



**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 Telefónica Emisiones, S.A.U., Telefónica, 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 103 to 110 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 not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) 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 76. 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**

**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**

13 September 2016

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

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

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

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

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

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

"**Data ARPU**" is the average data revenues per user per month. Data ARPU is calculated by dividing total data revenues (from sources such as Short Message Service ("**SMS**"), Multimedia Messaging Services ("**MMS**"), other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and wireless application protocol ("**WAP**") connectivity from sales to customers for a given period by the weighted average number of accesses for the same period, and then dividing by the relevant period.

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

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

"**FaaST**" is a cybersecurity technology that scans an organisation's system 24 hours a day, seven days a week, in order to prevent cybernetic attacks.

"**Final client accesses**" means accesses provided directly to residential and corporate clients.

"**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 the

purpose of calculating Telefónica's number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); and 2/6 digital accesses (x30).

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

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

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

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

"**Incoming revenues**" refers to the interconnection revenues derived from the completion of calls made from outside mobile or fixed carriers into Telefónica's network.

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

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

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

"**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.

"**Latch**", is a cybernetic application, protecting accounts and on-line services.

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

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

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

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

"**Metashield**" is a cybernetic product for protecting metadata (information on data) in digital documents and archives.

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

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

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

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

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

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

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

"**Outgoing revenues**" refers to mobile voice or data revenues (SMS, MMS) derived from Telefónica's consumers' consumed service.

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

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

"**p.p.**" means percentage points.

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

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

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

"**Tacyt**" is a cybersecurity tool that supervises, stores, analyses, correlates and classifies mobile applications.

"**Unbundled 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 ULL) or only DSL service (shared unbundled loop, "shared ULL").

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

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

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

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

In this 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 2012, 2013, and 2014 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 has authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this 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 US tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or delivered within the United States or to US 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 "US 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; 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; references to bolívares fuertes are to Venezuelan bolívares fuertes, the lawful currency of Venezuela; references to Argentinian peso are to the Argentinian peso, the lawful currency of Argentina; references to Swiss Franc or CHF are to the Swiss Franc, the lawful currency of Switzerland; references to the Colombian peso are to the Colombian peso, the lawful currency of Colombia; references to Peruvian soles are to the Peruvian nuevo sol, the lawful currency of Peru; references to Hong Kong dollar are to the Hong Kong dollar, the lawful currency of Hong Kong; references to the Japanese Yen are to the Japanese Yen, the lawful currency of Japan; references to Brazilian real or reais are to the Brazilian real, the lawful currency of Brazil; references to S\$ are to the Singaporean dollar, the lawful currency of Singapore; 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 Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation 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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Instruments is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the 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 Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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## 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 13 September 2016 (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.
<b>Form of Instruments</b>	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 US Treasury Regulation §1.163-5(c)(2)(i)(C) (the " <b>TEFRA C Rules</b> ") 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 " <b>Classic Global Note</b> " or " <b>CGN</b> "), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depository or a common



depository 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 attached 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, or any other relevant clearing system, 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, or any other relevant clearing system, as Common Safekeeper.

**Currencies**

Instruments may be denominated in any currency or currencies subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

**Status of Instruments**

Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.

**Status of the Guarantee**

The obligations of the Guarantor under the Guarantee are, unless otherwise specified in the applicable Final Terms, unsubordinated.

**Issue Price**

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.

**Maturities**

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.

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.

<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.
<b>Taxation</b>	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 " <b>Holders</b> ") 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 " <i>Terms and Conditions of the Instruments - Taxation</i> " and " <i>Taxation and Disclosure of Information in Connection with Payments</i> ").
<b>Negative Pledge</b>	The Instruments will have the benefit of a negative pledge as described in Condition 4 ( <i>Negative Pledge</i> ).
<b>Cross Default</b>	The Instruments will have the benefit of a cross default as described in Condition 7 ( <i>Events of Default</i> ).
<b>Information requirements under Spanish Tax Law</b>	Under Spanish Law 10/2014 and Royal Decree 1065/2007, each as amended, income obtained in respect of the Instruments will not be subject to withholding tax in Spain, <b>provided that</b> the Issue and Paying Agent provides the Issuer and the Guarantor, in a timely manner, with certain information relating to the Instruments. See " <i>Taxation and Disclosure of Information in Connection with Payments</i> ".

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 19%).

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.

<b>Governing Law</b>	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. The status of the Instruments and of the Guarantee are governed by Spanish law. See " <i>Terms and Conditions of the Instruments - Law and Jurisdiction</i> ".
<b>Listing and Trading</b>	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.
<b>Terms and Conditions</b>	The " <i>Terms and Conditions of the Instruments</i> " set out herein will be applicable to each Series of Instruments issued subject to Law 10/2014. Final terms will be prepared in respect of each Tranche of Instruments (the " <b>Final Terms</b> "). The terms and conditions applicable to each Tranche will be those set out herein under " <i>Terms and Conditions of the Instruments</i> " as completed by the relevant Final Terms.
<b>Enforcement of Instruments Global Form</b>	In the case of Instruments in global form, Holders' rights will be supported by a Deed of Covenant dated 13 September 2016, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.
<b>Clearing Systems</b>	Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.
<b>Selling Restrictions</b>	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 " <i>Subscription and Sale</i> ". Additional restrictions may apply to each Series, as specified in the relevant Final Terms.
<b>Ratings</b>	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 business of the Group and the industry(ies) in which the 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 but are the material risks that the Issuer and the Guarantor believe to be the most relevant to an assessment by a prospective investor of whether to consider an investment in the Instruments. Additional risks and uncertainties relating to the Group that are not known to the Group as at the date of this Base Prospectus, or that the Group deems immaterial as at such date, may individually or cumulatively also have a material adverse effect on Telefónica'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 Telefónica which could affect its business, financial position, reputation, corporate image and brand and its results of operations, must be considered jointly with the information contained in its consolidated financial statements, and are as follows:

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

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

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

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

Growth in Europe and financial stability may be affected by political uncertainty in some European countries due to upcoming general elections, a possible revival of the crisis in Greece, restructuring of the banking sector and due to the impact of steps taken towards an EU banking union and a capital markets union. In particular, the British exit process from the European Union following the vote to leave in the recent referendum, will require an adjustment of the economy to whatever new trade and investment relationships are put in place in the future, with the consequences in the meantime being uncertainty regarding investment, activity and the volatility of financial markets. In the first half of 2016, the Telefónica Group obtained 25.1% of its revenues in Spain, 14.6% in Germany and 13.7% in United Kingdom.

In Latin America, there is an increasing exchange rate risk following the depreciation undergone by most currencies in this region throughout 2015, affected by the fall in commodity prices due to the uncertainties about growth in China, and the interest rate evolution in the United States, among other macroeconomic factors. Abrupt exchange rate movements could especially be triggered by scenarios characterised by high inflation and fiscal and external deficits. In this regard, it should be noted that the Venezuelan bolívar fuerte exchange rate quoted in the Sistema Marginal de Divisas (SIMADI) has experienced a depreciation in recent months in a context of high inflation figures, shortage of currencies and deep economic adjustment. In addition, the Argentine peso (which experienced a sharp depreciation in December 2015) is experiencing some depth constraints in its trading market, and the Brazilian real has

strongly appreciated in the first half of 2016 partly reversing 2015's depreciation. Cash flows from countries in this region could decrease, and financial conditions could become more unfavourable if any of these elements were to worsen in the future.

Some of the most significant macroeconomic risk factors in the region affect Brazil, where there is a combination of high inflation, negative economic growth rates and significant internal and external financing needs. All these elements have led to new downgrades to the country's credit rating.

Moreover, the recent fall in oil prices and other commodity prices is having a negative impact on the external and fiscal accounts in Chile, Peru, Colombia, Mexico, and Ecuador (which has a dollarized economy, and is currently experiencing a lower supply of US dollars).

In Argentina, the new government is focused on resolving Argentina's macroeconomic and financial imbalances and on recovering international confidence. Although reforms taking place may have positive effects in the medium term, short term risks persist.

In Venezuela, after the parliamentary elections in which the Democratic Unity Roundtable (an opposition coalition to the ruling United Social Party of Venezuela) claimed the majority of seats in the National Assembly, a new economic emergency decree was announced which could increase state control of private businesses. In addition, there continues to be very limited access to US dollars.

At 30 June 2016, Telefónica Hispanoamérica and Telefónica Brazil represented 23.8% and 20.2% of the Telefónica Group's revenues, respectively. Moreover, approximately 28.6% of the Group's revenues in the telephony business were generated in countries that do not have investment grade status (in order of importance, Brazil, Argentina, Ecuador, Nicaragua, Venezuela, Guatemala, Costa Rica and El Salvador), and other countries are only one notch away from losing this threshold. As at 30 June 2016, the percentage of Telefónica's net financial debt in Latin American currencies stood at 13%.

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

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

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

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

At 30 June 2016, 46% of the Group's net debt (in nominal terms) was pegged to fixed interest rates for over a year, while 21% 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 30 June 2016: (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 €241 million, (ii) whereas a 100 basis points decrease in interest rates in all currencies (even if negative interest rates are reached), would lead to a reduction in financial expenses of €215 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 arising from a 10% depreciation of Latin American currencies against the US dollar and a 10% depreciation of other global currencies against the euro, excluding the pound sterling, would result in exchange losses of €42.6 million, primarily due to the weakening of the Venezuelan bolívar fuerte and, to a lesser extent, the Argentinean peso. These calculations were made assuming a constant currency financial position with an impact on profit or loss at 30 June 2016, including derivative instruments in place. However, in the case of the pound sterling, it would result in exchange profits of €39.5 million as a consequence of an option portfolio the Group entered into for the purpose of hedging a Brexit event, which matured in July 2016.

As at 30 June 2016, 21.2% of the Telefónica Group's operating income before depreciation and amortization (OIBDA) was concentrated in Telefónica Brazil and 21.9% in Telefónica Hispanoamérica.

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 Telefónica's strategic plan and new technologies, the renewal of licences or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

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

Funding could be more difficult and costly in the event of a significant deterioration of conditions in the international or local financial markets (especially considering the recent volatility resulting from uncertainties regarding China, the decline in commodity prices and the hikes in interest rates approved by the US Federal Reserve, all of which impact Latin America), or if there is an eventual deterioration in the solvency or operating performance of Telefónica, or as a consequence of a credit rating downgrade of Spanish sovereign risk by rating agencies.

At 30 June 2016, gross financial debt scheduled to mature in 2016 amounted to €6,385 million (which includes the net position of derivative financial instruments and certain current payables), and gross financial debt scheduled to mature in 2017 amounted to €8,407 million.

In accordance with its liquidity policy, Telefónica has fully covered its gross debt maturities for the next twelve months with cash and credit lines available at 30 June 2016. Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines, 10% of which, at 30 June 2016, were scheduled to mature prior to 30 June 2017.

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

#### **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 the Group provides require the granting of a licence, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to spectrum

availability. Among the main risks of this nature are those related to spectrum regulation and licences/concessions, rates, universal service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality. The fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations.

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, potentially, 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.

In this regard, 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, service and coverage standards 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 authorities 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 licences*

Further to the European Commission's new "Digital Single Market" (**DSM**) Strategy, Europe is expected to undergo an important review of its regulatory framework. The new European DSM Strategy comprises a series of policy initiatives to promote the development of the single market of digital services and networks. As a result, the European Commission has indicated it will initiate legislative processes, which could have significant implications, inter alia, for access to networks, spectrum use, auction conditions, duration and renewal of licenses, universal service, consumer protection, audiovisual services and platforms.

On 8 May 2015, the European Commission approved a decision on the harmonisation of the 1452 - 1492 MHz frequency band (1500 MHz band), which encourages Member States to designate and to make available this band frequency from November 2015 on a non-exclusive basis. As a result, new spectrum award processes are expected in the short and mid term across the EU. Germany and the United Kingdom have already auctioned the frequency band and therefore the decision will not have a material impact on Telefónica's cash flow in those markets. In Spain, the Government launched a consultation which ended on 21 June 2015 to evaluate demand for spectrum in the 1500 MHz band. The tender of the 1500 MHz band in Spain is not expected to take place before 2017.

Additionally, the European Parliament and Council are discussing the use and availability of the 700 MHz band. This could require new cash outflows from Telefónica between 2018 and 2022 in both the United Kingdom and Spain, where it is expected that the 700 MHz band will be available between 2020-2022. In Germany the 700 MHz band was already awarded in 2015.

On 7 March 2016, the German regulator initiated a public consultation with regards to the frequency distributions of the 2 GHz spectrum band granted to Telefónica Deutschland.

United Internet and the regional cable operator Airdata have filed complaints before the General Court against the EU decision allowing the merger between Telefónica Deutschland Holding AG and E-Plus. Telefónica Deutschland has been accepted as an interested party in these proceedings and filed its statements in both cases. United Internet has filed a second complaint against the EU Commission regarding the content of the self-commitment letter provided by Telefónica Deutschland with regard to the implementation of the Non-Mobile Network Operator Remedy. Telefónica Deutschland has requested to intervene upon which the General Court has not yet decided.

On 24 September 2015, the telecommunication regulator in the United Kingdom (Ofcom) issued a decision to increase the annual fees which mobile operators must pay for the use of 900 MHz and 1800



MHz spectrum. Accordingly, from 31 October 2015, the annual charge that Telefónica UK must pay is 32.2 million pounds sterling (increased from 15.6 million pounds sterling), rising to 48.7 million pounds sterling. This decision is subject to an appeal by EE Limited. Finally, following consultation, on 3 December 2015, Ofcom published an update stating that it would not conduct an auction procedure to award 2.3 GHz and 3.4 GHz spectrum before decisions were made by the relevant competition authorities, in relation to the proposed acquisition of Telefónica UK Limited by the Hutchison Whampoa Group. In July 2016, Ofcom announced that, following the European Commission's decision to block the proposed acquisition, it intends to publish a consultation in the autumn of 2016 concerning Competition measures and on further specifics regarding the auction of the 2.3 GHz and 3.4 GHz spectrum bands.

In Latin America, spectrum auctions are expected to take place implying potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with these licences. Specifically, the procedures expected to take place in 2016 are:

- *Costa Rica*: In December 2015, the Government of Costa Rica communicated its intention to auction 40 MHz in the 1800 MHz band and 30MHz in the 1900/2100 MHz band. The regulatory authority has the mandate to start the procedure to design the auction but no specific date has been set as at the date of this Base Prospectus.
- *Mexico*: The Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones* or "**IFT**") has proposed to auction spectrum in the 2500 MHz band by the end of 2017. In addition, and in light of the constitutional reform resulting from the "Pact for Mexico" political initiative, a wholesale network offering services in the 700 MHz band will be created under a Public-Private Partnership. On 29 January 2016, the SCT (*Secretaría de Comunicaciones y Transportes*) published the rules for the International Competitive Tender. On 18 March 2016, SCT amended the tender schedule. Participants must submit to the IFT the request for approval to participate in the auction no later than 1 August 2016. The rules state that the tender will be awarded on 28 September 2016, and commercial operations must begin no later than 31 March 2018.
- *Panama*: On 4 December 2015, the process of reallocation of the AWS band (140 MHz, 1710-1780 / 2110-2180 MHz) was announced. As of the date of this Base Prospectus, the date for a potential auction has not yet been set.
- *Uruguay*: The Government of Uruguay approved a resolution allowing for a spectrum auction for mobile services. The auction will contain 15 + 15 MHz in the "AWS Ext" spectrum band and 45 + 45 MHz in the 700 MHz spectrum band (of which 20 + 20 MHz of 700 MHz has been reserved for the National Telecommunications Administration, ANTEL). As of the date of this Base Prospectus, the date of auction has not been set.
- *Guatemala*: There is a possibility that the Guatemalan regulator allocates AWS and 2.6 GHz during 2016. As of the date of this Base Prospectus, the date for a potential auction has not been set.
- *Colombia*: In May 2015, the regulator published a consultation document for comment which analyses alternatives and other considerations regarding the structuring of the allocation process for radio spectrum in the 700 MHz bands (which is part of the "Digital dividend", being the set of frequencies that have been available to mobile communications services in the frequency bands traditionally used for television broadcast (700 MHz and 800 MHz) due to the migration from analogue TV to digital TV), 900 MHz, 1900 MHz and 2500 MHz for mobile services. The Ministry of Information Technologies and Communications stated that it would publish the conditions in 2016, but the date of auction has not been set. Colombia has established spectrum caps for lower bands, which are currently set at 30 MHz, and Telefónica has 25 MHz in lower bands.
- *Venezuela*: The regulator has indicated the possibility of awarding spectrum in the 2600 MHz band (20 + 20 MHz) for 4G services, in the 1900 MHz band (5 + 5 MHz) for 3G services and in the 900 MHz band, also for 3G services, during 2016, although the regulator has not formally announced the commencement of the spectrum awarding process.

Further to the above, certain administrations may not have announced their intention to release new spectrum and may do so during the year. The above does not include processes announced via general

statements by administrations, which involve bands not key to Telefónica's needs. Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

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

In the state of São Paulo, Telefônica Brazil provides local and national long-distance Fixed Switched Telephony Service ("STFC") under the public regime, through a concession agreement, which is expected to remain in force until 2025. In accordance with current regulations, Telefônica Brasil informed the Brazilian regulatory authority (*Agencia Nacional de Telecomunicações* or "ANATEL") that the net value, as of 31 December 2015, of assets assigned to the provision of the STFC (which include, among others, switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment) were estimated to total 7,856 million Brazilian reais. In principle, the assets assigned to the provision of the STFC are considered reversible assets; the scope of such reversibility is subject to a complex debate at different levels.

On 27 June 2014, as established in the concession agreement, ANATEL issued a public consultation for the revision of the concession agreement. Although definitive conditions (which might deal, among others, with the reversibility of assets, universalisation goals and, in general, the obligational regime of the concessionaire) were expected to be published during 2015, such publication has been postponed until the end of December 2016. On 8 April 2016, the Ministry of Communications published the Ordinance No. 1455 with a set of guidelines aimed to review the current model concerning the provision of telecommunications to be implemented by ANATEL. ANATEL is currently working on the new telecommunications model, which is aimed at reformulating the entire sector by establishing new rules for telecommunications services provisioning. The proposed new model focus on broadband expansion (instead of fixed telephony) and, therefore, would determine the redefinition of STFC concessions and the extinction of the reversible assets regime. In return, the former concessionaire would be committed to achieve broadband expansion goals. The new model is under discussion by the ANATEL and it is expected to be completed during the second half of 2016.

In Colombia, the ICT Ministry issued Resolution 597 on 27 March 2014, to renew 850 MHz/1900 MHz licenses for 10 additional years. The reversion of assets (other than radio frequencies, which it is clear must be returned) and its scope, has been discussed in the context of the liquidation of the concession contract, taking into consideration the terms of the contract, and the Constitutional Court's review of Law 422 of 1998, and Law 1341 of 2009. Discussions on the matter concluded on 16 February 2016. The ITC Ministry has announced that it is going to convene the Arbitral Tribunal, after having filed a response to the claim. Alongside this, efforts continue to determine the conditions needed to reach a conciliation with the ITC Ministry.

In Peru, Telefónica has concessions for the provision of the fixed-line service until November 2027. In December 2013, Telefónica filed a partial renewal of these concessions for five more years. In December 2014 and May 2016, Telefónica also filed a renewal request for twenty more years in relation to a concession for the provision of local carrier service (which will otherwise expire on 24 December 2016) and one of the concessions to provide mobile-line services in provinces (which will otherwise expire on 1 June 2018), respectively. As of the date of this Base Prospectus, the decision of the Ministry of Transport and Communications (*Ministerio de Transportes y Comunicaciones*) in all such proceedings is still pending, however the concessions continue in force. In addition, on 20 June 2016, the concessions granted to Telefónica Multimedia S.A.C. and Star Global Com S.A.C. to provide cable broadcasting services were renewed for a further 19 and 20 year period, respectively, having commenced in March 2013.

Telefónica Móviles Chile, S.A. was awarded spectrum on the 700 MHz (2x10 MHz) band in March 2014. A claim was brought by a consumer organisation against the 700 MHz assignments which was rejected by the Court of Defense of Free Competition in a judgment of 24 July 2015 and the appeal before the Supreme Court submitted by the consumer organisation is still awaiting resolution. By judgment on 20 April 2016, the Supreme Court accepted the appeal presented by a consumer organisation and ordered the Court of first instance (Court of Defense of Free Competition) to judge the substance of the case (spectrum hoarding).

In El Salvador, the process of renewal of the Group's licenses, which expires in 2018, has been postponed.

In Ecuador, once the Group's concession for mobile services expires in 2023, the renewal of such concession or the granting of a new concession will be subject to negotiation with the Ecuadorian Government. If the Group fails to renew such concession or obtain a new concession, assets assigned to the provision of mobile services will revert to the State of Ecuador in exchange for a fee.

The Group's consolidated investment on 30 June 2016 in spectrum acquisitions and renewals amounted to €10 million. On 26 May 2016, Telefónica obtained 2x15 MHz, in the 700 MHz Band C auction in Peru for US\$315 million.

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

#### *Regulation of wholesale and retail charges*

The European Regulation 2015/2120 on Net Neutrality and Roaming was adopted on 25 November 2015. Under this regulation, from 30 April 2016, when its implementation becomes effective, until 15 June 2017, operators may charge users roaming within the EU an additional fee on their domestic prices for roaming calls, SMS and data services, subject to certain regulated limits. In particular, the surcharges allowed during this period are 0.05 euro/minute for calls, €0.02 per SMS sent and €0.05 per megabits data (excluding VAT). During this period, the sum of the domestic retail price and any such surcharge may not exceed 0.19 euro/minute for calls, €0.06 per SMS sent and €0.20 per megabits data. However, surcharges will not be permitted from 15 June 2017, onwards. However, in some circumstances, operators may apply an additional surcharge under a "fair use policy" which is expected to be adopted in December 2016. The impact of this measure is very difficult to quantify because it will depend on the elasticity of traffic to decreases in the rates charged.

The European Commission launched a public consultation (which closed on 7 June 2016) on the Termination Rates Recommendation (the "**TRR**") which encompasses fixed and mobile termination rates. The public consultation sought to evaluate the impact of the TRR on the termination markets and on the EU internal market. Secondly, it sought views on whether the regulatory approach towards termination rates should be maintained and/or amended. The results of this public consultation are expected to provide guidance to the Commission in the revision process of the 2009 TRR.

The decreases in wholesale MTRs in Europe are also noteworthy. In the United Kingdom, wholesale MTRs have been reduced to 0.503 pence per minute from 1 April 2016. A further cut of 3.1% (in real terms) will come into effect from 1 April 2017.

In Germany, on 24 April 2015, BNetzA adopted its final decision to slightly reduce MTRs. The new prices will gradually decrease from 0.0172 euro per minute to 0.0166 euro per minute from 1 December 2015, until the end of November 2016. This decision was based on a "Long-run Incremental Cost Plus" approach which takes account of common costs. On 18 May 2016, BNetzA published draft regulatory orders which anticipate that BNetzA will set the MTR which will become effective as of December 2016 on the basis of the "Pure Long-Run Incremental Cost" approach. This approach is recommended by the European Commission, which has already been implemented in almost all other EU Member States, and does not take account of common costs. There is consequently a risk that, with effect as of December 2016, MTRs will significantly decrease.

In Spain, on 1 July 2016, the Spanish National Regulatory and Competition Authority (*Comisión Nacional de los Mercados y la Competencia* or "**CNMC**") has launched a public consultation which proposes to eliminate within 6 months the obligations imposed on Telefónica, Vodafone and Orange in the mobile networks access market (Market 15). In addition, it has initiated the process of reviewing the prices of mobile termination, with a final decision expected to be adopted by the end of 2016. Additionally, in May 2015, the CNMC launched a public consultation on the analysis of the market for access and call origination on fixed networks. The CNMC has proposed to maintain the obligation of Telefónica to provide a wholesale interconnection offer and a wholesale line rental ("**WLR**"), both with cost-oriented prices. The scope of the WLR obligation is expected to broaden in order to include certain supplementary services for the business segment. The final decision is expected to be issued during the second half of 2016.

In Latin America, it is likely that MTRs will also be reduced in the short to medium term. For example, in Mexico, the IFT adopted the MTRs for 2015 at 0.2505 Mexican pesos per minute and for 2016 at 0.1869 Mexican pesos per minute which is consistent with the Pure LRIC model. As at the date of this Base Prospectus, the IFT has initiated proceedings to determine the MTRs for 2017.

Telefónica has appealed the decisions concerning the MTRs applicable from 2011 to 2016.

In Brazil, ANATEL has issued ex-ante regulations to ensure competition in the wholesale market, which includes reductions of the MTR. In this regard, the "Plano Geral de Metas de Competição", as amended by Resolution 649/2015, established that mobile termination fees are subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees are expected to be in force (such Resolution has been challenged in courts without a definitive outcome as at the date of this Base Prospectus).

In Argentina, the new legal framework "*Argentina Digital*" provides the new regulator with the possibility to regulate the tariffs and prices of essential public services, wholesale services and those which the regulator determines, based on reasons of public interest on which the law does not set parameters. As a result, there may be a negative impact, depending on how the new regulator exercises its powers. In addition, until the Secretary of Communications determines that there is effective competition for telecommunications services, the "dominant" providers in the relevant areas (which include Telefónica de Argentina) must respect the maximum tariffs established in the general tariff structure.

#### *Regulation of Universal Services*

In September 2015, as a part of the DSM Strategy, the European Commission issued a public consultation on the review of the regulatory framework for electronic communications, including certain aspects of the Universal Service obligations. Depending on the outcome of this public consultation, the European Commission could initiate a legislative process, including both the potential inclusion of certain broadband speeds in its scope and a possible reduction of some of the current Universal Service obligations that are becoming obsolete. Depending on the terms that will be 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.

In Spain, the licences of Telefónica de España and Telefónica Telecomunicaciones Públicas (who both own public terminals) for the provision of Universal Services will expire on 31 December 2016. A new tender for the award of the provision of the Universal Services is expected in the second half of 2016.

In Brazil, a new version of the General Plan for Universalisation of Fixed Switched Telephony Services is currently being analysed by ANATEL. It is expected that its final version will be published by the end of December 2016, together with the new concession agreements.

#### *Regulation of fiber networks*

On 24 February 2016, the Spanish CNMC adopted a final Resolution on the wholesale broadband market regulation, which raises a geographical segmentation in competitive (66 cities, 34% of total population) and non-competitive areas. It is anticipated that this Resolution will last for at least four years. Its implementation is expected to result in a moderate increase of the current regulatory obligations of Telefónica in Spain, in terms of its granting of access to other operators to its fiber network and with respect to certain aspects relating specifically to the business segment (high quality bitstream service for business customers with national coverage). This Resolution has been appealed by Telefónica España.

#### *Regulations on privacy*

In Europe, on 14 April 2016, the new General Data Protection Regulation ("**GDPR**") was formally adopted. The GDPR is expected to become effective in the first quarter of 2018. In general the Group believes the GDPR has reached a good balance between consumer protection in terms of privacy and innovation in new services (i.e. BigData Services). However, the GDPR will introduce administrative fines of up to 4% of an undertaking's annual global turnover for breaching the new data protection rules.

The European Commission is in the process of reviewing the current e-Privacy Directive which has been submitted for public consultation and is expected to produce a legislative proposal at the beginning of

2017. The impact is still uncertain, however, it is expected to lead to a more consistent and horizontal approach aimed at ensuring a level playing field and thus contributing to users trust and awareness.

In October 2015, the Court of Justice of the European Union declared invalid the Decision of the European Commission of 26 July 2002, known as the "Safe Harbor Agreement", relating to the transfer of personal data from the EU to the United States. Since November 2015, EU and US Authorities have been negotiating a new agreement to ensure a level of protection similar to that provided by the EU. Failure to reach this agreement could create difficulties in the provision of services which involve the flow of EU citizens' personal data to the US.

In Brazil, it is expected, in the near future, that the Personal Data Protection Act will be adopted. This could lead to further obligations and restrictions for operators in relation to the collection of personal data and its treatment. Bill 5276/2016, which establishes a set of rules for a personal data protection, is currently under debate in the Federal Congress and was submitted for public consultation at the end of June 2016.

In Peru, on 8 May 2015, the new Personal Data Protection Law came into force. In Ecuador, the Telecommunications Act (*Ley Orgánica de Telecomunicaciones*), adopted in February 2015, devotes a whole chapter to regulate the use of personal data.

#### *Regulation of functional separation*

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

#### *Regulation of network neutrality*

In Europe, the application of the net neutrality Regulation will be monitored by National Regulatory Authorities following guidance to be delivered by the European Regulatory Authority (BEREC) no later than 30 August 2016. This guidance could directly impact internet access service commercial practices (for example, zero rating offers) and it may limit network management practices or increase transparency requirements on the Internet Access Service.

Telefónica operates in Latin American countries where net neutrality is being implemented, such as Chile, Colombia, Mexico and Peru (where Osipitel published the Draft Regulation on Net Neutrality on 8 September 2015).

In Brazil, the President approved the Net Neutrality and Personal Data Protection Law (*Marco Civil*), on 11 May 2016. In Mexico, the IFT has scheduled a public consultation to be carried out in August 2016 in respect of the guidelines that will be issued regarding Net Neutrality. 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 on its business, financial condition, results of operations and cash flows.

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

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

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

As at the date of this Base Prospectus, Telefónica is currently conducting an internal investigation regarding possible violations of applicable anti-corruption laws. Telefónica has been in contact with governmental authorities about this matter and intends to cooperate with those authorities as the investigation continues. It is not possible at this time to predict the scope or duration of this matter or its likely outcome.

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

Customers' perceptions of the assistance and services offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects Telefónica'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 adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

***Telefónica 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, secure 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 of these characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt, in a timely manner, to constant technological changes, changes in customer preferences that are taking place in the industry, as well as economic, political and social circumstances.

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

New products and technologies arise constantly, and their 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, 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 €472 million in the first half of 2016; representing a decrease of 0.9% from €487 million of the same period in 2015. These expenses represented 1.9% and 1.8% of the Group's consolidated revenues in the first half of 2016 and 2015, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Cooperation and Development ("OECD") manual. 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. While an increasing demand for the capabilities offered by these new networks to end users exists, 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 MVNOs, Internet companies or device manufacturers, may cause the loss of value of certain assets, and

affect the Group's 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 adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

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

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

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets, with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that inappropriate practices are produced by a participant in the supply chain.

As of 30 June 2016, the Telefónica Group depended on 4 handset suppliers and 11 network infrastructure suppliers, which together accounted for 80% of the awarded contracts for the year then ended. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls 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 otherwise 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, stealing of infrastructure elements 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.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses become increasingly dependent on telecommunications and computer networks and adopt cloud computing technologies. Cybersecurity threats include gaining unauthorised access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt Telefónica's data or disrupt its operations. Unauthorised access may also be gained through traditional means such as the theft of laptop computers, portable data devices and mobile phones and intelligence gathering on employees with access.

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 these types of incidents, and the claims and loss in revenue caused by service interruptions to date have been covered by these policies, these policies may not be sufficient to cover all possible monetary losses.

***The telecommunications industry may be affected by the possible effects that 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 certain expert groups and public health agencies, including the World Health Organisation, that states that currently there are no established risks associated with exposure to low frequency signals in mobile communications. However, the scientific community is still investigating this issue especially with respect to mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionising Radiation Protection Committee have been internationally

recognised. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Worries about radio frequency 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 mobile telephones and the massive deployment of smart meters and other products using mobile technology. This could lead to Telefónica 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 of operations 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 costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognise impairments in goodwill, intangible assets 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 impairments on certain of its investments, affecting its results of operations in the year in which they were experienced.

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

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

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

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

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

***Telefónica and Telefónica Group companies are party to lawsuits, tax claims 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, the Telefónica Group is party to certain judicial tax proceedings in Peru



concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax proceedings in Brazil, primarily relating to the CIMS (a Brazilian tax on telecommunication services). Further details on these matters are provided in notes 17 and 21 of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2015.

## **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 10/2014 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 Issuer 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 Issuer 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 Issuer 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, 19%) 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 Issuer and Paying Agency Agreement provides that the Issuer 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, the Arranger 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 Issuer 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.

### ***US Foreign Account Tax Compliance Withholding***

Pursuant to certain provisions of the US Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the Kingdom of Spain) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to

withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Instruments, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Instruments, such withholding would not apply prior to 1 January 2019. However, if additional instruments (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Instruments are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Instruments, including the Instruments offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

#### ***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%.

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, the Guarantor 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 Subordinated Notes**

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.

##### ***Floating Rate Instruments.***

Investments in Instruments that bear interest at a floating rate comprise (i) a reference rate and (ii) a margin to be added or subtracted, as the case may be, from such rate. Typically, the relevant margin will not change throughout the life of the Instruments but there could be a periodic adjustment (as specified in the applicable Final Terms) of the reference rate (e.g. every three months or six months) which itself will change in accordance with general market conditions. Accordingly, the market value of floating rate

Instruments may be volatile if changes, particularly short-term changes, to market interest rates evidenced by the relevant reference rate can only be reflected in the interest rate of such Instruments upon the next periodic adjustment of the relevant reference rate.

***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 or common safekeeper 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 or common safekeeper 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 out of 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.

However, there has been significant reduction in control by the PRC Government in recent years, particularly 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.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement 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 being developed.

Although, starting from 1 October 2016, the Renminbi will be added to the Special Drawing Rights basket created by the International Monetary Fund, 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 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 out of the PRC. In the event that funds cannot be repatriated out of 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 the People's Bank of China ("**PBoC**") has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (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. Recently, the PBoC implemented changes to the way it calculates the Renminbi's daily mid-point against the US dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. 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 US Dollars on the due date at the US 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, Luxembourg and Euroclear 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 2015 including the notes thereto, as set out on pages 4 to 127 of the document entitled "Audit Report, Consolidated Annual Financial Statements, and Consolidated Management Report, all for the Year Ended December 31, 2015", and the auditors' report attached thereto (the "**2015 Consolidated Financial Statements**");
- (2) English language translations of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2014 including the notes thereto, as set out on pages 3 to 177 of the document entitled "Audit Report, Consolidated Annual Financial Statements and Consolidated Management Report, all for the Year Ended December 31, 2014", and the auditors' report attached thereto;
- (3) English language translations of the unaudited condensed consolidated interim financial statements of the Guarantor for the 6 months ended 30 June 2016, as set out in the document entitled "Results January – June 2016";
- (4) English language translations of the financial statements of the Issuer for the year ended 31 December 2015 including the notes thereto, as set out on pages 3 to 25 of the document entitled "Telefónica Emisiones, S.A. (Sole shareholder company) Financial statements for the year ended December 31, 2015", and the auditors' report attached thereto;
- (5) English language translations of the financial statements of the Issuer for the year ended 31 December 2014 including the notes thereto, as set out on pages 3 to 25 of the document entitled "Telefónica Emisiones, S.A. (Sole shareholder company) Financial Statements and Management Report for the year ended December 31, 2014", 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 2009 relating to the Programme (the "**2009 Conditions**");
- (9) 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**");
- (10) 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**");
- (11) 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**");
- (12) 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**");
- (13) the Terms and Conditions of the Instruments as set out on pages 24-57 of the Base Prospectus dated 10 June 2014 relating to the Programme (the "**2014 Conditions**"); and
- (14) the Terms and Conditions of the Instruments as set out on pages 27-60 of the Base Prospectus dated 5 June 2015 relating to the Programme (the "**2015 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.

Any documents which are themselves incorporated by reference in the information incorporated by reference in this Base Prospectus will not form part of 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 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 13 September 2016 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 13 September 2016 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the "**Guarantee**") dated 13 September 2016, executed by the Guarantor in favour of 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 specify otherwise.

***Bearer Instruments***

- 1.02 The Final Terms shall specify whether US Treasury Regulation § 1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") or US 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 US 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 US 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 (*Status of the Instruments and the Guarantee – Status – Unsubordinated Instruments*) 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 (*Negative Pledge*)) 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, accrual of interest on the Instruments shall be suspended 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 (*Status of the Instruments – Status – Unsubordinated Guarantee*) 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 (*Negative Pledge*)) 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 (*Negative Pledge*) 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 may be approved by an Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of Holders of Instruments of the relevant Series, 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 (*Negative Pledge*) 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% 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 (*Negative Pledge*), "**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 (*Interest*) and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.09 (*Interest – Definitions*).

### *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 (*Notices*) 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 and the Holders in accordance with Condition 14 (*Notices*) 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 (*Events of Default*), 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 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 (*Interest - Definitions*)), 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% being rounded up to 0.00001%), (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 10/2014"** means Law 10/2014 of 26 June, on the regulation, supervision and solvency of credit institutions (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*).

**"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 (*Taxation*) 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 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 (*Notices*) (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 (*Redemption and Purchase – Early Redemption for Tax Reasons*), 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 (*Redemption and Purchase – Optional Early Redemption (Put)*).

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

6.03 If this Condition 6.03 (*Redemption and Purchase – Optional Early Redemption (Call)*) 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 (*Redemption and Purchase – Optional Early Redemption (Put)*).

6.04 The appropriate notice referred to in Condition 6.03 (*Redemption and Purchase – Optional Early Redemption (Call)*) is a notice given by the Issuer to the Holders of the Instruments of the relevant Series in accordance with Condition 14 (*Notices*), 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 (*Redemption and Purchase – Optional Early Redemption (Call)*) 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 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 (*Redemption and Purchase – Optional Early Redemption (Put)*) 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 (*Redemption and Purchase – Early Redemption for Tax Reasons*) or 6.03 (*Redemption and Purchase – Optional Early Redemption (Call)*).

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

- 6.07 The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries (as defined in Condition (18 *Substitution; Merger, Consolidation, etc. Only on Certain Terms*)) 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 (*Redemption and Purchase*) will be cancelled forthwith and may not be reissued or resold. Unmatured Instruments, Receipts and Coupons purchased in accordance with this Condition 6 (*Redemption and Purchase*) 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 (*Interest – Interest Amount(s), Calculation Agent and Reference Banks*) and the last paragraph of Condition 5.08 (*Interest – Calculations and Adjustments*) 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 (*Definitions*)).
- 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 (*Substitution; Merger, Consolidation, etc. Only on Certain Terms*)) following the service by 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 (*Substitution; Merger, Consolidation, etc. Only on Certain Terms*)), 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 any Holder of an Instrument of the relevant Series in respect of such Instrument 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 10/2014 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 (*Notices*).
- 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 (*Redemption and Purchase – Early Redemption for Tax Reasons*) 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 (*Taxation*). 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 (*Interest*) 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 (*Payments – Payments – Bearer Instruments*) 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 (*Interest – Accrual of Interest*) or, if appropriate, Condition 5.09 (*Interest – Definitions*).

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 (*Prescription*) 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 (*Payments – Payments – Registered Instruments*) 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 (*Interest – Accrual of Interest*) or, as appropriate, Condition 5.09 (*Interest – Definitions*).
- 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 (*Interest – Accrual of Interest*) or, as appropriate, Condition 5.09 (*Interest – Definitions*).

**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 (*Taxation*), 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 US Dollar Equivalent***

- 9E.01 This Condition 9E (*Payment of US Dollar Equivalent*) 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 US Dollars on the due date at the US 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 US Dollars, it shall to the extent possible make payment to each Holder in the same pro rata amount of Renminbi and US Dollar in accordance with the rules of the clearing system(s) from time to time.
- 9E.03 For the purposes of these Conditions, "**US Dollar Equivalent**" means the Renminbi amount converted into US 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/US Dollar exchange rate for the purchase of US 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/US 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 Paying Agents and to the Holders of the Instruments in accordance with Condition 14 (*Notices*), 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 (*Notices*).

#### **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 Holders of the Instruments in accordance with Condition 14 (*Notices*), 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 (*Prescription*) 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) and (iii) 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 (*Notices*).
- 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. **Meetings of Holders of Instruments and Modification**

- (a) *Meetings of Holders of Instruments:* The Issue and Paying Agency Agreement contains provisions for convening meetings of Holders of Instruments to consider matters relating to the Instruments, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Holders of Instruments holding not less than one-tenth of the aggregate principal amount of the outstanding Instruments. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Instruments or, at any adjourned meeting, two or more persons being or representing Holders of Instruments whatever the principal amount of the Instruments held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Holders of Instruments at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Instruments form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Holders of Instruments or Coupons, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Holders of Instruments who for the time being are entitled to receive notice of a meeting of Holders of Instruments will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders of Instruments.

- (b) *Modification:* The Instruments, these Conditions, the Deed of Guarantee and the Deed of Covenant may be amended without the consent of the Holders of Instruments or Coupons to correct a manifest error. In addition, the parties to the Issue and Paying Agency Agreement may agree to modify any provision thereof, but the Issuer and the Guarantor shall not agree, without the consent of the Holders of Instruments, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Holders of Instruments.

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.

**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 10/2014 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 (*Taxation*) 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 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 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 10/2014 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 (*Status of the Instruments and the Guarantee*) and 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 Telefónica Digital Limited, 20 Air Street, London W1B 5AN, UK, 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 13 September 2016

**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, and together with the Holders, the "**Beneficiaries**").

**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 13 September 2016 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 13 September 2016.
- (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, as amended (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 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 Any reference in this Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.6 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 each Beneficiary 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 Beneficiary, the Guarantor will, forthwith upon demand by such Beneficiary, 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 Beneficiary that it will duly perform and comply with the obligations expressed to be assumed by it in Condition 8 (*Taxation*).

## 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 Beneficiaries 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 Beneficiaries by this Guarantee or by law.
- 4.4 Any settlement or discharge between the Guarantor and any of the Beneficiaries shall be conditional upon no payment to such Beneficiaries 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 Beneficiaries 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 Beneficiary 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 Beneficiary; or
  - (c) to be subrogated to the rights of any Beneficiary 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 (*Status of the Instruments and the Guarantee*).

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 any Beneficiary from the Issue and Paying Agent at its specified office at the expense of such Beneficiary. Any Beneficiary may protect and enforce his rights under this Guarantee (in the courts specified in Clause 13 (*Law and Jurisdiction*) 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 Beneficiaries. This Clause shall not limit any right of any Beneficiary 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 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 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 Guarantee, the Guarantor shall indemnify each Beneficiary 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 Beneficiary 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 cause 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 Beneficiaries from time to time.

9.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Beneficiary, and each Beneficiary 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 an Extraordinary Resolution 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 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 1425

Attention: Eduardo Álvarez Gómez

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 shall be 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 the consequences of its nullity.

13.3 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.

13.4 Notwithstanding Clause 13.2, the Beneficiaries may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Beneficiaries 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 Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom, or, if different, its registered office for the time being or at any address of the Guarantor in 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 Beneficiary 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 Beneficiary 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 Beneficiary 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 [25 to 58], inclusive, of the Base Prospectus dated 13 September 2016 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of 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 13 September 2016. This document constitutes the Final Terms relating to the issue of Instruments described herein for the purposes of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 13 September 2016 [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.

The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU **provided, however, that** all references in this document to the "Prospectus Directive" in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and include any relevant implementing measure in the relevant Member State.

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 13 September 2016 [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. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [•] per cent. *per annum* [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. **Floating Rate Instrument Provisions** [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: [Not Applicable/[•] (*specify for fungible issuances, if applicable*)]

**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: [•]]
- [[•] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended.]
- [[•] is not established in the EEA but the rating it has given to the Instruments is endorsed by [•] which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended.]
- [[•] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended.]
- [[•] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended (the "CRA Regulation") and the rating it has given to the Instruments is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.]

### 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 cent. *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]

7. **DISTRIBUTION**

US 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 issuance of *participaciones preferentes* (preferred shares) 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 2015 are set forth below:

- On 2 February 2016, Telefónica Emisiones, S.A.U. redeemed €1,750 million of its notes, issued on 2 February 2006. The notes were guaranteed by Telefónica, S.A.
- On 3 February 2016, Telefónica Emisiones, S.A.U. redeemed €802 million of its outstanding notes, issued on November 3, 2011 for an amount of €1,000 million. The notes were guaranteed by Telefónica, S.A.
- On 16 February 2016, Telefónica Emisiones, S.A.U. redeemed 1,250 million US dollars of its notes, issued on 16 February 2011. The notes were guaranteed by Telefónica, S.A.
- On 29 March 2016, Telefónica Emisiones, S.A.U. redeemed €200 million of its notes, issued on 26 March 2014. The notes were guaranteed by Telefónica, S.A.
- On 1 April 2016, Telefónica Emisiones, S.A.U. redeemed €1,000 million of its notes, issued on April 1, 2009, and €500 million of its notes, issued on 3 June 2009. The notes were guaranteed by Telefónica, S.A.
- On 13 April 2016, Telefónica Emisiones S.A.U. issued notes in an aggregate notional amount of €2,750 million under its EMTN Programme filed with the FCA in London on 5 June 2015. This issuance was split into two series. One series, amounting to €1,400 million and issued at par pays an annual coupon of 0.75% with a maturity date of 13 April 2022, the other series, amounting to €1,350 million issued at par pays an annual coupon of 1.46% with a maturity date of 13 April 2026. Both series of notes are guaranteed by Telefónica, S.A.
- On 20 June 2016, Telefónica Emisiones, S.A.U. redeemed 1,250 million US dollars of its notes, issued on 20 June 2006. The notes were 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 José Álvarez Gómez .....	Director	Head of Financing Director at Telefónica, S.A. Board Member Fonditel Pensiones E.G.F.P. S.A. Joint and several Director of Telefónica Participaciones, S.A.U. Director of Telefónica Europe, B.V.
Francisco Javier Ariza Garrote.....	Director	Telefónica Participaciones, S.A.U. (Joint and Several Director) Telefónica Centroamérica Inversiones, S.A.

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 and its telephone number is +34 91 482 34 33. The Telefónica Group is:

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

Telefónica has been assigned long term credit ratings of BBB (stable outlook), Baa2 (negative outlook), BBB (stable 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 occurred in 2015:

- On 24 March 2015, Telefónica signed an agreement with Hutchison for the acquisition by the latter of Telefónica's operations in the UK (O2 UK) for a price (firm value) of £10,250 million in cash (approximately €14,000 million at the exchange rate as of the date of the agreement), composed of (i) an initial amount of £9,250 million (approximately €12,640 million as of the date of the agreement) due to be paid at closing and (ii) an additional deferred payment of £1,000 million (approximately €1,360 million as of the date of the agreement) to be paid once the cumulative cash flow of the combined company in the United Kingdom reached an agreed threshold. According to the sale agreement, the price was to be adjusted by the debt, the working capital and other defined circumstances that could ultimately have arisen upon a closing of the O2 UK divestiture.

Completion of the transaction was subject to, among other conditions, the approval of the European Commission and the obtainment of waivers to some contractual provisions affected by the sale, including those related to network alliances, as well as change of control provisions under certain contractual arrangements with third parties. As of the date of this Base Prospectus, the European Commission has prohibited the sale (see further "*Recent Developments*" below).

- On 25 March 2015, pursuant to the authorisation granted by the General Shareholders' Meeting held on 18 May 2011, Telefónica increased its share capital by a nominal amount of €281,213,184, by means of issuing and circulating 281,213,184 new ordinary shares, with a nominal value of one (1) euro each, of the same class and series as those already existing, and duly represented by book entries (the "**New Shares**" and the "**Share Capital Increase**", respectively).

The subscription price of the New Shares was €10.84 per share, 1 euro corresponding to the nominal value and €9.84 to the issue premium, with the Share Capital Increase amounting to €3,048,350,914.56.

The shareholders of Telefónica hold pre-emptive subscription rights over the New Shares.

On 17 April 2015, Telefónica declared that the share capital increase had been fully subscribed and granted the public deed evidencing the Share Capital Increase, which was registered with the Commercial Registry of Madrid on 20 April 2015.

- On 25 March 2015, the Brazilian antitrust authority, *Conselho Administrativo de Defesa Economica* ("**CADE**"), approved both the GVT Acquisition (as defined below) and the demerger of Telco, S.p.A. ("**Telco**") (described below), subject to restrictions similar to those imposed by ANATEL. These restrictions required, among other things, that Telefónica Brasil, S.A. ("**Telefônica Brasil**") commit to provide certain service coverage in certain geographical areas

and cities in Brazil, to maintain certain products, contract requirements and services and to maintain a minimum quality with respect to certain other services. Moreover, as part of this authorisation, Telefónica undertook, among other obligations, to not exercise its voting rights and ultimately to divest its entire stock participation in Telecom Italia, S.p.A. ("**Telecom Italia**"). In addition, Telefónica and Telefônica Brasil have undertaken to comply with certain other restrictions agreed between CADE and the Vivendi, S.A. group.

- On 30 April 2015, after obtaining the relevant regulatory authorisation, the acquisition by Telefónica de Contenidos, S.A.U. of 56% of the capital stock of Distribuidora de Televisión Digital, S.A. ("**DTS**") owned by Promotora de Informaciones, S.A. was completed.
- On 12 May 2015, Telefónica paid a dividend of €0.40 per share in cash corresponding to the second tranche of the 2014 dividend.
- On 28 May 2015 after obtaining the relevant regulatory authorisations, the Extraordinary General Shareholders' Meeting of Telefônica Brasil held on that date approved the acquisition of Global Village Telecom, S.A. and its holding company, GVT Participações, S.A. (collectively "**GVT**") from Vivendi, S.A. (the "**GVT Acquisition**") and the issuance of shares of Telefônica Brasil to Vivendi, S.A. as partial payment of the purchase price of the shares of GVT. Consequently, the closing of such acquisition (for an amount of €4,663 million and the delivery of 12% of the share capital of the new Telefônica Brasil resulting from the integration) was completed.
- On 12 June 2015, Telefónica's Annual General Shareholders' Meeting took place on its second call with the attendance of holders, present or represented, of 58.40% of the share capital. In this meeting, all the resolutions submitted by the Board of Directors for deliberation and approval were approved by the majority of votes.
- On 17 June 2015, having obtained the required anti-trust and telecommunications approvals (including in Brazil and Argentina), Telco carried out its demerger, which became effective on 18 June 2015. As a consequence of the demerger, the Telecom Italia ordinary shares held by Telco – which represented 22.3% of the company's ordinary share capital - were allocated as follows: 14.72% of Telecom Italia's share capital was allocated to Telco TE, S.p.A., a newly created company owned by Telefónica, S.A.; 4.31% to a newly created company owned by the Generali group; and 1.64% to each of the newly created companies owned by Intesa Sanpaolo and Mediobanca respectively.

Moreover, the shareholders' agreement in force between the shareholders in Telco ceased to have effect on 18 June 2015.

- On 24 June 2015, in compliance with the undertakings assumed in the agreement entered into on 19 September 2014 for the GVT Acquisition, Telefónica, through its 100%-subsidiary Telco TE S.p.A., delivered 1,110 million ordinary shares of Telecom Italia (representing 8.2% of its ordinary shares) to Vivendi, S.A. and received from Vivendi, S.A. all the ordinary shares and part of the preferred shares of Telefônica Brasil that Vivendi S.A. had received as consideration for the sale of GVT, which together represented 4.5% of the total share capital of Telefônica Brasil.

Moreover, Telefónica (through its 100% subsidiary Telco TE S.p.A.), entered into a purchase agreement with a financing institution for the sale of 872 million ordinary shares of Telecom Italia, representing 6.5% of the ordinary shares of this company, for an amount of approximately €1,025 million. Consequently, Telefónica completed the divestment of its entire stake in Telecom Italia, in accordance with regulatory and competition commitments.

Furthermore, Telefónica has arranged several hedging instruments which will allow Telefónica to repurchase the shares of Telecom Italia that are necessary to meet its exchange obligations under the mandatory exchangeable bonds for shares of Telecom Italia, issued by Telefónica, S.A. in July 2014.

- On 10 July 2015, DTS reached an agreement, for an amount of €600 million, with the Spanish Professional Soccer League ("**LFP**") for the audiovisual content rights of pay per view soccer events in the domestic market, for the 2015/2016 season.

- On 27 July 2015, Telefónica announced that, pursuant to the resolution adopted by the Annual General Shareholders' Meeting of Telefónica held on 12 June 2015 which approved a share capital reduction through the cancellation of own shares, and following the execution agreement adopted by the Board of Directors of Telefónica, the public deed of this share capital reduction was registered in the Madrid Mercantile Registry (*Registro Mercantil*).

As a result, 74,076,263 shares of Telefónica were cancelled, reducing the company's share capital by the same amount. Telefónica's share capital after the reduction, at such date, stood at €4,864,341,251 made up of an equal number of ordinary shares, all of a single series and with a nominal value of one (1) euro per share.

- On 29 July 2015, Telefónica entered into an agreement with Vivendi, S.A. pursuant to which Telefónica committed to deliver 46.0 million of its treasury shares, representing 0.95% of its share capital, to Vivendi, S.A. in exchange for 58.4 million preferred shares of Telefónica Brasil (which had been received by Vivendi, S.A. as partial consideration for GVT in the GVT Acquisition), representing 3.5% of the share capital of Telefónica Brasil, from Vivendi, S.A.

The execution of this agreement was approved by the CADE.

- On 4 August 2015, in relation to the long-term incentive plan consisting in the granting of shares of Telefónica – known as the Performance & Investment Plan ("**PIP**") -, the Company announced the number of shares to be delivered under PIP's Second Phase (2012-2015) to each of the beneficiaries of PIP in their positions as Executive Directors or Executives of Telefónica, and which amounts to 77% of the shares they were assigned originally.
- On 30 September 2015, the Executive Commission of Telefónica's Board of Directors agreed that the corporate resolutions required to carry out the free-of-charge capital increase related to the scrip dividend shareholder compensation scheme ("**Telefónica's Flexible Dividend**") approved by the Annual General Shareholder's Meeting held on 12 June 2015, should be adopted at the Executive Commission meeting scheduled for 13 November 2015. On 13 November 2014, the Executive Commission agreed the implementation of the aforementioned capital increase.
- On 28 October 2015, following a report of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors of Telefónica approved, with regard to the second cycle (2015-2018) of the long-term incentive plan (which consists in the granting of shares of Telefónica to Telefónica Group Executives (including Executive Directors of Telefónica)) as approved by the Annual General Shareholders' Meeting held on 30 May 2014, the amount of theoretical shares to be assigned to the other Executives, and the maximum possible number of shares to be received by them, in the event of fulfilment of the co-investment requirement set forth in the plan, and of the maximum achievement of the Total Shareholder Return established in such plan.
- On 11 December 2015, Telefónica announced that, on 2 December 2015, the free-of-charge allotment rights trading period for the free-of-charge capital increase related to Telefónica's Flexible Dividend had ended. The holders of 20.01% of the free-of-charge allotment rights accepted the purchase commitment assumed by Telefónica. The gross amount paid by Telefónica for these rights amounted to €335,775,673.59. The Company waived the rights thus acquired, which were amortised.

The holders of 79.99% of the free-of-charge allotment rights were entitled, therefore, to receive new shares of Telefónica. Nevertheless, Telefónica waived the free-of-charge allotment rights that corresponded to its treasury shares at the record date (17 November 2015). Therefore, the final number of ordinary shares with a nominal value of one (1) euro issued in the capital increase was 110,857,946 (2.3% of Telefónica's share capital as of that date), totaling €110,857,946. As a result, the share capital of Telefónica after the capital increase, as registered on 11 December 2015 with the Commercial Registry of Madrid, was €4,975,199,197 (4,975,199,197 shares).

The new shares were admitted to listing on the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 15 December 2015 and the ordinary trading of the new shares in Spain began on 16

December 2015. Applications were also made to the stock exchanges of London, Buenos Aires, New York and Lima.

## Recent Developments

The following significant events have occurred since 31 December 2015:

- On 12 January 2016, DTS and Mediaproducción, S.L.U. reached an agreement for the broadcasting of the thematic pay TV channel called "BeIN Sports LaLiga" with contents of the Spanish National League Championship First and Second Division and the Copa del S.M. el Rey, corresponding to the three seasons 2016/17, 2017/18 and 2018/19.

The total value of the agreements relating to those channels amounted to €2,400 million.

Moreover, on 2 December 2015, DTS was awarded Package number 5 for the pay television broadcast of a live match of the First Division and a live match of the Second Division, on an exclusive basis (first selection), following the tender by the National Football League and publicly announced on 13 November 2015 for the three seasons 2016/17, 2017/18 and 2018/19.

- On 28 January 2016, Telefónica de España signed the 1st Collective Agreement of Related Companies, which was wholly backed by the largest trade unions. Telefónica Móviles España and Telefónica Soluciones were also parties to this agreement. The agreement contemplates, among other elements, an "Individual Employment Suspension Plan" for their respective employees, the implementation of which is entirely voluntary in the period from 2016-2017. All employees who fulfil the following criteria are eligible to participate in the Plan, namely: (i) employees must have been employed as of 1 January 2015, (ii) as of the date of the agreement, such employees must have worked for the Group 15 years or more, and (iii) as of 31 December 2017, such employees must be at least 53 years old. In relation to the aforementioned Plan:

- Telefónica has opened the registration period for employees to sign up to the Plan.
- The value of the expected expenses resulting from the Plan is estimated to be approximately €2,896 million.

- On 11 February 2016, Telefónica announced the creation of Telxius Telecom, S.A., a company which brings together certain infrastructure assets of the Group, which is intended to enable the management of the Telefónica Group's infrastructure on a global scale with a more specialised and focused approach, with the aim of increasing the services provided to other operators, improving the return on capital invested and allowing Telxius Telecom, S.A. to participate more actively in the growth opportunities that exist in the industry, including the possibility of incorporating third party assets.

- On 2 March 2016, the Company announced the decision to carry out an issue of cash-settled equity-linked bonds (the "**Bonds**") for placement among qualified investors in the international market. The Bonds were issued by Telefónica Participaciones, S.A.U., and guaranteed by Telefónica.

Concurrently with the issue of the Bonds, Telefónica purchased cash-settled call options on Telefónica's shares from one or several financial institutions in order to hedge Telefónica Participaciones, S.A.U. and Telefónica's exposure to any payments to be made under the Cash-Settlement Option.

The summary terms of the Bonds are as follows: (i) the final amount of the issue was €600 million, (ii) the issue price of the Bonds was 101.25% of their nominal value, (iii) the Bonds accrue interest at a rate of 0% per annum, and (iv) the Bonds include a cash-settled conversion option (the "**Cash-Settlement Option**"), which the holders may exercise from 9 November 2020 to the 33rd scheduled trading date before the final maturity date, or earlier in certain circumstances.

- On 16 March 2016, further to Relevant Events notices published on 2 March 2016 in relation to the issue by Telefónica of equity-linked bonds via its wholly-owned subsidiary Telefónica

Participaciones, S.A.U., the Company announced that the reference price of the Telefónica shares for the purpose of the Cash-Settlement Option (defined as Conversion Price in the terms of the Bonds) has been set at €11.9215.

- On 6 April 2016, Telefónica, S.A., through its wholly-owned subsidiary Telefónica Emisiones, S.A.U., under its Guaranteed Programme for the Issuance of Debt Instruments ("**EMTN Programme**") filed with the FCA in London on 5 June 2015, launched an issuance of Notes guaranteed by Telefónica, S.A. in the Euro market in an aggregate principal amount of €2,750 million.
- On 8 April 2016, the Board of Directors of Telefónica, S.A. resolved to adopt the following resolutions:
  - To propose to the next General Shareholders Meeting, the appointment of PricewaterhouseCoopers Auditores S.L. as statutory auditor for the Annual Accounts of Telefónica, S.A. and its Consolidated Group of Companies for the years 2017, 2018 and 2019.
  - To appoint Mr. José María Álvarez-Pallete López as Chairman of the Board of Directors and of the Executive Commission, replacing Mr. César Alierta Izuel.
  - To take formal note and record the voluntary resignation presented to their respective positions as members of the Board of Directors of Telefónica, S.A. by Mr. Carlos Colomer Casellas, Mr. Alfonso Ferrari Herrero, Mr. José Fernando de Almansa Moreno-Barreda and Mr. Santiago Fernández Valbuena.
  - Based on the proposal of the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. Sabina Fluxà Thienemann, Mr. José Javier Echenique Landiribar, Mr. Peter Löscher and Mr. Juan Ignacio Cirac as Independent Directors of Telefónica, S.A.. The ratification of such resolutions will be proposed to the next General Shareholders Meeting.
  - To appoint as Coordinating Independent Director, Mr. Francisco Javier de Paz Mancho.
  - To appoint: (i) the Independent Director Mr. José Javier Echenique Landiribar as a member of the Executive Commission; (ii) the Independent Director Mr. José Javier Echenique Landiribar as Chairman of the Audit and Control Committee; (iii) the Independent Director Mr. Francisco Javier de Paz Mancho as a member and Chairman of the Nominating, Compensation and Corporate Governance Committee.

In addition, the Board of Directors agreed to call the Annual General Shareholders' Meeting which was held in Madrid, at the Recinto Ferial de la Casa de Campo, Pabellón de Cristal, Avenida de Portugal, sin número, at 1:00 p.m. on the second call on 12 May 2016.

- On 27 April 2016, the Board of Directors of Telefónica, S.A. resolved to adopt the following resolutions:
  - To appoint Ms. Sabina Fluxà Thienemann (Independent Director) as a member of the Nomination, Compensation and Corporate Governance Committee, and Mr. Javier de Paz Mancho (Independent Director) as a member of the Audit and Control Committee.
  - For Mr. Javier de Paz Mancho to cease as member of Service Quality and Customer Service Committee.
  - To reorganise the current Regulation and Institutional Affairs Committees so as to become a single Committee, under the name "Regulation of Institutional Affairs Committee".
  - To reorganise the current Strategy and Innovation Committees so as to become a single Committee, under the name "Strategy and Innovation Committee", and to appoint Mr.

Juan Ignacio Cirac Sasturain (Independent Director) and Mr. Peter Löscher (Independent Director) as members of such Committee.

- On 11 May 2016, Telefónica S.A. announced the decision of the European Commission to prohibit the potential acquisition by Hutchison Whampoa Group of the Telefónica subsidiary in the UK (O2 UK) under EU Merger Regulation.
- On 12 May 2016, further to Relevant Events notices published on 8 April 2016, Telefónica S.A. announced the holding of the Annual General Shareholders' Meeting of Telefónica S.A. at second call with the attendance, present or represented, of shareholders holding shares representing 56.13 % of the share capital of the Company, which approved by a majority of votes all the resolutions submitted by the Board of Directors for deliberation and vote by the General Shareholders' Meeting.

The meeting approved, among others, the following resolutions: the appointment of PricewaterhouseCoopers Auditores, S.L. as statutory auditor for the Annual Accounts of Telefónica, S.A. and its Consolidated Group of Companies for the years 2017, 2018 and 2019; the re-election as Director of Mr. Isidro Fainé Casas, Mr. Julio Linares López, Mr. Peter Erskine and Mr. Antonio Massanell Lavilla; and the ratification of the interim appointment as Director of each of Mr. Wang Xiaochu, Ms. Sabina Fluxà Thienemann, Mr. José Javier Echenique Landiribar, Mr. Peter Löscher and Mr. Juan Ignacio Cirac Sasturain.

Furthermore, the Company announced that, according to the shareholder remuneration policy, a dividend distribution was agreed, charged to Unrestricted Reserves, of a fixed gross amount of 0.40 Euro for each Company share issued, in circulation and carrying entitlement to such distribution. The payment of this dividend was executed on 19 May 2016.

- On 29 June 2016, following the European Commission's decision to prohibit the sale of O2 UK to the Hutchison Whampoa Group, the Board of Directors agreed that Telefónica will continue to explore different strategic alternatives for O2 UK, to be implemented when market conditions are deemed appropriate. Given that the execution of a transaction for sale is now less certain, Telefónica's operations in the United Kingdom have ceased to be presented as discontinued operations and its assets and liabilities are no longer classified as held for sale. Thus, items are presented line by line in the condensed consolidated interim financial statement and comparative figures have been presented accordingly. The impacts of this classification change are described in note 14 of the condensed consolidated interim financial statements.
- On 10 July 2016, Telefónica Internacional, S.A.U. (a 100% subsidiary of Telefónica, S.A.) proceeded with the sale of 361,794,559 shares of China Unicom (Hong Kong) Limited ("**China Unicom HK**"), representing 1.51% of the share capital of the company, by a block trade process, at a price of 7.80 Hong Kong dollars per share, for a total amount of 2,822 million Hong Kong dollars, approximately €322 million. Telefónica maintains a stake of close to 1% in China Unicom HK.
- On 5 September 2016, Telefónica, S.A. announced its intention to proceed with an offering (the "**Offering**") of shares of its telecommunications infrastructure subsidiary Telxius Telecom, S.A.U. ("**Telxius**"), addressed to qualified investors. The Offering is expected to take place during the second half of 2016, following receipt of the approval by the Comisión Nacional del Mercado de Valores of the Offering prospectus. Telxius intends to apply for the listing of its shares on the Barcelona, Bilbao, Madrid and Valencia stock exchanges, as well as their inclusion in the Spanish electronic trading system (Continuous Market). The free float of Telxius will be at least of 25%, the minimum legally required for the listing, and, at the same time, will enable Telefónica, S.A. to maintain a majority stake in Telxius immediately after the Offering.
- On 5 September 2016, Telefónica, S.A. announced that it is considering various strategic options with respect to Telefónica's United Kingdom subsidiary (O2 UK), (all of which would involve Telefónica maintaining a majority shareholding), including, among others, a potential Initial Public Offering. Preparatory work in connection with such strategic options has been initiated.
- On 8 September 2016 an issuance of undated deeply subordinated guaranteed securities fixed rate securities of Telefónica Europe B.V., with the subordinated guarantee of Telefónica was



priced for an aggregate nominal amount of 1,000 million euros, subject to a call option exercisable by the issuer from the fifth year and a half from the issuance date.

## Business Overview

### Highlights

Telefónica's total accesses totalled 347.5 million as of 30 June 2016. Group accesses decreased by 2.0% affected, in part, by prepaid disconnections in Telefónica Brazil (which resulted in the disconnection of 11.5 million accesses during 2015). In 2016, commercial activity increased based on high value customers, resulting in a sustained growth of the contract mobile segment (smartphones and LTE), fiber and Pay TV. Accesses in Telefónica Hispanoamérica (38.8% of the Group's total as of 30 June 2016) increased by 1.6% year-on-year and accesses in Telefónica United Kingdom (7.3% of the Group's total as of 30 June 2016) increased by 1.5% year-on-year and accesses in Telefónica Germany (14.0% of the Group's total as of 30 June 2016) increased by 1.2% year-on-year.

The below table shows the evolution of Group accesses in the first half of 2016 compared to the first half of 2015:

ACCESSES	June		(%)
	2015	2016	YoY
	<i>(thousands)</i>		
Fixed telephony accesses(1).....	40,400.0	39,262.1	(2.8%)
Internet and data accesses .....	21,249.6	21,641.4	1.8%
Broadband.....	20,775.2	21,195.9	2.0%
Fiber & VDSL .....	6,386.4	8,362.0	30.9%
Mobile accesses .....	278,414.0	272,596.8	(2.1%)
Prepay .....	177,429.1	165,619.6	(6.7%)
Contract .....	100,984.8	106,977.2	5.9%
M2M.....	10,681.6	12,988.2	21.6%
PayTV.....	8,030.3	8,422.0	4.9%
<b>Final Clients Accesses</b> .....	<b>348,093.8</b>	<b>341,922.3</b>	<b>(1.8%)</b>
<b>Wholesale Accesses</b> .....	<b>6,401.0</b>	<b>5,591.7</b>	<b>(12.6%)</b>
<b>Total Accesses</b> .....	<b>354,494.8</b>	<b>347,514.0</b>	<b>(2.0%)</b>

#### Notes:

- Accesses include Telefónica United Kingdom accesses since 2015 as the United Kingdom group has been classified as a continuing operation.

(1) Includes "fixed wireless" and Voice over IP accesses.

The Group's strategy is based on capturing growth in its markets, especially on attracting high-value customers.

**Mobile accesses** totalled 272.6 million as of 30 June 2016, down 2.1% compared to 30 June 2015, affected mainly by the decrease in prepay accesses due to the disconnection of prepay accesses in Brazil (11.5 million accesses in 2015). Contract accesses, however, were up 5.9% year-on-year, continuing to increase their weight over total mobile accesses up to 39.2% (+3.0p.p. year-on-year).

**Smartphone accesses** maintained a strong growth rate (up 18.1% year-on-year), totalling 130.1 million accesses as of 30 June 2016 and reaching a penetration rate over total accesses of 51.1% (+9.0p.p. year-on-year), reflecting the Company's strategic focus on the growth of its data services.

**Fixed broadband accesses** stood at 21.2 million at 30 June 2016, up 2.0% year-on-year. Fiber accesses stood at 6.8 million at 30 June 2016.

**TV accesses** totalled 8.4 million as of 30 June 2016, up 4.9% year-on-year.

## 2016/2015 SEGMENT RESULTS

### TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain over the first half of 2016 compared to the first half of 2015:

	June		%
	2015	2016	YoY
<b>ACCESSES</b>	<i>(thousands)</i>		
Fixed telephony accesses <sup>(1)</sup> .....	10,126.6	9,854.2	(2.7%)
Internet and data accesses.....	5,905.1	6,061.6	2.7%
Broadband .....	5,861.0	6,030.2	2.9%
Fiber .....	1,720.7	2,675.7	55.5%
Mobile accesses.....	17,330.7	17,094.4	(1.4%)
Prepay.....	2,989.1	2,579.7	(13.7%)
Contract.....	14,341.6	14,514.7	1.2%
M2M .....	1,726.5	1,890.5	9.5%
Pay TV .....	3,595.7	3,755.0	4.4%
<b>Final Clients Accesses</b> .....	<b>36,958.2</b>	<b>36,765.2</b>	<b>(0.5%)</b>
<b>Wholesale Accesses</b> .....	<b>5,286.7</b>	<b>4,693.3</b>	<b>(11.2%)</b>
<b>Total Accesses</b> .....	<b>42,244.9</b>	<b>41,458.6</b>	<b>(1.9%)</b>

#### Notes

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

During 2016 the commercial activity of Telefónica continues to leverage on its differentiated assets which, in the second half of 2015, were strengthened by the convergent offer "Movistar Fusión+" launched in July 2015. During the first half of 2016 the tariffs of the consumer segment, fundamentally broadband, postpaid mobile and "Fusion" have been revised, maintaining the positive trend aligned with the new cycle of growth.

**Churn** evolution has been positive during the first half of 2016, especially taking into account the elimination of "Fusión" long-term contracts on 1 August 2015.

In the first half of 2016, the **retail broadband accesses** increased their growth up to 2.9%, with positive net adds of 68 thousand in the first half of 2016, due to churn improvement in this period and online non convergent broadband promotions. The fiber net adds grew by 12.1%, mobile contract net adds grew by a further 0.2 million customers year-on-year. There has also been a positive evolution of the second mobile line included in "Fusion+ Contigo" since its launch on 1 June 2016. Fixed accesses decreased its net loss by 52.9% year-on-year.

Telefónica Spain had 41.5 million **accesses** as of 30 June 2016, down 1.9% compared to 30 June 2015, explained by the decrease in mobile accesses and fixed telephony accesses with retail accesses down 0.5% year-on-year.

**Consumer "Movistar Fusión"**, with a customer base of 4.3 million with 2.1 million additional wireless lines to the base offer as of 30 June 2016, maintained a solid year-on-year growth (+10% and +9% respectively year-on-year) and contributed 82% of the fixed retail broadband customer base (+5p.p. year-on-year) and 70% of the wireless contract customer base (+6p.p. year-on-year). There was significant growth in the penetration of the high value services of "Movistar Fusión", with 32% of the customer base already using 100 Mb or 300 Mb ultra-fast broadband (+7 p.p. year-on-year) and 67% of the customer base with Pay-TV as of 30 June 2016 (+15p.p. year-on-year).

**Fixed accesses** decreased 3% year-on-year, with a net loss of 151 thousand accesses in the first half of 2016. This decrease was mainly due to a lower fixed access market.

**Retail broadband accesses** totalled 6.0 million and grew 2,9% year-on-year as at 30 June 2016, with net adds of 68 thousand accesses, due to the lower churn (1.4% as of 30 June 2016, -0.05p.p. year-on-year) and on-line non convergent broadband promotions.

**Fiber accesses** reached 2.7 million customers (1.6 times compared to 30 June 2015), representing 44% of total broadband customers (+15p.p. year-on-year) with net adds of 453 thousand accesses in the first half of 2016. Ultra speed fiber accesses, with 100 or 300 Mb (with additional ARPU of 10 euros, including VAT) reached 1.7 million accesses (65% of total fiber accesses). At 30 June 2016 the fiber deployment had reached 15.7 million premises, 3.2 million more than at 30 June 2015, and continues to be the largest in Europe.

Total **mobile accesses** stood at 17.1 million as of 30 June 2016, down 1.4% compared to 30 June 2015 as a result of the decrease in prepay accesses. The contract access base accelerated its growth during the first half of 2016, growing by 1.2% year-on-year. Smartphone penetration as of 30 June 2016 stood at 68.3% of the mobile voice base (+4.3p.p. compared to 30 June 2015) and significantly boosted data traffic growth to 49% year-on-year due to the higher number of customers with the renewed portfolio containing superior data packages.

LTE network rollout continued to progress well and coverage reached (based on Telefónica's estimates) approximately 86% of the population at 30 June 2016, up 24 percentage points compared to 30 June 2015, due to the deployment of the 800 MHz. As a result, the LTE customer base reached 5.0 million customers as of 30 June 2016, doubling the customer base at 30 June 2015, while the penetration reached 33% (+17p.p. year-on-year).

**Pay-TV accesses** reached 3.7 million at 30 June 2016, up by 4.4% year-on-year, including 750 thousand satellite TV accesses from DTS.

**Fusion ARPU** was 79 euros in the first six months of 2016, up 12.9% year-on-year in reported terms, boosted by the demand of higher value packages and the tariff revisions in May 2015 and February 2016

	June		%
	2015	2016	YoY
<b>TELEFÓNICA SPAIN</b>			
Voice Traffic (millions of minutes) .....	84,018	78,015	(7.1%)
ARPU Fusión (EUR) .....	70.0	79.0	12.9%
% non-SMS over data revenues .....	95.5%	95.3%	(0.2 p.p.)

## TELEFÓNICA UNITED KINGDOM

The below table shows the evolution of accesses in Telefónica United Kingdom of the first half of 2016 compared to the first half of 2015:

	June		%
	2015	2016	YoY
<b>ACCESSES</b>	<i>(thousands)</i>		
Fixed telephony accesses <sup>(1)</sup> .....	235.4	257.7	9.5%
Internet and data accesses .....	20.4	22.3	9.8%
Broadband .....	20.4	22.3	9.8%
Mobile accesses .....	24,816.5	25,172.5	1.4%
Prepay <sup>(2)</sup> .....	10,793.1	9,745.8	(9.7%)
Contract .....	14,023.4	15,426.7	10.0%
M2M <sup>(3)</sup> .....	2,234.2	3,176.8	42.2%
<b>Final Clients Accesses</b> .....	<b>25,072.2</b>	<b>25,452.6</b>	<b>1.5%</b>
<b>Total Accesses</b> .....	<b>25,072.2</b>	<b>25,452.6</b>	<b>1.5%</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

<sup>(2)</sup> Includes the disconnection of 720 thousand inactive prepay customers in the first half of 2016.

<sup>(3)</sup> Includes 720 thousand M2M accesses on the Jasper platform since the first half of 2016.

During the first six months of 2016 Telefónica United Kingdom maintained market momentum which has been underpinned by the strength of the O2 brand, successful commercial propositions and customer loyalty, factors that allowed Telefónica to deliver continued strong customer growth in a competitive market.

**Total accesses** increased by 1.5% year-on-year to 25.4 million as of 30 June 2016, mainly boosted by a 1.4% growth in the mobile customer base (25.2 million).

Contract **mobile accesses** increased by 10,0% year-on-year to 15.4 million by the end of June 2016 increasing their proportion over the total mobile accesses to 61.3% driven by the inclusion of 720 thousand M2M accesses from the Global platform that have not previously been accounted. Net mobile adds in the first half of 2016 reached 154 thousand accesses driven by the solid contribution of the postpay segment. Smartphone penetration (as a percentage of mobile internet data tariff over total mobile customers) rose 12.5 percentage points year-on-year to 62.4%, triggered by the continued expansion of LTE customers base (64% year-on-year growth and 9.5 million by 30 June 2016). LTE penetration now represents 43% of the mobile base.

Prepay accesses decreased by 9.7% year-on-year to 9.7 million customers by the end of June 2016 including the disconnection of 720 thousand inactive accesses during the first six months of 2016.

Mobile **ARPU** fell by 7.7% year-on-year in reported terms mainly due to the depreciation of the pound sterling. In organic terms, ARPU decreased by 1,8% negatively affected by the "Refresh" model despite the fact that the Data ARPU grew by 0.7% year-on-year, driven by the increase in the smartphone penetration. Revenues from the "Refresh" model are not recognised as mobile service revenues, and are instead recognised under the item line revenues from hardware sales, for which reason smartphone sales are not reflected in ARPU.

	June		% Organic
	2015	2016	YoY
<b>TELEFÓNICA UNITED KINGDOM</b>			
Voice Traffic (millions of minutes) .....	45,132	46,389	2.8%
<b>ARPU (EUR)</b> .....	<b>19.2</b>	<b>17.7</b>	<b>(1.8%)</b>
Prepay .....	7.5	7.7	9.9%
Contract (1) .....	33.3	29.9	(4.8%)
<b>Data ARPU (EUR)</b> .....	<b>11.2</b>	<b>10.6</b>	<b>0.7%</b>
<b>% non-SMS over data revenues</b> .....	<b>58.9%</b>	<b>60.4%</b>	<b>1.5p.p.</b>

Notes:

<sup>(1)</sup> Excludes M2M

## TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany of the first half of 2016 compared to the first half of 2015:

ACCESSES	June 2015	June 2016	% YoY
<b>Thousands of accesses</b>			
Fixed telephony accesses <sup>(1)</sup> .....	2,009.7	2,007.4	(0.1%)
Internet and data accesses .....	2,354.7	2,329.8	(1.1%)
Broadband .....	2,115.2	2,103.9	(0.5%)
VDSL .....	379.8	669.3	76.2%
Mobile accesses .....	42,617.0	43,417.8	1.9%
Prepay .....	23,500.9	23,814.2	1.3%
Contract <sup>(2)</sup> .....	19,116.1	19,603.6	2.6%
M2M .....	506.2	704.3	39.1%
<b>Final Clients Accesses</b> .....	<b>46,981.4</b>	<b>47,754.9</b>	<b>1.6%</b>
<b>Wholesale Accesses</b> .....	<b>1,059.3</b>	<b>850.1</b>	<b>(19.7%)</b>
<b>Total Accesses</b> .....	<b>48,040.7</b>	<b>48,605.0</b>	<b>1.2%</b>

Notes:

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

<sup>(2)</sup> In the fourth quarter of 2015, 400 thousand inactive customers were disconnected.

In the first half of 2016, Telefónica Germany maintained market momentum and continues to grow its customer base in an environment of intense mobile market competition, with aggressive pricing in non-premium products.

The **total access** base grew 1.2% year-on-year and stood at 48.6 million at the end of June 2016, mainly driven by a 1.9% increase in the mobile base (which reached 43.4 million).

The **contract mobile customer base** grew 2.6% year-on-year and reached 19.6 million accesses, increasing the share over the total mobile base up to 45.2%. Net adds reached 520 thousand accesses due to the solid contribution of partners (second brands). Smartphone penetration reached 56.2% of the total mobile access base, up 5.0 percentage points year-on-year driven by the continued growth of LTE customers (+54.0% year-on-year reaching 9.4 million at the end of June 2016). LTE penetration reached 22.0% of the total mobile access base.

The **prepay access** base increased 1.3% year-on-year to 23.8 million. Prepay posted a net loss of 165 thousand customers in the first half of 2016, mainly due to disconnections in the first few months of the year.

The **retail broadband accesses** grew by 6,000 accesses in the first half of the year, changing the trend of previous years. VDSL was once again the main growth engine of fixed performance with 152 thousand net additions (+23.6% year-on-year) in the first half of 2016.

**Mobile ARPU** was 10.3 euros (-3.5% year-on-year), while contract ARPU stood at 16.1 euros (-4.2% year-on-year), as a result of the higher share of second brands in the customer base. Data ARPU was 5.7 euros (+3.7% year-on-year), as a result of the steady increase of non-SMS data revenues.

	June		%
	2015	2016	YoY
<b>TELEFÓNICA GERMANY</b>			
Voice Traffic (millions of minutes) .....	60,103	58,251	(3.1%)
<b>ARPU (EUR)</b> .....	<b>10.7</b>	<b>10.3</b>	<b>(3.5%)</b>
Prepay .....	5.8	5.7	(0.8%)
Contract <sup>(1)</sup> .....	17.2	16.6	(3.5%)
<b>Data ARPU (EUR)</b> .....	<b>5.5</b>	<b>5.7</b>	<b>3.5%</b>
% non-SMS over data revenues .....	71.0%	76.1%	5.1p.p.

<sup>(1)</sup> Excludes M2M.

## TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil for the first half of 2016 compared to the first half of 2015:

ACCESSES	June		%
	2015	2016	YoY
		(thousands)	
Fixed telephony accesses <sup>(1)</sup> .....	14,869.6	14,742.1	(0.9%)
Internet and data accesses .....	7,224.0	7,321.8	1.4%
Broadband.....	7,092.4	7,263.5	2.4%
Fiber.....	3,640.8	3,983.6	9.4%
Mobile accesses .....	82,648.6	73,296.1	(11.3%)
Prepay .....	53,068.7	41,669.4	(21.5%)
Contract .....	29,580.0	31,626.7	6.9%
M2M.....	3,935.2	4,590.3	16.6%
Pay TV.....	1,785.9	1,761.4	(1.4%)
Final Clients Accesses .....	106,528.1	97,121.4	(8.8%)
Wholesale Accesses .....	23.6	20.7	(12.1%)
<b>Total Accesses</b> .....	<b>106,551.7</b>	<b>97,142.1</b>	<b>(8.8%)</b>

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

Results for the first half of 2016 were adversely affected by the interconnection tariff reduction implemented on 24 February 2016 in the mobile business (-33.8%), fixed-mobile tariff (-20.6%), fixed-local (-65.9%) and fixed interurban (-21.3%).

Telefónica Brazil reached 97.1 million **accesses** at 30 June 2016, down 8.8% compared to 30 June 2015 due mainly to a more restrictive calculation of prepaid customer base from 2015, resulting in a decrease of 11.3% year-on-year.

In the **mobile business**, the strategic focus remained on gaining and retaining high value customers, reaching a market share of 42.3% in the contract segment as of 31 May 2016 (latest data available; Source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 28.7% as of 31 May 2016 (latest data available; Source: ANATEL). The commercial offer in the contract segment included a higher data volume, more minutes of voice traffic and innovative products such as "Vivo Bis" (pursuant to which the data not consumed in a month is automatically added to data available for the following month). The contract growth was partially offset by the disconnection of 11.5 million prepaid accesses.

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 16.1 million premises passed with FTTx at 30 June 2016 and 4.0 million homes connected, which together with the fixed-mobile substitution resulted in a decrease of 3.5 % in fixed telephony accesses. Retail broadband customers totalled 7.3 million customers in the first half of 2016, up 2.4% year-on-year. Of the 7.3 million customers at the end of June 2016, 55.0% were connected with FTTC. Pay TV customers stood at 1.8 million as of 30 June 2016, decreasing 1.4% year-on-year due to a higher penetration of high value and IPTV customers. IPTV accesses increased their relevance, representing 11% of total Pay-TV accesses.

The **mobile ARPU** decreased by 7.9% year-on-year in reported terms due mainly to the depreciation of the Brazilian real. In organic terms, mobile ARPU increased by 16.1% year-on-year as a consequence of the higher data ARPU which offset the negative impact of the reduction in the mobile termination rates. The high quality of the customer base is reflected in an increase in the outbound ARPU and the 39% growth in data ARPU.

	June		% Local Currency	
	2015	2016	YoY	YoY
<b>TELEFÓNICA BRAZIL</b>				
Voice Traffic (millions of minutes) .....	189,485	186,804	(1.4%)	(1.4%)
<b>ARPU (EUR)</b> .....	<b>6.9</b>	<b>6.4</b>	<b>(7.1%)</b>	<b>16.1%</b>
Prepaid .....	3.5	3.3	(5.7%)	18.0%
Contract <sup>(1)</sup> .....	14.7	12.0	(18.2%)	2.2%
<b>Data ARPU (EUR)</b> .....	<b>3.0</b>	<b>3.3</b>	<b>11.4%</b>	<b>39.0%</b>
% non-SMS over data revenues .....	82.1%	86.5%	4.4p.p.	4.2p.p.

<sup>(1)</sup> Excludes M2M.

## TELEFÓNICA HISPANOAMÉRICA

The below table shows the evolution of accesses in Telefónica Hispanoamérica of the first half for 2016 compared to the first half of 2015:

	June		%	
	2015	2016	YoY	
<b>ACCESSES</b>				
		(thousands)		
Fixed telephony accesses <sup>(1)</sup> .....	13,158.7	12,400.6	(5.8%)	
Internet and data accesses .....	5,573.4	5,772.1	3.6%	
Broadband .....	5,514.1	5,642.2	2.3%	
Mobile accesses .....	110,866.4	113,344.0	2.2%	
Prepaid .....	87,077.4	87,810.5	0.8%	
Contract .....	23,789.1	25,533.6	7.3%	
M2M .....	2,144.8	2,354.3	9.8%	
Pay TV .....	2,648.6	2,905.6	9.7%	
<b>Final Clients Accesses</b> .....	<b>132,247.2</b>	<b>134,422.4</b>	<b>1.6%</b>	
<b>Wholesale Accesses</b> .....	<b>31.4</b>	<b>27.5</b>	<b>(12.3%)</b>	
<b>Total Accesses T. Hispanoamérica</b> .....	<b>132,278.6</b>	<b>134,449.9</b>	<b>1.6%</b>	

<sup>(1)</sup> Includes "fixed wireless" and Voice over IP accesses.

Total accesses in Telefónica Hispanoamérica reached 134.4 million at 30 June 2016 (+1.6% year-on-year).

**Mobile accesses** totalled 113.3 million and grew by 2.2%, highlighting the increase of the quality of the customer base.

- The contract segment grew by 7.3% year-on-year. Growth was particularly strong in Peru (+11.5% year-on-year), Mexico (+24.4% year-on-year) and Chile (+8.5% year-on-year). Net adds at 30 June 2016 reached 564 thousand accesses, primarily due to Peru (+210 thousand net adds) and Chile (+165 thousand net adds), both benefiting from a successful migration strategy (from prepay to contract) and a higher volume in net adds. Colombia also showed positive net adds (+110 thousand accesses) due to higher commercial activity.
- The prepay accesses grew by 0.8% year-on-year, with net loss of 522 thousand customers. This decrease was driven mainly by Argentina (-583 thousand customers), Chile (-845 thousand customers) and Peru (-785 thousand customers), explained by the competitive environment in the prepay segment, which was not followed by Movistar to avoid damaging the quality of the network (preventing low price offers), and the focus on value customers that allowed the acceleration of the migration processes from prepay to contract. The positive net adds of Mexico (+1.0 million accesses) were not enough to offset the total negative net adds.
- Smartphone base grew (+21.6% year-on-year), totalling 43.1 million accesses in June 2016, with a penetration over mobile accesses of 39.3% (+6.2p.p. year-on-year), mainly related to the growth in all the countries in the region except for Chile. At the same time, the 4G handsets also continued to grow, reaching 11 million accesses as of 30 June 2016.

Traditional **fixed business accesses** stood at 12.4 million at 30 June 2016 (-5.8% year-on-year), with negative net adds of 429 thousand customers, affected by the erosion of traditional fixed business in the region, including Mexico (-19.4% year-on-year), Chile (-6.4% year-on-year), Peru (-4.4% year-on-year), Colombia (-3.3% year-on-year) and Argentina (-2,5% year-on-year).

**Broadband accesses** totalled 5.6 million at 30 June 2016 (+2.3% year-on-year), due mainly to access growth in Peru (+6.1%), Chile (+1.0%) and Colombia (+1.2%). The penetration of fixed broadband accesses over traditional fixed business accesses was 45.5% at 30 June 2016 (+3.6p.p. year-on-year). There was progressive migration towards data plans with higher speeds, with 56.2% of broadband accesses having a speed over 4Mb at 30 June 2016 (+5p.p. year-on-year).

Pay **TV accesses** totalled 2.9 million (+9.7% year-on-year), with net adds of 93 thousand accesses as a result of a higher customer base in all countries in the region that offer the service. Growth was particularly positive in Peru (+14.7%), Colombia (+17.1%) and Chile (+3.5%).

## **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 SMS and MMS, which allow customers to send messages with images, photographs, sound recordings and video recordings. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica also provides mobile broadband connectivity and Internet access.

Through mobile Internet access, customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use Telefónica's other data and software services.

- *Wholesale services:* Telefónica has signed network usage agreements with several MVNOs in different countries.
- *Corporate services:* Telefónica provides business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible online billing.
- *Roaming:* Roaming agreements allow Telefónica customers to use their mobile handsets when they are outside their service territories, including on an international basis.
- *Fixed wireless:* Telefónica provides fixed voice telephony services through mobile networks in Brazil, Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, 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 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 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).

- *Internet of Things ("IoT") Portfolio*: includes IoT horizontal solutions (managed connectivity, managed data and managed devices). In this space, "Smart M2M" is Telefónica's own platform and a key asset. Additionally, Telefónica offers key core end to end solutions in the fields of Smart Mobility, Smart Cities, Smart Retail and Smart Energy, and new businesses like Smart Industry, Smart Health, among others. In these spaces Telefónica offers full end to end solutions: "device + connectivity + application".
- *e-Health services or telecare*: A set of services intended to help to support usual healthcare practice through electronic and communication processes, that are aimed at leading to healthcare sector costs and time optimisation for all agents involved, workers and patients. They include remote chronic patient management, telecare services allowing tele-assistance through connectivity services, emergencies and medical appointments management and Digital Imaging.
- *Financial services and other payment services*: These services allow merchants and financial institutions to make and receive payments.
- *Security services*: A broad set of facilities and services (Managed Security, Cloud and Comms Security, Cybersecurity (threats, vulnerabilities and antifraud platforms)) which aim to protect information stored in different end customers' devices and networks from unauthorised access, use, disclosure, disruption or destruction, and including 11Paths developed services such as Latch, FaasT, Metashield or Tacyt.
- *Cloud computing services*: Telefónica offers a broad set of products and services to large enterprises which are focused on "Managed Cloud Services" and aims to build fully managed infrastructure environments and manage the complex tools and applications that run on top of the IT infrastructure, and small and medium-sized businesses including different SaaS bundles services with communications services that aim to expand customer digital presence and increase the employees' productivity and collaboration.
- *Advertising*: A portfolio of marketing channels that third party brands can use to acquire and engage with customers. Traditional channels such as messaging may be utilised alongside new channels like programmatic display and sponsored connectivity. These are powered by Telefónica's in-house technologies; SMS, bulk SMS, mobile portals- and fuelled by its customer data.
- *Big Data*: Includes the product "Smart Steps" which helps retailers, municipalities and public security bodies to understand the influx of people. Anonymous mobile data network and aggregates are used to calculate the influx of people in an area. Telefónica also offers B2B opt-in services to the financial sector (Risk Management) for improving fraud prevention and credit scoring in Brazil, United Kingdom and Chile. Recently a Smart Steps joint venture has been launched with China Unicom based out of Beijing to sell data insights in China.
- *Future Communications*: Includes "TU Go", Movistar's exclusive application that lets clients have the same number on all their devices and communicate among such devices via Wi-Fi.

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

## 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 Telefónica increased its voting interest in the share capital of China Unicom to 8.06% and China Unicom obtained 0.87% voting interest in Telefónica's 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 initial term of the strategic alliance agreement between Telefónica and China Unicom terminated on 6 September 2012 and it is subject to automatic annual renewals, 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 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 in control of China Unicom.

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

On 10 June 2012, Telefónica S.A., through its 100% subsidiary, Telefónica Internacional, S.A.U., and China United Network Communications Group Company Limited through a 100% owned subsidiary, signed an agreement for the acquisition by the latter company of 1,073,777,121 shares of China Unicom HK, 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.

On 10 November 2014, Telefónica, through its 100% subsidiary, Telefónica Internacional, S.A.U., sold 597,844,100 shares of China Unicom, representing 2.5% of the share capital of the company, by means of a block trade, at a price of HK\$11.14 per share, for a total amount of HK\$6,660 million, approximately €687 million at the exchange rate as at the date of the sale.

Further to the sale, Telefónica continues to maintain its commitment to the strategic alliance with China Unicom.

Recently a Smart Steps joint venture has been launched with China Unicom based in Beijing to sell data insights in China.

On 10 July 2016, Telefónica Internacional, S.A.U. (100% subsidiary of Telefónica, S.A.) proceeded with the sale of 361,794,559 shares of China Unicom HK, representing 1.51% of the share capital of the company via a block trade process, at a price of 7.80 Hong Kong dollars per share, for a total amount of 2,822 million Hong Kong dollars (approximately €322 million). After the reclassification of losses included in other comprehensive income, the sale will have a negative impact in the consolidated profit for the year in the amount of €123 million.

As of the date of this Base Prospectus, Telefónica's shareholding in China Unicom amounts to close to 1% of its capital stock. Furthermore, Mr. César Alierta, chairman of Telefónica, is a member of the Board of Directors of China Unicom while Mr. Wang Xiaochu, chairman of China Unicom, is a member of the Board of Directors of Telefónica.

## **Legal Proceedings**

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

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

Telefónica highlights the following unresolved legal proceedings or those underway in 2015 (see Note 17 to the 2015 Consolidated Financial Statements for details of tax-related cases).

### *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 legal process ended on 25 June 2015, when the German Federal Constitutional Court dismissed the appeal lodged by Quam against the decision to reverse the UMTS licence issued by the regulatory authority and endorsed by the courts in their different instances.

This judgment is not subject to appeal.

### *Appeal against the decision by ANATEL regarding the inclusion of interconnection and network usage revenues in the Fundo de Universalização de Serviços de Telecomunicações*

Vivo Group operators (currently Telefônica de Brasil), together with other cellular operators, appealed ANATEL's decision of 16 December 2005, to include interconnection and network usage revenues and expenses in the Fund for Universal Access to Telecommunications Services ("**FUST**") calculation of the amounts payable into the FUST – a fund which covers 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 favor 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, which was dismissed. ANATEL filed an appeal against this resolution.

At the same time, Telefônica Brasil and Telefónica Empresas, S.A., together with other wireline operators through *Associação Brasileira de Concessionárias de Serviço Telefônico Fixo Comutado* ("**ABRAFIX**") 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, which was dismissed by a decision of 10 May 2016. ANATEL filed an appeal against this decision.

The wireline fixed operators have filed an appeal for clarification that the FUST cannot be collected on income earned by Interconnection and Operating Leased Line Connection. They have also asked the Court to rule on two legal foundations that were not analysed in the judgment: that the FUST has become obsolete, among other reasons, because of the advance of mobile telephony; and what is collected does not apply to the purpose for which it was created, as only a very small percentage of the amount collected by the FUST is used in financing fixed telephony.

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

*Public civil procedure by the São Paulo government against Telefônica Brasil for alleged reiterated malfunctioning in services provided*

This proceeding was filed by the Public Ministry of the State of São Paulo for alleged reiterated malfunctioning in the services provided by Telefônica Brasil, seeking compensation for damages to the customers affected. A general claim was filed by the Public Ministry of the State of São Paulo, for 1 billion Brazilian reais (approximately €225 million), calculated on the company's revenue base over the last five years.

In April 2010, a ruling against the Telefónica Group was issued in the first instance. The full impact of this proceeding will not be known until there is a final ruling, and the total amount of persons affected by and party to the proceeding is known. At that moment, the amount of the indemnity will be established, ranging between 1 billion and 60 million reais (approximately, between €225 and €13 million), depending on the number of parties. On 5 May 2010, Telefônica Brasil filed an appeal before the São Paulo Court of Justice, suspending the effect of the ruling.

On 13 April 2015, the appeal was judged in favour of Telefonica, by unanimous vote, reversing the earlier decision in first instance.

The Public Prosecutor filed an extraordinary petition for review at the High Court of Brasilia, who dismissed the appeal on the basis of the absence of necessary legal requirements for filing. Against this resolution, a new appeal can be filed.

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

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

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

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

On 28 June 2016, the European Union General Court published its Decision on such appeal, in which, although it declared the existence of an infringement of competition law, it annulled Article 2 of the contested Decision, which determined the amount of the fine, and required the Commission to reassess the amount. The General Court determined that the Commission had not disproved the allegations or the evidence provided by Telefónica in its appeal concerning services where there was no potential competition or services that were outside the scope of the relevant provision. Telefónica believes that the sanctions are not consistent with the relevant legislation and therefore on 11 September 2016, Telefónica filed a cassation appeal before the Court of Justice of the European Union.

*Judicial appeals against the decisions by the CADE regarding the acquisition by Telefónica, of stakes in Portugal Telecom and Telco*

On 4 December 2013, the Brazilian Antitrust Regulator, CADE, announced the two following decisions:

Firstly, CADE approved, with the restrictions described further 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. ("**Vivo**").

This transaction had previously been approved by ANATEL and its closing (which did not require CADE's prior approval at the time), occurred immediately after ANATEL's approval was granted on 27 September 2010.

This decision was granted by CADE subject to the following conditions:

- (a) the entry of a new shareholder in Vivo, sharing the control of Vivo with Telefónica 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.

Due to the fulfilment of the conditions set forth in the authorisations granted by ANATEL (on 22 December 2014 and 12 March 2015) and CADE (on 25 March 2015) for the acquisition by Telefónica Brasil of GVT, and for the demerger of Telco, the previously mentioned decision of CADE on 4 December 2013 was overridden due to Telefónica's divestment of its total shareholding in Telecom Italia.

In this regard, Telefónica, S.A. delivered 1,110 million ordinary shares of Telecom Italia (representing 8.2% of its ordinary shares) to Vivendi, S.A. in exchange for 4.5% of the total share capital of Telefónica Brasil and sold, by means of an agreement with a financing institution, 872 million ordinary shares of Telecom Italia, representing 6.5% of the ordinary shares of this company, for approximately €1,025 million.

Telefónica also arranged several hedging instruments to allow Telefónica to repurchase the shares of Telecom Italia that may be required to meet its exchange obligations under the mandatory exchangeable bonds for shares of Telecom Italia issued by Telefónica, S.A. in July 2014.

Telefónica has therefore completed the divestment process of its entire stake in Telecom Italia, in accordance with its regulatory and anti-trust commitments.

Secondly, CADE imposed a fine on Telefónica of 15 million Brazilian reais, for having allegedly breached the spirit and the purpose 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 and payment for non-voting shares of Telco in the capital increase carried out in accordance with the agreement dated 24 September 2013. This decision also requires Telefónica to divest such non-voting shares of Telco. As indicated above, the divestment by Telefónica of its entire stock participation in Telco and consequently in Telecom Italia has been completed.

On 9 July 2014, Telefónica filed a judicial appeal against the abovementioned decision to impose a fine on Telefónica.

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

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

On 5 August 2016 the hearing before the High Court took place in order to decide the appeal against the second decision of the Municipal Court, which had been favourable to Telefónica's position (as was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court and ordered Telefónica to pay CZK 644,280,000 (ca. EUR 23,862,222) to Venten and CZK 227,760,000 (ca. EUR 8,435,555) to Lexburg, in each case plus interest. Now the Decision must be written and delivered to the parties, which is expected to happen in the second half of September 2016. Once delivered, an extraordinary appeal by the Company may be filed against the Second Appellate Decision.

*Claim of consumers association "FACUA" against Telefónica de España In connection with the raising of the price of Movistar Fusión.*

On 5 September 2016, notification was given to Telefónica de España of a claim against it filed by the consumers association "FACUA".

Through such claim, the association exercises an action to protect consumers' and users' collective interests stipulated in articles 11 of the Civil Procedure Act (*Ley de Enjuiciamiento Civil*) and 24.1 of the Consumer and Users Protection Act (*Ley General de Defensa de los Consumidores y Usuarios*) on the basis of alleged disloyalty towards the consumers, arising from the raising of the prices of the product "Movistar Fusión" from 5 May 2015 by an amount of 5 euros per month.

The claim exposes a first declaratory statement, stating that disloyalty is declared due to misleading advertising regarding the price rise, a second head claim of prohibitory injunction, requesting that Telefónica de España be ordered to discontinue the use of such price rise and to prohibit its future application to all customers who became customers of Movistar Fusion prior to 5 May 2015. It contains a third statement, requesting Telefónica de España to be condemned to repay the excess amounts collected as a result of the rise in prices for those customers who have chosen to maintain the service contracted, together with accrued interest on such amount.

The claim has been filed for an undetermined amount, given the impossibility of determining a priori the total amount of the claim. As of the date of this Prospectus, and without prejudice to the ongoing procedures, it should be noted that in the past few months many Courts of First Instance has provided rulings in similar cases, filed by clients on an individual basis, although promoted by FACUA, the majority of which have rejected such claims on the basis of a lack of justification of the intended invariance of the price and the legal raising of the prices agreed by the existing contracts (as of the date of this Prospectus, 21 decisions have rejected those claims).

***Other Contingencies***

Telefónica is currently conducting an internal investigation regarding possible violations of applicable anti-corruption laws. Telefónica has been in contact with governmental authorities about this matter and intends to cooperate with those authorities as the investigation continues. It is not possible at this time to predict the scope or duration of this matter or its likely outcome.

## **Tax Proceedings**

### ***Tax inspections in the tax group in Spain***

With regard to the tax inspection for the years 2001 to 2004, the Supreme Court issued a ruling in 2015, accepting the tax losses incurred by the Group in relation to the transfer of certain interests in TeleSudeste, Telefónica Móviles México and Lycos as tax deductible, rejecting the other contentions, and therefore the contingencies related to this process disappeared. This has resulted in recognition of a tax expense of €49 million in the 2015 financial statements. However, this did not require payment of any additional tax because Telefónica applied unused tax loss carryforwards to offset the effect of these adjustments, at the corresponding tax rate for each period.

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

In July 2015, tax inspections for all taxes for the years 2008 to 2011 were completed, with Telefónica signing off certain corporate income tax assessments and disputing others. This resulted in an expense amounting to €206 million. However, this did not require any tax payment, as the adjustments arising from the inspection were offset by unused tax loss carryforwards, at the corresponding tax rate for each period.

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

As at 31 December 2015, it was not expected that there would be any need to recognise additional liabilities for the outcome of this litigation.

### ***Telefônica Brasil***

The Telefónica Group is involved in a range of tax litigation in Brazil over direct and indirect taxes (including those relating to GVT). This includes a number of appeals relating to ICMS tax (a tax similar to VAT, levied on telecommunications services). There is a dispute with the Brazilian tax authorities over which services should be subject to settlement of this tax. In 2015 the tax authorities embarked upon a new round of inspections in this regard.

To date the most significant issues have focused on the requirement to collect ICMS on penalties charged to customers for non-compliance, Internet advertising services, and complementary or additional services to the basic telecommunications services such as value-added services and modem rental.

All related procedures are being contested in all instances (administrative and court proceedings). The aggregate amount of these assessments, updated to take into account interest, fines and other items, is approximately 11,900 million Brazilian reais (€2,750 million). No provisions have been set aside for these matters, as the risk of them giving rise to liabilities is not probable. Telefônica Brasil has obtained independent expert reports supporting its position, i.e. that the aforesaid services are not subject to ICMS.

### ***Telefónica del Perú***

With regard to tax matters in Peru, litigation continues over corporate income tax for 2000 and 2001, payments on account in respect of the year 2000, recoverable balances for 1998 and 1999, and the interest and penalties that should apply to these.

In August 2015, the court of second instance handed down a ruling partially upholding the position of Telefónica del Perú, ruling in its favor on three of the five objections filed by the tax authorities and appealed against to the courts, relating, inter alia, to corporate income tax for 2000-2001. This dispute accounts for more than 75% of the total amount under litigation, with the objections relating to insolvency

provisions, interest on borrowing and leases of space for public telephones. Both the tax authorities and the company have filed appeals against the decision in higher courts.

At the date of this Base Prospectus, the settlements carried out by Superintendencia Nacional de Aduanas y de Administración Tributaria for 2000 and 2001 are in the final instance of the legal process (under review by the Supreme Court).

In general, the discussions over this litigation are taking place before the courts (not only through the current contentious-administrative appeals but also through constitutional protection suits, which are being heard in all instances in both cases). In connection with these proceedings in Peru, the Group and its legal advisors consider that the Group's position is based on robust legal arguments.

In parallel to the aforementioned court proceedings, the tax authorities proceeded to collect corporate income tax due for the years 2000-2001 and payments on account of corporate income tax in respect of the year 2000. There were successive reductions to the sums claimed in the two cases following appeals filed by Telefónica del Perú against the settlements and due to the precautionary measures imposed. The company paid out 286 million Peruvian soles (approximately, €80 million) in 2012 and 2013 pending the final rulings.

In the context of these execution processes, in June 2015, the tax authorities issued Compliance Resolutions demanding payment of 1,521 million Peruvian soles (approximately €431 million). An appeal has been filed against this with the Tax Court, and the adoption of precautionary suspension measures duly requested from the legal authorities (as a definitive court ruling on these cases is currently pending).

Given the sentences and rulings handed down in June and August 2015, the Group decided to recognise a provision in the accompanying 2015 Consolidated Financial Statements of €431 million (see Note 15 to the 2015 Consolidated Financial Statements).

In the first half of 2016 there were no new court rulings in connection with these proceedings. The Group and its legal advisors considers there are legal arguments that support their position.

### ***Years Open for Inspection***

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain, following the tax audit completed in 2015, the taxes from 2012 onwards are open to inspection with respect to the main companies of the Spanish tax group.

In the other countries in which the Telefónica Group has a significant presence, the years open for inspection by the relevant authorities are generally as follows:

- The last twelve years in Germany.
- The last eight years in the United Kingdom.
- The last seven years in Argentina.
- The last five years in Brazil, Mexico, Uruguay, Colombia and the Netherlands.
- The last four years in Venezuela, Peru, Guatemala, Nicaragua and Costa Rica.
- The last three years in Chile, Ecuador, El Salvador, the United States and Panama.

The tax inspection of the open years is not expected to give rise to additional material liabilities for the Group.

### ***Major Shareholders***

At 26 February 2016, Telefónica had 4,975,199,197 shares outstanding, each having a nominal value of €1.00 per share. All outstanding shares have the same rights.



At 26 February 2016, according to information provided to us or to the Spanish National Securities Commission (*Comisión Nacional de Mercado de Valores*), beneficial owners of 3% or more of Telefónica's voting stock were as follows:

Name of Beneficial Owner	Number of Shares		Percent
	Direct	Indirect	
Banco Bilbao Vizcaya Argentaria, S.A. <sup>(1)</sup> .....	302,205,736	—	6.07%
Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona (" <b>la Caixa</b> ") <sup>(2)</sup> ...	—	249,501,612	5.01%
Blackrock, Inc. <sup>(3)</sup> .....	—	253,632,799	5.09%

<sup>(1)</sup> Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2015 for the 2015 Annual Report on Corporate Governance.

<sup>(2)</sup> Based on information provided by la Caixa as at 31 December 2015 for the 2015 Annual Report on Corporate Governance. The indirect shareholding is held by Caixabank, S.A. which owns 249,482,489 shares and by Vidacaixa, S.A. de Seguros y Reaseguros which owns 19,123 shares.

<sup>(3)</sup> According to the form on Schedule 13G filed on 9 February 2016 with the SEC. Though the reported beneficial ownership is 5.09%, Blackrock, Inc. has sole voting power with respect to 233,260,845 shares (representing 4.68% of Telefónica's share capital as of the date of such filing).

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.

## Management of Telefónica

During 2015, the Board of Directors met 15 times. As at the date of this Base Prospectus, the Board of Directors had met eight times during 2016. As at 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. José María Álvarez - Pallete López <sup>(1)</sup> .....	12/12/1963	52	2006	2017
<b>Vice-chairmen</b>				
Mr. Isidro Fainé Casas <sup>(1)(2)</sup> .....	10/07/1942	74	1994	2020
Mr. José María Abril Pérez <sup>(1)(3)(6)</sup> .....	19/03/1952	64	2007	2018
Mr. Julio Linares López <sup>(5)(8)</sup> .....	26/12/1945	70	2005	2020
<b>Members (vocales)</b>				
Mr. César Alierta Izuel .....	05/05/1945	71	1997	2017
Ms. María Eva Castillo Sanz <sup>(5)(6)(8)</sup> .....	23/11/1962	53	2008	2018
Mr. Juan Ignacio Cirac Sasturain <sup>(6)</sup> .....	11/10/1965	50	2016	2020
Mr. José Javier Echenique Landiribar <sup>(1)(4)</sup> .....	20/11/1951	64	2016	2020
Mr. Peter Erskine <sup>(1)(6)(7)</sup> .....	10/11/1951	64	2006	2020
Ms. Sabina Fluxà Thienemann <sup>(7)</sup> .....	26/04/1980	36	2016	2020
Mr. Luiz Fernando Furlán .....	29/07/1946	70	2008	2018
Mr. Gonzalo Hinojosa Fernández de Angulo <sup>(1)(4)(5)(6)(7)(8)</sup> .....	10/07/1945	71	2002	2017
Mr. Pablo Isla Álvarez de Tejera <sup>(7)</sup> .....	22/01/1964	52	2002	2017
Mr. Peter Löscher <sup>(6)</sup> .....	17/09/1957	58	2016	2020
Mr. Antonio Massanell Lavilla <sup>(2)(4)(5)(6)(8)</sup> .....	24/09/1954	61	1995	2020
Mr. Ignacio Moreno Martínez <sup>(3)(4)(5)(8)</sup> .....	30/07/1957	59	2011	2017
Mr. Francisco Javier de Paz Mancho <sup>(1)(4)(5)(7)</sup> .....	24/07/1958	58	2007	2018
Mr. Wang Xiaochu <sup>(9)</sup> .....	24/08/1958	58	2015	2020

### Note

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

<sup>(2)</sup> Nominated by Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona ("**La Caixa**").

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

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

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

<sup>(6)</sup> Member of the Strategy and Innovation Committee.

<sup>(7)</sup> Member of the Nominating, Compensation and Corporate Governance Committee.

<sup>(8)</sup> Member of the Service Quality and Customer Service Committee.

<sup>(9)</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>José María Álvarez Pallete López José María Abril Pérez Isidro Fainé Casas</b>	Executive Chairman of Telefónica, S.A.  Vice Chairman of Telefónica, S.A. Vice Chairman of Telefónica, S.A.	Chairman of Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona ("la Caixa") Chairman of Criteria Caixa, S.A.U. Director of Gas Natural SDG, S.A. Chairman of the Spanish Confederation of Savings Banks (" <i>Confederación Española de Cajas de Ahorros</i> ", CECA) First Vice Chairman of Repsol, S.A. Director of Banco Portugués de Investimento, S.A. (BPI) Chairman of European Savings Bank Group (ESGB) Deputy Chairman of the World Savings Bank Institute (WSBI) Director of the Bank of East Asia (BEA) Director of Suez Environnement Company. Chairman of the Spanish Confederation of Directors and Executives ( <i>Confederación Española de Directivos y Ejecutivos</i> , "CEDE") Chairman of the Spanish Chapter of the Club of Rome and the Circulo Financiero Member of the Business Council for Competitiveness ( <i>Consejo Empresarial de la Competitividad</i> )
<b>Julio Linares López</b>	Vice Chairman of Telefónica, S.A. Trustee of Telefónica Foundation	Member of the GSM Association board and Executive Committee and Chairman of its Strategic Committee Member of the Executive Committee and the Board of the Spanish Confederation of Employers' Organisations ( <i>Confederación Española de Organizaciones Empresariales</i> , "CEOE") Trustee of the Mobile World Capital Barcelona Foundation Trustee of CEDE Foundation Member of the Board of GSMA Ltd. Member of the Governing Council of the Association for the Advancement of Management Member of the Social Council of the Complutense University in Madrid Member of the Advisory Council of AMETIC Member of the Advisory Council of Official College of Telecommunications Engineering (COIT) Member of the Spanish Association of Telecommunications Engineers (AEIT) Member of the Advisory council of the Higher Technical School of Engineers Telecommunications
<b>César Alierta Izuel</b>	Director of Telefónica, S.A. Chairman of Telefónica Foundation Director of DTS, Distribuidora de Televisión Digital, S.A.U.	Director of China Unicom (Hong Kong) Limited Chairman of the Business Competitiveness Council ( <i>Consejo Empresarial de la Competitividad</i> ) Trustee of Bancaria Caixa d'Estalvis i Pensions de Barcelona Foundation ("la Caixa") Chairman of the Social Board of the UNED Member of the Columbia Business School Board of Overseers
<b>María Eva Castillo Sanz</b>	Director of Telefónica, S.A. Chairwoman of Supervisory Board of Telefónica Deutschland Holding, A.G.Trustee of Telefónica Foundation	Director of Bankia, S.A. Director of Visa Europe Member of the Board of the Comillas-ICAI Foundation Member of the Board of Entreculturas Foundation
<b>Juan Ignacio Cirac Sasturain</b>	Director of Telefónica, S.A.	Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University Member of the Advisory Board of the Russian Quantum Center Member of the Advisory Board of Annalen der Physik Member of the Review Panel, QSIT Swiss National Science Foundation

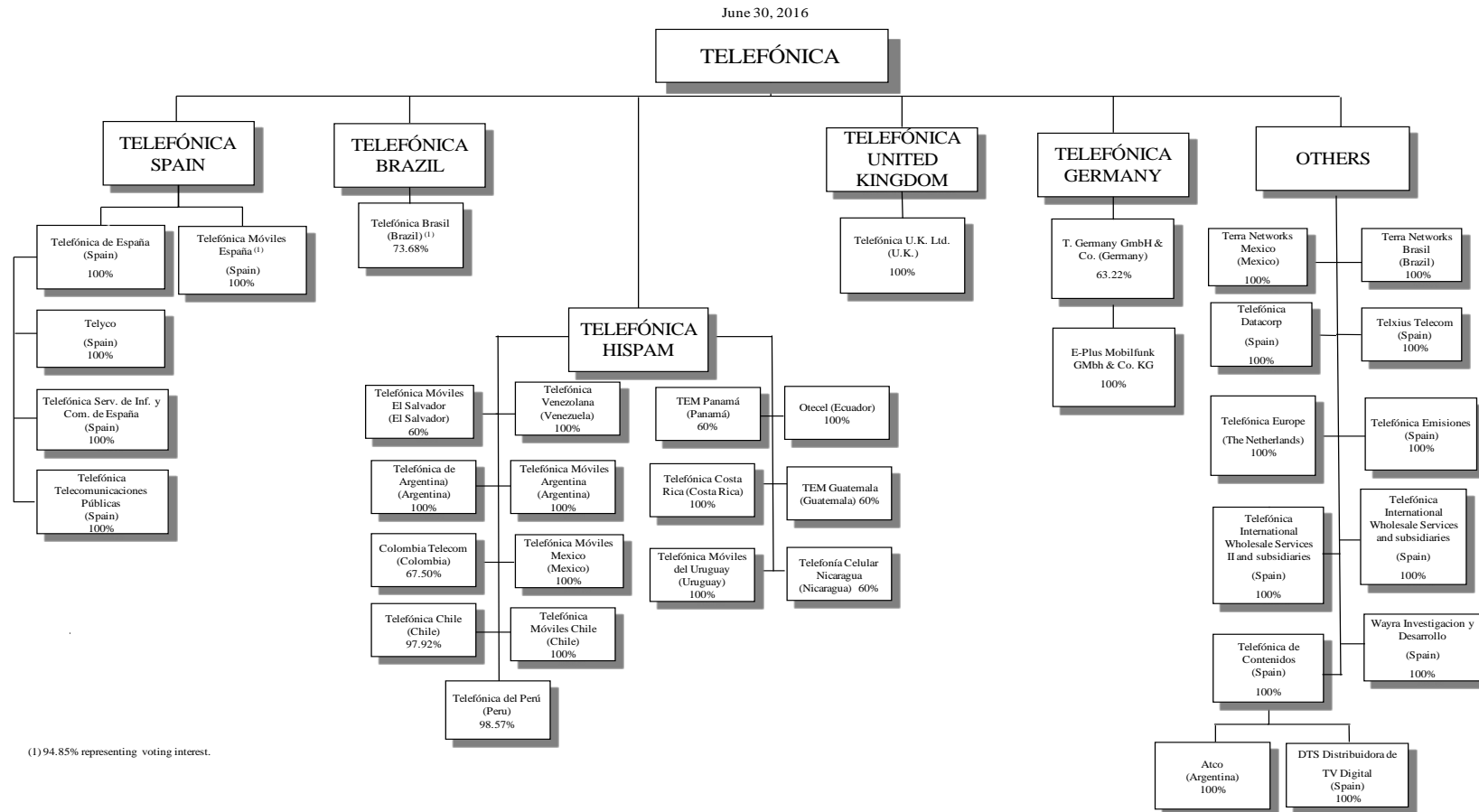
<b>Name</b>	<b>Principal activities inside the Group</b>	<b>Principal Activities outside the Group</b>
<b>José Javier Echenique Landiribar</b>	Director of Telefónica, S.A.	Member of the Scientific Committee of BBVA Foundation Vice-chairman of Banco de Sabadell, S.A. Director of Repsol, S.A. Director of ACS Actividades de Construcción y Servicios, S.A. Director of ACS Servicios, Comunicaciones y Energía, S.L. Director of Ence Energia y Celulosa, S.A. Trustee of Novia Salcedo Foundation Member of the Board of Deusto Business School Member of the Basque Businessmen Circle
<b>Peter Erskine</b>	Director of Telefónica, S.A. Member of the Supervisory Board of Telefonica Deutschland Holding AG	Chairman of the Henley Business School Strategy Board Member of the Council of Reading University Member of the University's Strategy and Finance Committee
<b>Sabina Fluxà Thienemann</b>	Director of Telefónica, S.A.	Co-Vice Executive President and CEO of Iberostar Group Member of the Regional Advisory Board of BBVA Member of the Board of Directors of APD Illes Balears Trustee of Iberostar Foundation Trustee of Eneavor Foundation Chairman of Amazonas Sustainability Foundation Director of Brasil Food, S.A. (BRF) Director of AGCO Corporation Member of the Global Ocean Commission
<b>Luiz Fernando Furlán</b>	Director of Telefónica, S.A. Director of Telefônica Brasil, S.A.	Chairman of Amazonas Sustainability Foundation Director of Brasil Food, S.A. (BRF) Director of AGCO Corporation Member of the Global Ocean Commission
<b>Gonzalo Hinojosa Fernández de Angulo</b>	Director of Telefónica, S.A. Director of Telefónica del Perú, S.A.A.	
<b>Pablo Isla Álvarez de Tejera</b>	Director of Telefónica, S.A.	Chairman and CEO of Inditex, S.A.
<b>Peter Löscher</b>	Director of Telefónica, S.A.	Chairman of the Supervisory Board of Sulzer AG Chairman of the Supervisory Board of OMV Member of the Supervisory Board of Deutsche Bank
<b>Antonio Massanell Lavilla</b>	Director of Telefónica, S.A.	Vice Chairman of Caixabank, S.A. Director of Sociedad de Gestión de Activos Inmobiliarios procedentes de la Reestructuración Bancaria (SAREB). Non-Executive Chairman of Cecabank Member of the Supervisory Board of ERSTE Group Bank Director of Mediterranea Beach & Golf Community, S.A Member of the Plenary of the Chamber of Commerce of Barcelona Vice-Chairman of the Board of Trustees of COTEC Foundation Member of the Euro Retail Payments Board (ERPB) Chairman of the Barcelona Centre Financer Europeu association
<b>Ignacio Moreno Martínez</b>	Director of Telefónica, S.A.	Chief Executive Officer of Metrovacesa, S.A. Representative of Cardomana Servicios y Gestiones, S.L. on the Board of Directors of Secuoya Grupo de Comunicación, S.A.
<b>Francisco Javier de Paz Mancho</b>	Director of Telefónica de Argentina, S.A. Director of Telefônica Brasil, S.A.	
<b>Wang Xiaochu</b>	Director of Telefónica, S.A.	Chairman of China United Network Communications Group Company Limited Chairman, Executive Director and CEO of China Unicom (Hong Kong) Limited

**Conflicts of Interest**

As at the date of this Base Prospectus, there are no current or potential conflicts of interest in relation to members of the Board of Directors between any duties owed to Telefónica and their private interests and other duties.

## Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 30 June 2016, including their jurisdictions of incorporation and Telefónica's ownership interest:



## 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 One of Law 10/2014, of 26 June on the regulation, supervision and solvency of credit entities and Royal Decree 1065/2007 of 27 July as amended, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes ("**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**") as amended by Law 26/2014 of 27 November 2014, and Royal Decree 439/2007, of 30 March 2007 promulgating the Personal Income Tax Regulations as amended by Royal Decree 1003/2014 of 5 December 2014, Royal Decree 1074/2014 of 19 December 2014 and Royal Decree 633/2015 of 10 July 2015, 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, Law 27/2014, of 27 November 2014 and Royal Decree 634/2015, of 10 July 2015 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, as amended by Law 26/2014 of 27 November 2014, 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 2016 will be taxed at the rate of 19% up to €6,000, 21% for taxable income between €6,001 and €50,000, and 23% for taxable income exceeding €50,000.

According to Section 44.5 of Royal Decree 1065/2007 of 27 July as amended 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 2016 tax year to the extent that their net worth exceeds a certain limit. This limit has been set at €700,000 for 2016. Therefore, they should take into account the value of the Instruments which they hold as at 31 December in each year, the applicable rates ranging between 0.2% and 2.5%. The autonomous communities may have different provisions on this respect.

From 2017 onwards, a general 100% tax relief applies (set forth by article 66 of Law 48/2015 of 29 October approving the General State Budget for 2016).

### 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. The current general tax rate in 2016 is 25%.

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 or repayment 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 61.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, as amended. 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 the relevant percentage (19% as of the date of this Base Prospectus) 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 2016, 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 tax resident individuals who are resident in an EU or European Economic Area member State may apply the rules approved by the autonomous region where the assets and rights with more value are situated. As such, prospective investors should consult their tax advisers.

From 2017 onwards, a general 100% tax relief applies (set forth by article 66 of Law 48/2015 of 29 October approving the General State Budget for 2016).

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. Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state Inheritance and Gift Tax law. However, if the deceased or the donee are resident in an EU or European Economic Area member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. As such, prospective investors should consult their tax advisers.

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, as amended.

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, 19%) 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....

- (1) **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**
- (1) 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 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 or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. 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.

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 person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Savings Directive**"). The Amending Savings 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 Savings Directive. The changes made under the Amending Savings Directive include extending the scope of the 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.

However, the European Commission has proposed the repeal of the amending Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Amending Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Savings Directive.

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 (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Instruments where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person

established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of 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 13 September 2016 (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, US 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 US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to US persons, except in certain transactions permitted by US 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 US 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 US 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**")). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations 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 Restated Spanish Securities Market Law approved by Legislative Royal Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*); (b) Royal Decree 1310/2005, of 4 November; 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 (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of the Instruments in, to or from 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 information memorandum, 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, regulations 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 Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Instruments will not be offered or sold directly or indirectly within the People's Republic of China (which, for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan (the "PRC")). This Base Prospectus, the Instruments and any material or information contained or incorporated by reference herein in relation to the Instruments have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("CSRC") or other relevant governmental and regulatory authorities in the PRC pursuant to relevant laws and regulations and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Instruments in the PRC. Neither this Base Prospectus nor any material or information contained or incorporated by reference herein constitutes an offer to sell or the solicitation of an offer to buy any securities in the PRC.

The Instruments may only be invested by or sold to PRC investors that are authorised to engage in the investment in the Instruments of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licences, verification and/or registrations themselves, including, but not limited to, any which may be required from the State Administration of Foreign Exchange, CSRC, the China Banking Regulatory Commission, the China Insurance Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

## 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. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Instruments or caused the Instruments to be made the subject of an invitation for subscription or purchase and will not offer or sell any Instruments or cause the Instruments to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, 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, 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 Securities and Futures Act (Chapter 289 of Singapore) (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 Section 275(1A) of the SFA, and in accordance with the 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 subscribed or purchased under Section 275 of the SFA by a relevant person which is, 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,

securities (as defined in Section 239(1) of the SFA) 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 or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) 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, of 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 Executive Commission of the Guarantor passed on 27 April 2016. 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 16 September 2016.
7. Save as disclosed on pages 92 to 97 of this Base Prospectus (see "*Legal Proceedings*" and "*Tax 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 may have or have had during the twelve months prior to the date of this Base Prospectus, 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 30 June 2016 there has been no significant change in the financial or trading position of the Guarantor or the Telefónica Group save for: (i) on 7 July 2016, Telefónica, S.A. drew down €500 million under its €3,000 million syndicated credit facility signed on 17 November 2015 and maturing in 2018; (ii) on 8 September 2016, the Guarantor redeemed €500 million of its €3,000 million syndicated credit facility signed on 17 November 2015 and maturing in 2018; and (iii) on 8 September 2016, Telefónica Europe B.V. priced an issuance of undated deeply subordinated

fixed rate reset securities, with the subordinated guarantee of Telefónica S.A, for an aggregate nominal amount of €1,000 million subject to a call option exercisable by the Issuer from the fifth and a half of the issuance date. The settlement and closing date is scheduled for 15 September 2016.

Since 31 December 2015, there has been no significant change in the financial or trading position of the Issuer save for the principal events described on page 74 of this Base Prospectus.

Since 31 December 2015, 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 2015 and 31 December 2014 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.

Ernst & Young, S.L. audited the annual accounts of the Issuer for the years ended 31 December 2015 and 31 December 2014 and unqualified opinions were reported thereon.

10. 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:

- (a) the constitutional documents of the Issuer and the by-laws of the Guarantor together with translations into English;
- (b) this Base Prospectus, together with any supplements thereto;
- (c) the Issue and Paying Agency Agreement;
- (d) the Deed of Covenant;
- (e) the Deed of Guarantee;
- (f) English language translations of the audited consolidated financial statements of the Guarantor, and the reports referred to therein for the years ended 31 December 2015 and 31 December 2014, the unaudited interim consolidated financial information of the Guarantor for the 6 months ended 30 June 2016 (set out in the document entitled "*Results January – June 2016*");
- (g) English language translations of the annual accounts of the Issuer, and the reports referred to therein, for the years ended 31 December 2015 and 31 December 2014; and
- (h) 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.**

Ciudad BBVA  
Calle Saucedá 28  
Edificio Asia  
28050 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**

Mizuho House  
30 Old Bailey  
London EC4M 7AU  
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**

5 Broadgate  
London EC2M 2QS  
United Kingdom

**AUDITORS OF THE ISSUER AND THE GUARANTOR**

**Ernst & Young, S.L.**

Torre Picasso, Plaza Pablo Ruiz  
Picasso n°1, 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 Issuer and the Guarantor as to Spanish tax law*

**Uría Menéndez Abogados, S.L.P.**

Príncipe de Vergara, 187  
28002 Madrid  
Spain

*To the Dealers as English and Spanish law*

**Clifford Chance S.L.P.**

Paseo de la Castellana, 110  
28046 Madrid  
Spain

**Clifford Chance LLP**

10 Upper Bank Street  
London E14 5JJ  
United Kingdom