

TELEFÓNICA EUROPE B.V

AND

TELEFÓNICA, S.A.

DEED OF COVENANT

THIS DEED OF COVENANT is made on 18 November 2015

BY

- (1) **TELEFÓNICA EUROPE B.V.** (the "**Issuer**") and
- (2) **TELEFÓNICA, S.A.** (the "**Guarantor**")

IN FAVOUR OF

- (3) **THE ACCOUNTHOLDERS AND THE SECURITYHOLDERS** (as defined below).

WHEREAS

- (A) The Issuer has issued certain series of undated deeply subordinated fixed rate reset securities guaranteed by the Guarantor and bearing ISIN codes: XS0972570351, XS0972588643, XS0997326441, XS1050460739, XS1050461034 and XS1148359356 (together the "**Securities**").
- (B) Pursuant to the terms and conditions of the Securities (the "**Conditions**"), the Issuer has the right to redeem the Securities at any time if a Capital Event occurs. A "Capital Event" shall be deemed to occur if the Issuer or the Guarantor has received confirmation from any Rating Agency that, due to (i) any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the Securities will no longer be eligible for the same or a higher amount of "equity credit" attributed to the Securities at the Issue Date.
- (C) On 27 October 2015 Standard and Poor's ("**S&P**") issued a press release stating that it had assigned minimal equity content to the Securities as a result of certain call provisions contained within the Conditions.
- (D) The Issuer and the Guarantor are therefore entering into this Deed of Covenant in order to enter into binding contractual undertakings in favour of the Accountholders and the Securityholders agreeing that the Issuer will not exercise its right to require the early redemption of the Securities in the circumstances described in limb (ii) of Recital B above.

THIS DEED OF COVENANT WITNESSES as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed of Covenant the following expressions have the following meanings:

"**Accountholder**" means any accountholder with a Clearing System which has credited to its securities account with such Clearing System one or more Entries in respect of the Securities, except for either Clearing System in its capacity as an accountholder of the other Clearing System;

"**Clearing System**" means each of Euroclear Banking S.A./N.V. and Clearstream, Banking, *société anonyme*;

"**Entry**" means any entry which is made in the securities account of any Accountholder with a Clearing System in respect of the Securities; and

"**Securityholder**" means the "Holder" of the Securities, as defined in the relevant Conditions.

1.2 **Other defined terms**

Terms defined in the Conditions have the same meanings in this Deed of Covenant.

1.3 **Clauses**

Any reference in this Deed of Covenant to a Clause is, unless otherwise stated, to a clause hereof.

1.4 **Headings**

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Deed of Covenant.

1.5 **Legislation**

Any reference in this Deed of Covenant to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

2. DISAPPLICATION OF CALL RIGHTS

- 2.1 Each of the Issuer and the Guarantor unconditionally and irrevocably undertakes that the Issuer will not exercise its right to require the early redemption of any of the Securities in the circumstances described in limb (ii) of the definition of "Capital Event" in the Conditions of the Securities.
- 2.2 For the avoidance of doubt, nothing in this Deed of Covenant shall affect any right of the Issuer to redeem the Securities as a result of a Capital Event not referred to in Clause 2.1 of this Deed of Covenant, or pursuant to any other provisions of the Securities.

3. DEPOSIT OF DEED OF COVENANT

This Deed of Covenant shall be deposited with and held by the relevant Fiscal Agent in respect of each series of Securities, until the date on which all the obligations of the Issuer and the Guarantor under or in respect of the relevant Securities (including, without limitation, its obligations under this Deed of Covenant) have been discharged in full. The Issuer and the Guarantor hereby acknowledge the right of every Securityholder and Accountholder to the production of this Deed of Covenant.

4. STAMP DUTIES

The Issuer, failing whom the Guarantor, shall pay all stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which are payable upon or in connection with the execution and delivery of this Deed of Covenant, and shall indemnify each Securityholder and Accountholder against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same.

5. BENEFIT OF DEED OF COVENANT

5.1 Deed Poll

This Deed of Covenant shall take effect as a deed poll for the benefit of the Securityholders and Accountholders from time to time.

5.2 Benefit

This Deed of Covenant shall enure to the benefit of each Securityholder and Accountholder and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed of Covenant against the Issuer and the Guarantor.

5.3 Records of the Clearing Systems

The records of the Clearing Systems shall be conclusive as to the identity of the Accountholders and the respective amounts credited to their securities accounts and a statement issued by a Clearing System setting out:

- 5.3.1 the name of the Accountholder in respect of which it is issued; and
- 5.3.2 the principal amount of any Entry credited to the securities account of such Accountholder with such Clearing System on any date,

shall be conclusive evidence for all purposes of this Deed of Covenant.

5.4 **Assignment**

Neither the Issuer nor the Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

6. **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.

7. **LAW AND JURISDICTION**

7.1 **Governing law**

This Deed of Covenant and any non-contractual obligations arising out of or in connection with it are governed by English law.

7.2 **English courts**

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

7.3 **Appropriate forum**

Each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

7.4 **Rights of the Securityholders and Accountholders to take proceedings outside England**

Notwithstanding Clause 7.2 (*English courts*), the Securityholders and the Accountholders may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Securityholders and the Accountholders may take concurrent Proceedings in any number of jurisdictions.

7.5 Service of Process

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Telefónica UK Limited at 260 Bath Road, Slough, SL1 4DX, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer or the Guarantor may specify by notice in writing to the Securityholders and the Accountholders. Nothing in this paragraph shall affect the right of any Securityholder or Accountholder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

8. MODIFICATION

The Fiscal Agency Agreement in respect of each series of Securities contains provisions for convening meetings of the Securityholders to consider matters relating to the relevant Securities. Any modification of this Deed of Covenant (including the assignment or transfer of any or all of the rights, benefits and obligations of the Issuer and the Guarantor hereunder) may be made by supplemental deed if sanctioned by an Extraordinary Resolution of the holders of each series of Securities from time to time outstanding, and shall be binding on all Securityholders and Accountholders.

IN WITNESS whereof this Deed of Covenant has been executed by the Issuer and the Guarantor and is intended to be and is hereby delivered on the date first before written.

EXECUTED as a deed)
by **TELEFÓNICA EUROPE B.V.**)
acting by)
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EXECUTED as a deed)
by **TELEFÓNICA, S.A.**)
acting by)
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