBH in Germany*

In December 2004, the German Telecommunications Market Regulator revoked the UMTS licence granted in 2000 to Quam GmbH ("**Quam**"), in which Telefónica has a stake. After obtaining a suspension of the revocation order, on 16 January 2006, Quam filed a suit against the order with the German courts. This claim sought two objectives: 1) to overturn the revocation order issued by the German Telecommunications Market Regulator, and 2) if this failed, to be reimbursed for the total or partial payment of the original amount paid for the licence, €8,400 million.

This claim was rejected by the Cologne Administrative Court. Quam appealed the decision before the Supreme Administrative Court of North Rhine-Westphalia, which also rejected its appeal.

Finally, Quam filed a new claim in third instance before the Federal Supreme Court for Administrative Cases, which was not admitted for processing.

Quam appealed this decision on 14 August 2009. On 17 August 2011, after the oral hearing, the Federal Administrative Court rejected Quam's appeal at third instance.

In October 2011, Quam filed a constitutional complaint before the German Federal Constitutional Court (Karlsruhe).

*Appeal against the European Commission ruling of 4 July 2007 against Telefónica Spain's broadband pricing policy*

On 9 July 2007, Telefónica was notified of the decision issued by the European Commission (the "**EC**") imposing on Telefónica and Telefónica de España, S.A.U. ("**Telefónica de España**") a fine of approximately €152 million for breach of the former Article 82 of the Treaty Establishing the European Community for not charging equitable prices to whole and retail broadband access services. The court ruled in favour of the EC accusing Telefónica of applying a margin squeeze between the prices it charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology between September 2001 and December 2006.

On 10 September 2007, Telefónica and Telefónica de España filed an appeal to overturn the decision before the General Court of the European Union. The Kingdom of Spain, as an interested party, also lodged an appeal to overturn the decision. Meanwhile, France Telecom and the Spanish Association of Bank Users (AUSBANC) filed requests to intervene, which the General Court admitted.

In October 2007, Telefónica presented a guarantee for an indefinite period of time to secure the principal and interest.

A hearing was held on 23 May 2011, at which Telefónica presented its case. On 29 March 2012, the General Court ruled rejecting the appeal by Telefónica and Telefónica de España, confirming the sanction imposed by the EC. On 13 June 2012, an appeal against this ruling was lodged before the European Court of Justice.

On 26 September 2013, the Attorney General presented its conclusions to the court stating a possible breach of the principle of non-discrimination with respect to the sanction and a defective application of the principle of full jurisdiction by the General Court, requesting the return of the lawsuit to the court of first instance.

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

Vivo Group operators, 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 Fund for Universal Access to Telecommunications Services – a fund which pays for the obligations to provide universal service - with retroactive application from 2000. On 13 March 2006, the Brasilia Regional Federal Court 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. ANATEL filed an appeal to overturn this decision with Brasilia Regional Federal Court no. 1. This appeal is pending resolution.

At the same time, Telefónica Brazil and Telefónica Empresas, S.A., together with other wireline operators through ABRAFIX (Associação Brasileira de Concessionárias de Serviço Telefónico 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 and expense 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 Federal Regional Court no. 1.

No further action has been taken since then. The amount of the claim is quantified at 1% of the interconnection revenues.

*Public civil procedure by the São Paulo government against Telefónica Brazil for alleged reiterated malfunctioning in services provided by Telefónica Brazil and request of compensation for damages to the customers affected*

This proceeding was filed by the Public Ministry of the State of São Paulo for alleged reiterated malfunctioning in the services provided by Telefónica Brazil, seeking compensation for damages to the customers affected. A general claim is filed by the Public Ministry of the State of São Paulo, for 1,000 million Brazilian reais (approximately €370 million), calculated on the company's revenue base over the last five years.

In April 2010, a ruling in first instance against the Telefónica Group was issued, there will not be a precision of its effects until there is a final ruling, and the total amount of persons affected and party in the procedure is known. At that moment, the amount of the indemnity will be established, ranging between 1,000 million and 60 million Brazilian reais (approximately, between €370 million and €22 million), depending on the number of parties. On 5 May 2010, Telefónica Brazil filed an appeal before the São Paulo Court of Justice, suspending the effect of the ruling. No further action has been taken since then.

*Appeal against the ruling by 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 EC initiated formal proceedings to investigate whether Telefónica and Portugal Telecom SGPS, S.A. ("**Portugal Telecom**") had infringed on 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 owner of Brazilian company Vivo.

On 23 January 2013, the EC passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of €67 million, as the EC ruled that Telefónica and Portugal Telecom committed an infraction as stipulated in 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 General Court notified Telefónica of the response issued by the European Commission, in which the EC reaffirmed the main arguments of its ruling and, specially, that Clause Nine is a competition restriction. On 30 September 2013, Telefónica filed its reply. On 18 December 2013, the European Commission filed its appeal.

## **Tax proceedings**

### *Tax Inspections and tax relating lawsuits*

In December 2012, the National Court of Justice issued a ruling on the tax inspection for the years 2001 to 2004, accepting the tax losses incurred by the Group in relation to the transfer of certain interests in Tele Sudeste Celular Participações S.A., Telefónica Móviles México, S.A. de C.V., and Lycos, Inc. as tax deductible and rejecting the other allegations. The Company filed an appeal with the Supreme Court on 28 December 2012.

Also in 2012, the tax inspections for all taxes for the years 2005 to 2007 were completed, with the Company signing consent forms for an income tax payment of €135 million and non-consent forms for the items which the Company contests. The tax assessment for which a non-consent form was signed did not require payment of any tax because it only proposed a reduction in unused tax loss carry forwards. An appeal was filed with the Large Taxpayers Central Office of the Spanish State Tax Agency (*la Delegación Central de Grandes Contribuyentes*) requesting this tax assessment be reversed, although no decision on the appeal has been issued as of the date of this Prospectus.

In July 2013, new inspections of various companies in the 24/90 Tax Group, of which Telefónica is the parent, were initiated. The taxes and periods subject to review are corporate income tax for the years 2008 to 2011, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the second half of 2009 and the years 2010 and 2011. It is not expected that these inspections in progress will result in the need to recognise any additional liabilities in the Telefónica Group's consolidated financial statements.

Telefónica Brasil has a number of appeals underway regarding the ICMS (similar to VAT levied on telecommunications services). There is a dispute with the Brazilian tax authority over which services should be subject to settlement of this tax, the most significant being the demands of the collection of the ICMS on complementary or auxiliary services to base telecommunications service, such as value added services or the lease of modems. As at the date of this Prospectus, all the related procedures are being contested in all instances (administrative and judicial). The aggregate amount of these assessments, updated to take into account interests, fines and other items, is approximately €2,038 million. No provisions have been set aside for these matters, as the risk of them giving rise to liabilities is not probable. Telefónica Brasil has obtained independent expert reports supporting its position, i.e. that the aforesaid services are not subject to ICMS.

Regarding the Group's main tax litigation in Peru, on 20 March 2013, notification was received of a first instance court decision upholding Telefónica Peru's arguments in three of the five objections filed by the authorities and appealed against in higher courts. Both the tax authorities and the company have appealed against the decision in the court of second instance.

The assessment originally raised by the tax authorities amounted to €124 million comprising the tax charge, excluding interest and penalties. At the date of authorisation for issue of this Prospectus, €80 million had been paid out (€42 million of which was for penalty and interest paid in 2013). The Company has also obtained suspensive measures in the amount of €340 million within the process of appeals to the Ordinary Court. The Group and its legal advisors believe they have legal grounds to defend the Company's interests in the appeal that is currently underway.

At the 2013 year end, based on the final outcome of these assessments, and on the lawsuits, and inspections in progress it has not been deemed necessary to recognise additional liabilities in the Telefónica Group's consolidated financial statements.

### Major Shareholders

At 31 December 2013 the outstanding share capital of Telefónica was 4,551,024,586 shares, each with a nominal value of €1.00 per share. All outstanding shares have the same rights.

To the extent that shares are represented by account entries, Telefónica does not keep a shareholder registry therefore it is not possible to ascertain the precise shareholding structure. Based on the information available to Telefónica there is no individual or corporation that directly or indirectly through one or more intermediaries exercises or may exercise any type of control over the company. Nevertheless, certain shareholders have holdings which are considered material.

According to information provided to Telefónica or to the CNMV, beneficial owners of 3% or more of the company's voting stock were as follows:

Name of Beneficial Owner	Number of Shares	Percent
Banco Bilbao Vizcaya Argentaria, S.A. <sup>(1)</sup> .....	313,707,133	6.893%
Caja de Ahorros y Pensiones de Barcelona ("la caixa") <sup>(2)</sup> .....	246,977,147	5.427%

Name of Beneficial Owner	Number of Shares	Percent
Blackrock, Inc. <sup>(3)</sup> .....	177,257,649	3.895%

<sup>(1)</sup> Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2013 for the 2013 Annual Report on Corporate Governance.

<sup>(2)</sup> Based on information provided by Caja de Ahorros y Pensiones de Barcelona, "la Caixa" as at 31 December 2013 for the 2013 Annual Report on Corporate Governance. The 5.411% indirect shareholding in Telefónica is owned by CaixaBank, S.A.

<sup>(3)</sup> According to notification sent to the CNMV, dated 4 February 2010.

At 31 December 2013, 184,990,503 of Telefónica's shares were held in the form of ADSs by 800 holders of record, including Cede & Co., the nominee of the Depository Trust Company. The number of ADSs outstanding was 216,751,480 at 31 December 2012.

## Management of Telefónica

During 2013, the Board of Directors met 14 times. As of the date of this Prospectus, the Board of Directors had met seven times during 2014 and as of such date, the directors, their respective positions on the Board and the year they were appointed to such positions were as follows:

Name	Date of Birth	Age	First Appointed	Current Term Ends
<b>Chairman</b>				
Mr. César Alierta Izuel <sup>(1)</sup> .....	05/05/1945	69	1997	2017
<b>Vice-chairmen</b>				
Mr. Isidro Fainé Casas <sup>(1)(2)</sup> .....	10/07/1942	71	1994	2016
Mr. José María Abril Pérez <sup>(1)(3)(7)</sup> .....	19/03/1952	62	2007	2018
Mr. Julio Linares López <sup>(5)(7)(8)</sup> .....	26/12/1945	68	2005	2016
<b>Members (vocales)</b>				
Mr. José María Álvarez - Pallete López <sup>(1)</sup> .....	12/12/1963	50	2006	2017
Mr. José Fernando de Almansa Moreno - Barreda <sup>(5)(6)(8)</sup> .....	04/10/1948	65	2003	2018
Ms. Eva Castillo Sanz <sup>(6)(8)(10)</sup> .....	23/11/1962	51	2008	2018
Mr. Carlos Colomer Casellas <sup>(1)(4)(7)(9)(10)</sup> .....	05/04/1944	70	2001	2016
Mr. Peter Erskine <sup>(1)(7)(8)(9)</sup> .....	10/11/1951	62	2006	2016
Mr. Santiago Fernández Valbuena .....	22/04/1958	56	2012	2018
Mr. Alfonso Ferrari Herrero <sup>(1)(4)(5)(6)(8)(9)(10)</sup> .....	28/02/1942	72	2001	2016
Mr. Luiz Fernando Furlán .....	29/07/1946	67	2008	2018
Mr. Gonzalo Hinojosa Fernández de Angulo <sup>(1)(4)(5)(6)(8)(9)(10)</sup> .....	10/07/1945	68	2002	2017
Mr. Pablo Isla Álvarez de Tejera <sup>(6)(9)</sup> .....	22/01/1964	50	2002	2017
Mr. Antonio Massanell Lavilla <sup>(2)(4)(5)(7)(10)</sup> .....	24/09/1954	59	1995	2016
Mr. Ignacio Moreno Martínez <sup>(3)(4)(6)(10)</sup> .....	30/07/1957	56	2011	2017
Mr. Francisco Javier de Paz Mancho <sup>(1)(5)(6)(10)</sup> .....	24/07/1958	55	2007	2018
Mr. Chang Xiaobing <sup>(11)</sup> .....	27/03/1957	57	2011	2016

<sup>(1)</sup> Member of the Executive Commission of the Board of Directors.

<sup>(2)</sup> Nominated by Caja de Ahorros y Pensiones de Barcelona ("La Caixa").

<sup>(3)</sup> Nominated by Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA").

<sup>(4)</sup> Member of the Audit and Control Committee of the Board of Directors.

<sup>(5)</sup> Member of the Institutional Affairs Committee.

<sup>(6)</sup> Member of the Regulation Committee.

<sup>(7)</sup> Member of the Innovation Committee.

<sup>(8)</sup> Member of the Strategy Committee.

<sup>(9)</sup> Member of the Nominating, Compensation and Corporate Governance Committee.

<sup>(10)</sup> Member of the Service Quality and Customer Service Committee.

<sup>(11)</sup> 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:

Name	Principal activities inside the Group	Principal Activities outside the Group
<b>César Alierta Izuel</b>	Executive Chairman of Telefónica, S.A.	Director of China Unicom (Hong Kong) Limited Director of International Consolidated Airlines Group (AIG)
<b>Isidro Fainé Casas</b>	Vice Chairman of Telefónica, S.A.	Chairman of Caja de Ahorros y Pensiones de Barcelona ("la Caixa") Chairman of CaixaBank, S.A. Chairman of Criteria Caixaholding, S.A. Vice Chairman 1° of Abertis Infraestructuras, S.A. Chairman of Confederación Española de Cajas de Ahorros

Name	Principal activities inside the Group	Principal Activities outside the Group
		Vice Chairman 1° of Repsol, S.A. Director of Banco Português de Investimento, SA (BPI) Vice Chairman of Sociedad General de Aguas de Barcelona, S.A. (AGBAR) Vice-Chairman of European Savings Bank Group (ESG) and World Savings Bank Institute (WSBI) Non-executive Director of the Bank of East Asia
<b>Ignacio Moreno Martínez</b>	Director of Telefónica, S.A.	Chief Executive Officer of N+1 Private Equity Non-executive president of Metrovacesa, S.A.
<b>Julio Linares López</b>	Vice Chairman of Telefónica, S.A.	
<b>José María Abril Pérez</b>	Vice Chairman of Telefónica, S.A.	
<b>Fernando de Almansa Moreno Barreda</b>	Director of Telefónica, S.A.	Substitute Director of Grupo Financiero BBVA Bancomer, S.A. de C.V. Substitute Director of BBVA Bancomer, S.A.
	Director of Telefónica Brasil, S.A. Director of Telefónica Móviles México, S.A. de C.V.	
<b>José María Álvarez Pallete López</b>	COO (Chief Operating Officer) of Telefónica, S.A.	
<b>Santiago Fernández Valbuena</b>	Director of Telefónica, S.A. Chief Strategy Officer (CSO) Vice Chairman of Telefónica Brasil, S.A.	Director of Ferrovial, S.A.
<b>Eva Castillo Sanz</b>	Director of Telefónica, S.A. Chairman of Supervisory Board of Telefónica Deutschland Holding A.G.	Director of Bankia, S.A.
<b>Carlos Colomer Casellas</b>	Director of Telefónica, S.A.	Chairman of Inversiones Mobiliarias Urquiola, S.A., SICAV Chairman of Ahorro Bursátil, S.A. SICAV Director of MDF Family Partners Chairman of Haugron Holdings S.L. Director of Abertis Infraestructuras, S.A.
<b>Peter Erskine</b>	Director of Telefónica, S.A.	Chairman of the Advisory Board of the Henley Management Centre Chairman of Ladbrokes, Plc
<b>Alfonso Ferrari Herrero</b>	Director of Telefónica, S.A. Substitute Director of Telefónica Chile, S.A. Director of Telefónica del Perú, S.A.A.	
<b>Luiz Fernando Furlán</b>	Director of Telefónica, S.A. Director of Telefónica Brasil, S.A.	Chairman of Amazonas Sustainability Foundation Member of the Board of Directors of BRF, S.A. Director of AGCO Corporation Member of the Consultative Board of Abertis Infraestructuras S.A. Member of the Advisory/Consultative Board of Panasonic (Japan), McLarty & Associates (USA) and Wal-Mart Stores Inc. (USA)
<b>Gonzalo Hinojosa Fernández de Angulo</b>	Director of Telefónica, S.A. Director of Telefónica del Perú, S.A.A.	
<b>Pablo Isla Alvarez de Tejera</b>	Director of Telefónica, S.A.	Chairman and CEO of Inditex, S.A.
<b>Antonio Massanell Lavilla</b>	Director of Telefónica, S.A.	General Manager of CaixaBank, S.A. Director of Sociedad de Gestión de Activos Inmobiliarios procedentes de la Reestructuración Bancaria (SAREB). Chairman of Barcelona Digital Centre Tecnologic (formerly Fundación Barcelona Digital) Non-executive Director of CECA BANK Director of Bousorama S.A. Director of Mediterranea Beach & Golf Community, S.A
<b>Francisco Javier de Paz Mancho</b>	Director of Telefónica, S.A. Director of Telefónica de Argentina, S.A. Director of Telefónica Brasil, S.A.	Member of the Executive Committee of the Chambers Board (Consejo Superior de Cámaras)
<b>Chang Xiaobing</b>	Director of Telefónica, S.A.	Chairman of China United Network Communications Group Company Limited

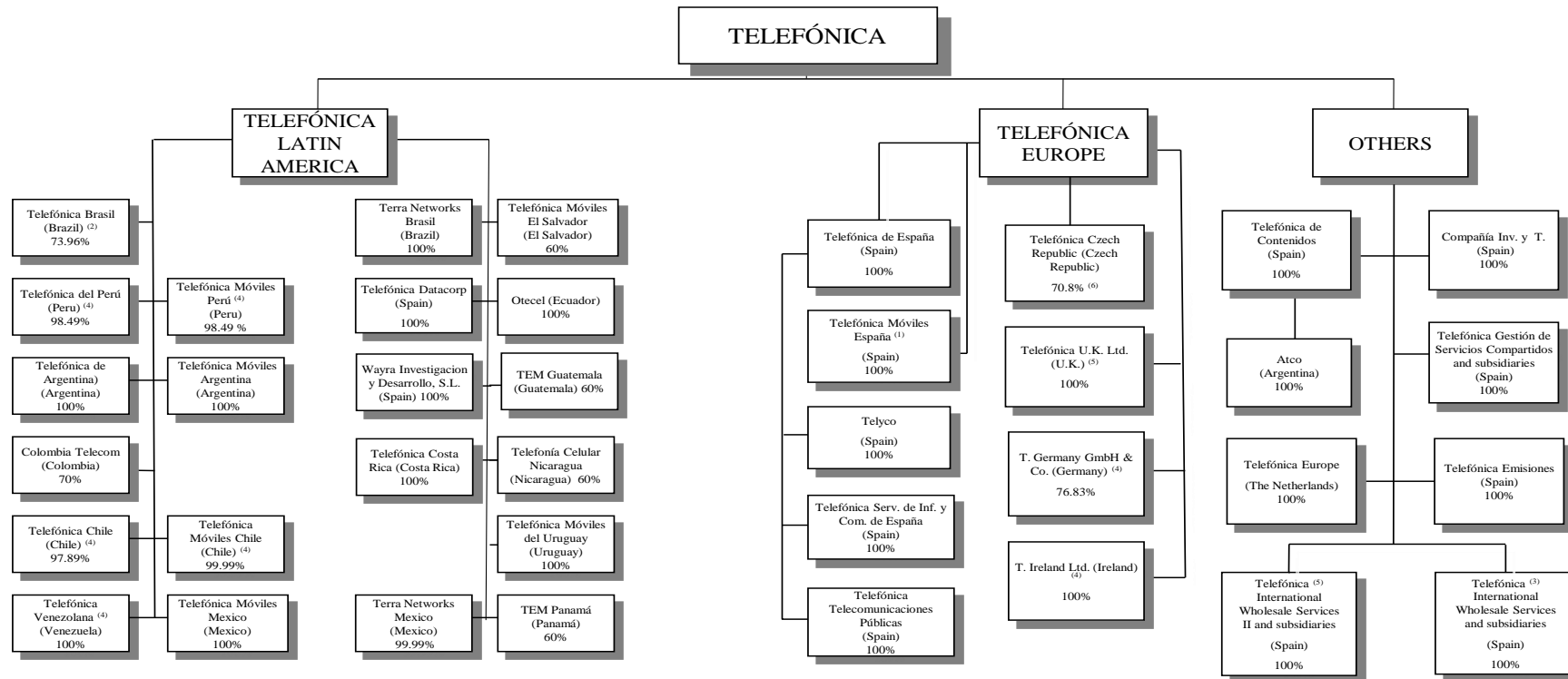
Name	Principal activities inside the Group	Principal Activities outside the Group
		Chairman of China United Network Communications Limited Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited Chairman of China United Network Communications Corporation Limited

**Conflicts of Interest**

As of the date of this Base Prospectus, there were 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 2013, including their jurisdictions of incorporation and Telefónica's ownership interest:



(1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.

(2) 91.76% representing voting interest.

(3) Ownership in Telefónica International Wholesale Services, S.L. is held 92.51% by Telefónica, S.A. and 7.49% by Telefónica Datacorp, S.A.U.

(4) Companies held indirectly.

(5) Ownership in TIWS II is held directly by Telefónica, S.A.

(6) 72.1% including treasury shares

## TAXATION AND DISCLOSURE OF INFORMATION IN CONNECTION WITH PAYMENTS

*The information provided below does not purport to be a complete summary of tax law and practice applicable in the Kingdom of Spain as at the date of this Base Prospectus and is subject to any changes in law and the administrative interpretation and application thereof, which could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Instruments, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom (such as dealers in securities) may be subject to special rules. Prospective investors should consult with their own professional advisers.*

*Also prospective investors should note that the appointment by an investor in Instruments, or any person through which an investor holds Instruments, of a custodian, collection agent or similar person in relation to such Instruments in any jurisdiction may have tax implications. Prospective investors should consult their own tax advisors in relation to the tax consequences for them of any such appointment.*

### Taxation in the Kingdom of Spain

#### Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Base Prospectus:

- (a) of general application, Additional Provision Two of Law 13/1985, of 25 May on investment ratios, own funds and information obligations of financial intermediaries, as amended by Royal Decree 1065/2007, of 27 July approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended ("**Royal Decree 1065/2007**");
- (b) for individuals with tax residency in Spain who are personal income tax ("**Personal Income Tax**") tax payers, Law 35/2006, of 28 November 2006 on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Residents Income Tax Law and Wealth Tax Law (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March 2007 promulgating the Personal Income Tax Regulations, along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008, Royal Decree-Law 13/2011 and Law 22/2013 and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporate income tax ("**Corporate Income Tax**") taxpayers, Royal Legislative Decree 4/2004, of 5 March 2004 promulgating the Consolidated Text of the corporate income tax law, and Royal Decree 1777/2004, of 30 July 2004 promulgating the corporate income tax regulations (the "**Corporate Income Tax Regulations**"); and
- (d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax ("**Non-Resident Income Tax**") taxpayers, Royal Legislative Decree 5/2004, of 5 March 2004 promulgating the Consolidated Text of the Non-Resident Income Tax Law, and Royal Decree 1776/2004, of 30 July 2004 promulgating the Non-Resident Income Tax Regulations, along with Law 19/1991, of 6 June 1991 on Wealth Tax as amended by Law 4/2008, Royal Decree-Law 13/2011 and Law 22/2013 and Law 29/1987, of 18 December 1987 on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of a beneficial interest in the Instruments (a "**holder of Instruments**"), the acquisition and transfer of the Instruments will be exempt from indirect taxes in Spain, for example it will be exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from value added tax, in accordance with Law 37/1992, of 28 December regulating such tax.



## 1. **Individuals with Tax Residency in Spain**

### 1.1 ***Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

Payments of both interest periodically received and income deriving from the transfer, redemption, repayment or exchange of the Instruments constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor's Personal Income Tax savings taxable base pursuant to the provisions of the aforementioned law, and taxed according to the then-applicable rate. The savings taxable base of tax year 2014 will be taxed at the rate of 21 per cent. up to €6,000, 25 per cent. for taxable income between €6,001 and €24,000, and 27 per cent. for taxable income exceeding €24,000.

According to Section 44.5 of Royal Decree 1065/2007 and in the opinion of the Issuer and the Guarantor, the Issuer will pay interest as well as income derived from the redemption or repayment of the Instruments without withholding to individual Holders who are resident for tax purposes in Spain **provided that** the information about the Instruments required by Exhibit I is submitted by the Issue and Paying Agent in a timely manner, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation. In addition, income obtained upon transfer or exchange of the Instruments may also be paid without withholding.

In any event, the individual Holder may credit the withholding against his or her Personal Income Tax liability for the relevant year.

### 1.2 ***Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals with tax residency in Spain are subject to Wealth Tax on the 2014 tax year to the extent that their net worth exceeds a certain limit. This limit has been set at €700,000 for 2014. Therefore, they should take into account the value of the Instruments which they hold as at 31 December 2014, the applicable rates ranging between 0.2% and 2.5%. The autonomous communities may have different provisions on this respect.

### 1.3 ***Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals with tax residency in Spain who acquire ownership or other rights over any Instruments by inheritance, gift or legacy will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules. The applicable tax rates as at the date of this Base Prospectus range between 7.65% and 34%. Relevant factors applied (such as previous net wealth or family relationship among transferor and transferee) do determine the final effective tax rate that range between 0% and 81.6% as at the date of this Base Prospectus.

## 2. **Legal Entities with Tax Residency in Spain**

### 2.1 ***Corporate Income Tax (Impuesto sobre Sociedades)***

Payments of both interest periodically received and income deriving from the transfer, redemption or repayment of the Instruments must be included in the profit and taxable income of legal entities with tax residency in Spain for Corporate Income Tax purposes in accordance with the rules for Corporate Income Tax.

In accordance with Section 44.5 of Royal Decree 1065/2007 and in the opinion of the Issuer and the Guarantor, there is no obligation to withhold on income payable to Spanish Corporate Income Tax taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold tax on interest payments to Spanish Corporate Income Tax taxpayers as well as on income derived from the redemption of the Instruments **provided that** the information about the Instruments required by Exhibit I is submitted by the Issue and Paying Agent in a timely manner, notwithstanding the information obligations of the Issuer under general provisions of Spanish tax legislation.

However, with regard to income derived from the transfer of the Instruments, in accordance with Section 59.s of the CIT regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers from financial assets traded on organised markets in OECD countries.

The Issuer will make an application for the Instruments to be traded on the Official List of the London Stock Exchange and, upon admission to trading on such Official List, the Instruments will fulfil the requirements set forth in the legislation for exemption from withholding.

On 27 July 2004, the Directorate General for Taxation (*Dirección General de Tributos*) issued a ruling indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that, in addition to being traded on an organised market in an OECD country, the Instruments be placed outside Spain in another OECD country. The Issuer and the Guarantor believe that the issue of the Instruments will fall within this exemption as the Instruments are to be sold outside Spain and in the international capital markets. Consequently, no withholding on account of CIT should be made on income derived from the transfer of the Instruments by Spanish CIT taxpayers that provide relevant information to qualify as such.

2.2 **Wealth Tax (*Impuesto sobre el Patrimonio*)**

Spanish resident legal entities are not subject to Wealth Tax.

2.3 **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Legal entities with tax residency in Spain which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to Inheritance and Gift Tax and must include the market value of the Instruments in their taxable income for Spanish Corporate Income Tax purposes.

3. **Individuals and Legal Entities with no tax residency in Spain**

3.1 **Non-resident Income Tax (*Impuesto sobre la Renta de No Residentes*)**

(a) *Non-Spanish resident investors acting through a permanent establishment in Spain*

Ownership of the Instruments by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Instruments form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, such permanent establishment will be subject to Non-Resident Income Tax on similar terms as those previously set out for Spanish Corporate Income Tax taxpayers.

(b) *Non-Spanish resident investors not acting through a permanent establishment in Spain*

Both interest payments periodically received and payments of income deriving from the transfer, redemption or repayment of the Instruments, obtained by individuals or legal entities without tax residency in Spain, and who are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are, in principle, exempt from Non-Resident Income Tax on the same terms as laid down for income from public debt.

In order to be eligible for the exemption from Non-Resident Income Tax, certain requirements must be met, including the provision by the Issue and Paying Agent of certain information relating to the Instruments, in a timely manner as detailed under "*Information about the Instruments in Connection with Payments*" as laid down in section 44 of Royal Decree 1065/2007. If the Issue and Paying Agent fails or for any reason is unable to deliver the required information in the manner indicated, the Issuer will withhold 21% and will not pay additional amounts with respect to any such withholding.

Holders not resident in Spain for tax purposes and entitled to exemption from Non-Resident Income Tax but, in respect of whose Instruments, the Issuer and the Guarantor do not receive information from the Issue and Paying Agent in a timely manner as detailed under "*Information about the Instruments in Connection with Payments*", would have to apply directly to the Spanish tax authorities for any refund to which they may be

entitled, according to the procedures set forth in the Spanish Non-Resident Income Tax law.

### 3.2 **Wealth Tax (*Impuesto sobre el Patrimonio*)**

For the tax year 2014, Spanish non-resident tax individuals are subject to Spanish Wealth Tax, which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any year.

However, to the extent that income derived from the Instruments is exempt from Non-Resident Income tax, individual Holders not resident in Spain for tax purposes who hold Instruments on the last day of any year will be exempt from Spanish Wealth Tax. Furthermore, Holders who benefit from a convention for the avoidance of double taxation with respect to wealth tax that provides for taxation only in the Holder's country of residence will not be subject to Spanish Wealth Tax.

If the provisions of the foregoing paragraph do not apply, non-Spanish tax resident individuals whose net worth related to property located, or rights that can be exercised, in Spain is above €700,000 and who hold Instruments on the last day of any year, would therefore be subject to Spanish Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Instruments during the last quarter of such year.

Non-Spanish resident legal entities are not subject to Wealth Tax.

### 3.3 **Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)**

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Instruments by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional and state legislation, to the extent that rights deriving from the Instruments can be exercised within the Spanish territory.

Non-Spanish resident legal entities which acquire ownership or other rights over the Instruments by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

## 4. **Tax Rules for payments made by the Guarantor**

Payments made by the Guarantor to holders of beneficial interests in the Instruments will be subject to the same tax rules previously set out for payments made by the Issuer.

## 5. **Information about the Instruments in Connection with Payments**

As described above, interest and other income paid with respect to the Instruments will not be subject to Spanish withholding tax unless the Issue and Paying Agent fails or for any reason is unable to provide the Issuer and the Guarantor, in a timely manner, with the information described in Exhibit I of this Base Prospectus.

The information obligations to be complied with in order to apply the exemption are those laid down in Section 44 of Royal Decree 1065/2007.

In accordance with Section 44.5, before the close of business on the Business Day (as defined in the Terms and Conditions of the Instruments) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the

Instruments (each, a "**Payment Date**") is due, the Issuer and the Guarantor must receive from the Issue and Paying Agent the following information about the Instruments:

- (a) the identification of the Instruments with respect to which the relevant payment is made;
- (b) the date on which the relevant payment is made;
- (c) the total amount of the relevant payment;
- (d) the amount of the relevant payment paid to each entity that manages a clearing and settlement system for securities situated outside of Spain (such as Euroclear and Clearstream).

In particular, the Issue and Paying Agent must certify the information above about the Instruments by means of a certificate, the form of which is attached as Exhibit I of this Base Prospectus.

In light of the above, the Issuer, the Guarantor and the Issue and Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments by the close of business on the Business Day immediately preceding each relevant Payment Date. If, despite these procedures, the relevant information is not received by the Issuer and the Guarantor on each Payment Date, the Issuer will withhold tax at the then-applicable rate (as at the date of this Base Prospectus, 21%) from any payment in respect of the relevant Instruments. 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 Issue and Paying Agent provides the required information, the Issuer will reimburse the amounts withheld. In addition, Holders may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Prospective Holders should note that none of the Issuer, the Guarantor or the Dealers accepts any responsibility relating to the procedures established for the collection of information concerning the Instruments. Accordingly, none of the Issuer, the Guarantor or the Dealers will be liable for any damage or loss suffered by any Holder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding. See "*Risk Factors - Risks relating to Withholding*".

*Set out below is Exhibit I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Exhibit I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.*

*The language of this Base Prospectus is English. The Spanish language text of Exhibit I has been included in order that the correct technical meaning may be ascribed to such text under applicable Spanish law. Any foreign language text included in this Base Prospectus does not form part of this Base Prospectus.*

## EXHIBIT 1

### **Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007**

#### **Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos**

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

**Don (nombre), con número de identificación fiscal (...)<sup>(1)</sup>, en nombre y representación de (entidad declarante), con número de identificación fiscal (...)<sup>(1)</sup> y domicilio en (...) en calidad de (marcar la letra que proceda):**

Mr. (name), with tax identification number (...)<sup>(1)</sup>, in the name and on behalf of (entity), with tax identification number (...)<sup>(1)</sup> and address in (...) as (function - mark as applicable):

- (a) **Entidad Gestora del Mercado de Deuda Pública en Anotaciones.**
  - (a) Management Entity of the Public Debt Market in book entry form.
- (b) **Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.**
  - (b) Entity that manages the clearing and settlement system of securities resident in a foreign country.
- (c) **Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.**
  - (c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.
- (d) **Agente de pagos designado por el emisor.**
  - (d) Issue and Paying Agent appointed by the issuer.

**Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:**

Makes the following statement, according to its own records:

- 1. En relación con los apartados 3 y 4 del artículo 44:**
  - 1. In relation to paragraphs 3 and 4 of Article 44:
    - 1.1 Identificación de los valores.....**
      - 1.1 Identification of the securities.....
    - 1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**
      - 1.2 Income payment date (or refund if the securities are issued at discount or are segregated)
    - 1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).....**

- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)
- 1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora.....**
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).**
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).
- 2. En relación con el apartado 5 del artículo 44.**
2. In relation to paragraph 5 of Article 44.
- 2.1 Identificación de los valores.....**
- 2.1 Identification of the securities.....
- 2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) .....**
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated) .....
- 2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados.....**
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)
- 2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.**
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.**
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.
- 2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.**
- 2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

**Lo que declaro en.....a .... de.....de ....**

I declare the above in..... on the.... of..... of....

<sup>(1)</sup> **En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**

<sup>(1)</sup> In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

### *EU Savings Tax Directive*

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest in the meaning of the EU Savings Directive or other similar income paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg will, subject to certain exceptions, apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. (unless during that transitional period they elect to provide information in accordance with the EU Savings Directive). The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in the meaning of the EU Savings Directive in a Member State to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in one of those territories.

The EU Savings Directive has been amended by the Council Directive 2014/48/EU which was published on 15 April 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a 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**").

The proposed FTT has very broad scope. If introduced in the form proposed on 14 February 2013, it could apply to certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt.

Under the 14 February 2013 proposal, 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 Instruments where at least one party to the transaction is established in the territory of a participating Member State and that a financial institution established in the territory of a participating Member State is a party to the transaction, acting either for its own account or for the account of another person or is acting in the name of a party to the transaction. 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 the participating Member States. Additional EU Member States may decide to participate, although certain other Member States have expressed strong objections to the proposal. The FTT proposal may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of Instruments are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Instruments may be sold from time to time by the Issuer to any one or more of Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities plc, Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc, Société Générale, The Royal Bank of Scotland plc and UBS Limited (the "**Dealers**"). Instruments may also be sold by the Issuer direct to institutions who are not Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 10 June 2014 (as amended, supplemented, restated or replaced from time to time, the "**Dealership Agreement**") and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

**United States of America:** *Regulation S; Category 2; TEFRA D, unless TEFRA C is specified as applicable in the relevant Final Terms*

Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Issue and Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, by each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Issue and Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to or for the account or benefit of U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

In relation to each Tranche of Instruments, each Dealer subscribing for or purchasing such Instruments has represented to and agreed with, and each further Dealer appointed under the Programme will be required to represent to and agree with, the Issuer, the Guarantor and each other such Dealer (if any) that:

- (a) **No deposit-taking:** in relation to any Instruments having a maturity of less than one year from the date of their issue:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:



- (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons:
  - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
  - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) **Financial promotion:** 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 any Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

### **Japan**

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**") and disclosure under the FIEA has not been, and will not be, made with respect to the Instruments and each Dealer has represented and agreed that it will not offer or sell, re-sell or otherwise transfer any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale or other transfer, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **The Kingdom of Spain**

The Instruments may not be sold, offered or distributed in Spain except in accordance with the requirements of (a) the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*); (b) Royal Decree 1310/2005, of November 4; and (c) any decrees and regulations made thereunder (and, if applicable, the relevant laws and regulations which in the future may replace the aforementioned existing legal provisions).

### **Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia (the "**Corporations Act**")) in relation to the Programme or any of the Instruments has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission ("**ASIC**") or any other regulatory authority in Australia. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it:

- (a) has not offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of the Instruments in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any prospectus or any other offering material or advertisement relating to the Programme or any Instruments in Australia, unless:
  - (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternative currency and, in either case, disregarding moneys lent by the

offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act;

- (ii) such action complies with applicable laws and directives;
- (iii) the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Corporations Act; and
- (iv) such action does not require any document to be lodged with ASIC or any other regulatory authority in Australia.

*By applying for Instruments under this Base Prospectus, each person to whom Instruments are issued (an "Investor"):*

- (a) *will be deemed by the Issuer, the Guarantor and each of the Dealers to have acknowledged that if any Investor on-sells Instruments within 12 months from their issue, the Investor will be required to lodge a prospectus or other disclosure document (as defined in the Corporations Act) with ASIC unless either:*
  - (i) *that sale is to an investor within one of the categories set out in sections 708(8) or 708(11) of the Corporations Act to whom it is lawful to offer Instruments in Australia without a prospectus or other disclosure document lodged with ASIC; or*
  - (ii) *the sale offer is received outside Australia; and*
- (b) *will be deemed by the Issuer, the Guarantor and each of the Dealers to have undertaken not to sell those Instruments in any circumstances other than those described in paragraphs (a)(1) and (a)(2) above for 12 months after the date of issue of such Instruments.*

This Base Prospectus is not, and under no circumstances is to be construed as, an advertisement or public offering of the Instruments in Australia.

This Base Prospectus may only be distributed to investors in Australia and any offer of Instruments may only be made to investors in Australia, in each case subject to the conditions set out above, on behalf of a Dealer by its affiliate holding an Australian Financial Services Licence permitting such licence holder to distribute this Base Prospectus and to offer the Instruments to investors in Australia.

## **Hong Kong**

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Instruments, except for Instruments which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "Prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Instruments, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Instruments which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## **People's Republic of China**

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offer of the Instruments is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of the People's Republic of China and the Instruments are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Base Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Instruments to be issued from time to time by the Issuer pursuant to any issuance of instruments may not be circulated or distributed, nor may the Instruments be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the applicable conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Instruments are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Instruments pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Share and Debentures) Regulations 2005 of Singapore.

## **General**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that, to the best of its knowledge and belief,

it has complied and will comply with all applicable securities laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense.

Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer and the Guarantor.

## GENERAL INFORMATION

1. The admission of the Instruments to the Official List and to trading on the Regulated Market of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Instruments intended to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange will be so admitted upon submission to the FCA and the London Stock Exchange, of the relevant Final Terms and any other information required by the FCA and the London Stock Exchange, subject to the issue of the relevant Instruments. Prior to official listing and acceptance of the Instruments to trading, dealings in the Instruments will be permitted by the London Stock Exchange, in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Instruments may be issued pursuant to the Programme which will be listed with such competent authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

2. The establishment of the Programme was authorised by a resolution of the sole shareholder of the Issuer passed on 30 December 2004 and the giving of the Guarantee by the Guarantor in relation to the update of the Programme was authorised by a resolution of the Board of Directors of the Guarantor passed on 30 May 2014. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments, if any.
3. The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information.
4. Bearer Instruments (other than Temporary Global Instruments (as defined in "*Terms and Conditions of the Instruments - Form and Denomination*")) and any Coupon appertaining thereto will bear a legend substantially 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." The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
5. Settlement arrangements will be agreed between the Issuer, the relevant Dealer and the Issue and Paying Agent or, as the case may be, the Registrar in relation to each Tranche of Instruments.
6. The admission of the Programme to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange is expected to take effect on or about 12 June 2014.
7. Save as disclosed on pages 97 to 99 of this Base Prospectus (see "*Legal Proceedings*"), there are no, nor have there been any, governmental, legal or arbitration proceedings involving the Issuer, the Guarantor or any of the Guarantor's subsidiaries (and no such proceedings are pending or threatened) which have or may have or have had during the twelve months prior to the date of this document, individually or in the aggregate, a significant effect on the financial position or profitability of the Issuer or of the Guarantor and its subsidiaries taken as a whole.
8. Since 31 March 2014 there has been no significant change in the financial or trading position of the Guarantor save for (i) on 10 April 2014 the Issuer issued three-year notes in an aggregate principal amount of €200 million under the Programme. On 4 June 2014 the Issuer reopened these notes. The total amount of the tap issuance was €100 million, increasing the total amount of the series of instruments outstanding to €300 million. These notes are guaranteed by Telefónica; (ii) on 27 May 2014 the Issuer issued eight-year notes in an aggregate principal amount of €1,250 million under the Programme. These notes are guaranteed by Telefónica; and (iii) on 29 May

2014, Telefónica, S.A. redeemed the remaining notes issued on 29 November 2012 in an aggregate principal amount of €582 million (these notes were partially redeemed on 29 November 2013).

Since 31 December 2013, there has been no significant change in the financial or trading position of the Issuer save for the principal events described on pages 77 to 79 of this Base Prospectus.

Since 31 December 2013, there has been no material adverse change in the prospects of the Issuer or the Guarantor.

9. The consolidated financial statements of the Guarantor for the financial years ended 31 December 2013 and 31 December 2012 were audited by Ernst & Young, S.L. with its registered address at Plaza Pablo Ruiz Picasso, 1, 28020, Madrid, registered in the ROAC under number S0530 and unqualified opinions were reported thereon.
- (a) Ernst & Young, S.L. audited the annual accounts of the Issuer for the years ended 31 December 2013 and 31 December 2012 and unqualified opinions were reported thereon.
  - (b) For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents (and, where applicable, direct and accurate translation into English) may be inspected during normal business hours at the specified office of the Issue and Paying Agent and Principal Registrar (or other, the specified office(s) of the Paying Agent(s) in the United Kingdom) and at the registered/head office of the Issuer and the Guarantor, namely:
    - (i) the constitutional documents of the Issuer and the Guarantor together with translations into English;
    - (ii) this Base Prospectus, together with any supplements thereto;
    - (iii) the Issue and Paying Agency Agreement;
    - (iv) the Deed of Covenant;
    - (v) the Deed of Guarantee;
    - (vi) English language translations of the audited consolidated financial statements of the Guarantor, and the reports referred to therein for the years ended 31 December 2013 and 31 December 2012, the unaudited interim consolidated financial information of the Guarantor for the 3 months ended 31 March 2014 (set out in the document entitled "*Results January – March 2014*");
    - (vii) English language translations of the annual accounts of the Issuer, and the reports referred to therein, for the years ended 31 December 2013 and 31 December 2012; and
    - (viii) any Final Terms relating to Instruments which are listed on any stock exchange.

In addition, this Base Prospectus and any information incorporated by reference therein may be viewed on the following website: [www.telefonica.com](http://www.telefonica.com).

## REGISTERED AND HEAD OFFICE OF THE ISSUER

Telefónica Emisiones, S.A.U.  
Gran Vía, 28  
28013 Madrid  
Spain

## REGISTERED AND HEAD OFFICE OF THE GUARANTOR

Telefónica, S.A.  
Gran Vía, 28  
28013 Madrid  
Spain

## DEALERS

### **Banco Bilbao Vizcaya Argentaria, S.A.**

Vía de los Poblados sn  
28033 Madrid  
Spain

### **Banco Santander, S.A.**

Banco Santander, S.A.  
Gran Vía de Hortaleza, 3  
Edificio Pedreña- Planta 1  
28033 Madrid  
Spain

### **Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

### **BNP Paribas**

10 Harewood Avenue  
London NW1 6AA  
United Kingdom

### **Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

### **Commerzbank Aktiengesellschaft**

Kaiserstraße 16 (Kaiserplatz)  
60311 Frankfurt am Main  
Federal Republic of Germany

### **Credit Suisse Securities (Europe) Limited**

One Cabot Square  
London E14 4QJ  
United Kingdom

### **Daiwa Capital Markets Europe Limited**

5 King William Street  
London EC4N 7AX  
United Kingdom

### **Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

### **Goldman Sachs International**

Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom

### **HSBC Bank plc**

8 Canada Square  
London, E14 5HQ  
United Kingdom

### **J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

### **Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

### **Mizuho International plc**

Bracken House  
1 Friday Street  
London EC4M 9JA  
United Kingdom

**Morgan Stanley & Co. International plc**

25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**Société Générale**

29 boulevard Haussmann  
75009 Paris  
France

**The Royal Bank of Scotland plc**

135 Bishopsgate  
London EC2M 3UR  
United Kingdom

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**AUDITORS OF THE ISSUER**

**Ernst & Young, S.L.**

Torre Picasso, Plaza Pablo Ruiz  
Picasso nº1, 28020 Madrid  
Spain

**AUDITORS OF THE GUARANTOR**

**Ernst & Young, S.L.**

Torre Picasso, Plaza Pablo Ruiz  
Picasso nº1, 28020 Madrid  
Spain

**ISSUE AND PAYING AGENT AND PRINCIPAL REGISTRAR**

**The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**ALTERNATIVE REGISTRAR**

**The Bank of New York Mellon (Luxembourg), S.A.**

Vertigo Building – Polaris  
2-4 rue Eugene Ruppert  
L-2453 Luxembourg

**PAYING AGENT**

**The Bank of New York Mellon (Luxembourg), S.A.**

Vertigo Building – Polaris  
2-4 rue Eugene Ruppert  
L-2453 Luxembourg

**LEGAL ADVISERS**

*To the Dealers*

*As to English law and Spanish law*

**Clifford Chance S.L.**

Paseo de la Castellana, 110  
28046 Madrid  
Spain