



Telefónica Europe B.V.
*(incorporated with limited liability under
the laws of the Netherlands)*

EUR 500,000,000 5.875 per cent. Instruments due 2033

unconditionally and irrevocably guaranteed by Telefónica, S.A.
*(incorporated with limited liability under
the laws of the Kingdom of Spain)*

issued under the €8,000,000,000 Programme for the Issuance of Debt Instruments

The EUR 500,000,000 5.875 per cent. Instruments due 2033 (the "**Instruments**") were issued by Telefónica Europe B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed by Telefónica, S.A. (the "**Guarantee**", and the "**Guarantor**" or "**Telefónica**", respectively).

The issue price of the Instruments of the Issuer was 99.757 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Instruments will be redeemed at their principal amount on 14 February 2033. The Instruments are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Netherlands (in the case of the Issuer) or the Kingdom of Spain (in the case of the Guarantor). See "*Terms and Conditions of the Instruments—Redemption and Purchase*" and the relevant provisions of the pricing supplement set out herein (the "**Pricing Supplement**").

The Instruments bear interest from the Issue Date at the rate of 5.875 per cent. per annum, payable annually in arrear on 14 February each year and commenced on 14 February 2004. Payments on the Instruments are made in EUR without deduction for or on account of taxes imposed or levied by The Netherlands or the Kingdom of Spain, subject to certain exceptions, to the extent described under "*Terms and Conditions of the Instruments—Taxation*".

The Instruments constitute direct, unconditional and (subject to the Terms and Conditions of the Instruments) unsecured obligations of the Issuer and (subject as aforesaid) rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, except as may be preferred by law, as more particularly described in the Terms and Conditions of the Instruments. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the Terms and Conditions of the Instruments) unsecured obligations of the Guarantor and (subject as aforesaid) rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, except for indebtedness that is preferred by law. The Guarantor unconditionally and irrevocably guarantees the due and punctual payment of all amounts at any time becoming due and payable in respect of the Instruments. See "*Terms and Conditions of the Instruments—Status of the Instruments and the Guarantee*".

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

The Instruments have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Instruments were initially distributed outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or

benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Instruments are in bearer form and in the denominations of EUR 1,000, EUR 10,000 and EUR 100,000, each of which is integrally divisible by each smaller denomination. The Instruments were initially in the form of a temporary global instrument (the "**Temporary Global Instrument**"), without interest coupons, which was deposited on or around the Issue Date with a common depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Instrument was exchangeable, in whole or in part, for interests in a permanent global instrument (the "**Permanent Global Instrument**"), without interest coupons, not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Instrument will be exchangeable for Instruments in definitive form only in the certain limited circumstances set out in the Terms and Conditions of the Instruments.

The Instruments are rated BBB by S&P Global Ratings Europe Limited ("**S&P**"), Baa3 by Moody's Investors Service Limited ("**Moody's**") and BBB by Fitch Ratings Limited ("**Fitch**").

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

A security 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.

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

19 March 2019

IMPORTANT NOTICES

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

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

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

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

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

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Instrument shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

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

The distribution of this Prospectus and the offering, sale and delivery of Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Guarantor 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 distribution of this Prospectus and other offering material relating to the Instruments, see "*Subscription and Sale*".

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

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

The Instruments are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters, and may not be a suitable

investment for all investors. Each potential investor in the Instruments must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

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

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

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

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.

The "**Information Memorandum**" referred to in the Pricing Supplement contained herein is the Information Memorandum in relation to the €8,000,000,000 Programme for the Issuance of Debt Instruments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**GHz**" means gigahertz.

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

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

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

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

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

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

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

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

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

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

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

"**Mb**" means megabits.

"**MHz**" means megahertz.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of instruments and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of instruments and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "Not Applicable".

Words and expressions defined in the "Terms and Conditions of the Instruments" below or elsewhere in this Prospectus have the same meanings in this summary.

Section A – Introduction and Warnings		
A.1	Introduction:	<i>This summary must be read as an introduction to this Prospectus and any decision to invest in the Instruments should be based on a consideration of the Prospectus as a whole, including any information incorporated by reference. Following the implementation of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area, no civil liability will attach to the Responsible Persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus, including any information incorporated by reference or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Instruments. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member States, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.</i>
A.2	Consent	Not applicable. The Issuer does not consent to the use of this Prospectus by any other person.

Section B – Issuer and Guarantor		
B.1	Legal name of the Issuer: Commercial name of the Issuer:	Telefónica Europe B.V. Telefónica Europe
B.2	Domicile and legal form of the Issuer:	The Issuer was incorporated for an indefinite period on 31 October 1996 in the Netherlands as a private company with limited liability (<i>besloten vennootschap met beperkte aansprakelijkheid</i>) under the laws of the Netherlands and in accordance with Book 2 of the Dutch Civil Code (<i>Burgerlijk Wetboek</i>). Its statutory seat is at Amsterdam, the Netherlands, and its business address is at Zuidplein 112, H Tower, 13th floor, 1077XV Amsterdam, the Netherlands. The Issuer's telephone number is +31(0)20 575 3370. The Issuer is registered with the trade register of the Dutch Chamber of Commerce under number 24269798.

Section B – Issuer and Guarantor																																																																																			
B.4b	Trends:	Not applicable. As at the date of the Prospectus the Issuer is not aware of any trends affecting itself and the industries in which it operates.																																																																																	
B.5	The Group:	The Issuer is a wholly owned subsidiary of the Guarantor, which is the ultimate parent company of the Telefónica Group.																																																																																	
B.9	Profit Forecast:	Not applicable. No forecast or estimates of profits are contained in the Prospectus.																																																																																	
B.10	Audit Report Qualifications:	Not applicable. There are no qualifications in the audit reports on the historical financial information of the Issuer.																																																																																	
B.12	Key Financial Information:	<p>The tables below show certain selected summarised financial information which, without material changes, is derived from, and must be read together with, the Issuer's audited unconsolidated financial statements for the year ended 31 December 2018 and the Issuer's audited unconsolidated financial statements for the year ended 31 December 2017.</p> <p>Selected key financial information:</p> <p>Balance Sheet (Euros in thousands)</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">31/12/2018</th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">31/12/2017</th> </tr> </thead> <tbody> <tr> <td colspan="3">ASSETS</td> </tr> <tr> <td colspan="3">Fixed Assets</td> </tr> <tr> <td>Tangible fixed assets</td> <td style="text-align: right;">1</td> <td style="text-align: right;">2</td> </tr> <tr> <td>Financial fixed assets.....</td> <td style="text-align: right;">10,196,795</td> <td style="text-align: right;">9,385,213</td> </tr> <tr> <td>Total Fixed Assets</td> <td style="text-align: right;">10,196,796</td> <td style="text-align: right;">9,385,215</td> </tr> <tr> <td colspan="3">Current Assets</td> </tr> <tr> <td>Loans receivable</td> <td style="text-align: right;">1,667,044</td> <td style="text-align: right;">1,851,368</td> </tr> <tr> <td>Interest receivable</td> <td style="text-align: right;">192,063</td> <td style="text-align: right;">201,120</td> </tr> <tr> <td>Other current assets</td> <td style="text-align: right;">225</td> <td style="text-align: right;">1,019</td> </tr> <tr> <td>Cash at bank.....</td> <td style="text-align: right;">6,168</td> <td style="text-align: right;">5,638</td> </tr> <tr> <td>Total Current Assets.....</td> <td style="text-align: right;">1,865,500</td> <td style="text-align: right;">2,059,145</td> </tr> <tr> <td>TOTAL ASSETS</td> <td style="text-align: right;">12,062,296</td> <td style="text-align: right;">11,444,360</td> </tr> <tr> <td colspan="3">Shareholder's Equity</td> </tr> <tr> <td>Issued share capital.....</td> <td style="text-align: right;">46</td> <td style="text-align: right;">46</td> </tr> <tr> <td>Retained earnings</td> <td style="text-align: right;">4,700</td> <td style="text-align: right;">4,700</td> </tr> <tr> <td>Result for the period</td> <td style="text-align: right;">2,790</td> <td style="text-align: right;">2,322</td> </tr> <tr> <td>Total Shareholder's Equity</td> <td style="text-align: right;">7,536</td> <td style="text-align: right;">7,068</td> </tr> <tr> <td colspan="3">Long Term Liabilities</td> </tr> <tr> <td>Bonds and loans</td> <td style="text-align: right;">10,196,703</td> <td style="text-align: right;">9,385,428</td> </tr> <tr> <td colspan="3">Current Liabilities</td> </tr> <tr> <td>Short term loans and bonds</td> <td style="text-align: right;">1,667,044</td> <td style="text-align: right;">1,851,368</td> </tr> <tr> <td>Interest payable</td> <td style="text-align: right;">190,444</td> <td style="text-align: right;">199,670</td> </tr> <tr> <td>Taxes payable</td> <td style="text-align: right;">384</td> <td style="text-align: right;">375</td> </tr> <tr> <td>Other debts and accrued liabilities</td> <td style="text-align: right;">185</td> <td style="text-align: right;">451</td> </tr> <tr> <td>Total Current Liabilities</td> <td style="text-align: right;">1,858,057</td> <td style="text-align: right;">2,051,864</td> </tr> <tr> <td>TOTAL EQUITY & LIABILITIES</td> <td style="text-align: right;">12,062,296</td> <td style="text-align: right;">11,444,360</td> </tr> </tbody> </table>		31/12/2018	31/12/2017	ASSETS			Fixed Assets			Tangible fixed assets	1	2	Financial fixed assets.....	10,196,795	9,385,213	Total Fixed Assets	10,196,796	9,385,215	Current Assets			Loans receivable	1,667,044	1,851,368	Interest receivable	192,063	201,120	Other current assets	225	1,019	Cash at bank.....	6,168	5,638	Total Current Assets.....	1,865,500	2,059,145	TOTAL ASSETS	12,062,296	11,444,360	Shareholder's Equity			Issued share capital.....	46	46	Retained earnings	4,700	4,700	Result for the period	2,790	2,322	Total Shareholder's Equity	7,536	7,068	Long Term Liabilities			Bonds and loans	10,196,703	9,385,428	Current Liabilities			Short term loans and bonds	1,667,044	1,851,368	Interest payable	190,444	199,670	Taxes payable	384	375	Other debts and accrued liabilities	185	451	Total Current Liabilities	1,858,057	2,051,864	TOTAL EQUITY & LIABILITIES	12,062,296	11,444,360
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Loans receivable	1,667,044	1,851,368																																																																																	
Interest receivable	192,063	201,120																																																																																	
Other current assets	225	1,019																																																																																	
Cash at bank.....	6,168	5,638																																																																																	
Total Current Assets.....	1,865,500	2,059,145																																																																																	
TOTAL ASSETS	12,062,296	11,444,360																																																																																	
Shareholder's Equity																																																																																			
Issued share capital.....	46	46																																																																																	
Retained earnings	4,700	4,700																																																																																	
Result for the period	2,790	2,322																																																																																	
Total Shareholder's Equity	7,536	7,068																																																																																	
Long Term Liabilities																																																																																			
Bonds and loans	10,196,703	9,385,428																																																																																	
Current Liabilities																																																																																			
Short term loans and bonds	1,667,044	1,851,368																																																																																	
Interest payable	190,444	199,670																																																																																	
Taxes payable	384	375																																																																																	
Other debts and accrued liabilities	185	451																																																																																	
Total Current Liabilities	1,858,057	2,051,864																																																																																	
TOTAL EQUITY & LIABILITIES	12,062,296	11,444,360																																																																																	

Section B – Issuer and Guarantor																																						
		<p style="text-align: center;"><i>Statement of Income and Expenses (Euros in thousands)</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; border-bottom: 1px solid black;">01/01/2018- 31/12/2018</th> <th style="text-align: right; border-bottom: 1px solid black;">01/01/2017- 31/12/2017</th> </tr> </thead> <tbody> <tr> <td colspan="3">Financial Income and Expenses</td> </tr> <tr> <td>Interest Income.....</td> <td style="text-align: right;">657,691</td> <td style="text-align: right;">484,431</td> </tr> <tr> <td>Interest Expense</td> <td style="text-align: right;">(652,993)</td> <td style="text-align: right;">(480,569)</td> </tr> <tr> <td>Currency Exchange result</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">(14)</td> </tr> <tr> <td>Net financial result.....</td> <td style="text-align: right;">4,697</td> <td style="text-align: right;">3,848</td> </tr> <tr> <td colspan="3">Operational Income and Expenses</td> </tr> <tr> <td>Personnel expenses.....</td> <td style="text-align: right;">(151)</td> <td style="text-align: right;">(167)</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;">(844)</td> <td style="text-align: right;">(594)</td> </tr> <tr> <td>Result from ordinary activities before taxation.....</td> <td style="text-align: right;">3,702</td> <td style="text-align: right;">3,087</td> </tr> <tr> <td>Taxation.....</td> <td style="text-align: right;">(912)</td> <td style="text-align: right;">(765)</td> </tr> <tr> <td>Result after taxation.....</td> <td style="text-align: right;">2,790</td> <td style="text-align: right;">2,322</td> </tr> </tbody> </table> <p>Since 31 December 2018 there has been no material adverse change in the prospects of the Issuer, and there has been no significant change in the financial or trading position of the Issuer.</p>		01/01/2018- 31/12/2018	01/01/2017- 31/12/2017	Financial Income and Expenses			Interest Income.....	657,691	484,431	Interest Expense	(652,993)	(480,569)	Currency Exchange result	(1)	(14)	Net financial result.....	4,697	3,848	Operational Income and Expenses			Personnel expenses.....	(151)	(167)	Administrative expenses	(844)	(594)	Result from ordinary activities before taxation.....	3,702	3,087	Taxation.....	(912)	(765)	Result after taxation.....	2,790	2,322
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B.13	Recent Events:	Not applicable. There are no recent events material to an evaluation of the Issuer's solvency.																																				
B.14	Dependence upon other entities within the Group:	Not applicable. The Issuer acts as a holding company and raises finance for the Telefónica Group.																																				
B.15	The Issuer's Principal Activities:	<p>The Issuer acts as a holding company and raises finance for the Telefónica Group.</p> <p>The Issuer raises funds primarily by issuing negotiable, and non-negotiable, instruments into the capital and money markets.</p>																																				
B.16	Controlling Persons:	The Issuer is a wholly-owned subsidiary of the Guarantor.																																				
B.17	Ratings assigned to the Issuer or its Debt Instruments:	As at the date of this Prospectus, the Instruments are rated BBB by S&P Global Ratings Europe Limited (" S&P "), Baa3 by Moody's Investors Service Limited (" Moody's ") and BBB by Fitch Ratings Limited (" Fitch "). Moody's, S&P and Fitch are each established in the European Union and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the " CRA Regulation ").																																				
B.18	The Guarantee:	The Guarantor has, in a Deed of Guarantee dated 3 July 2002 unconditionally and irrevocably guaranteed the due and punctual payment of all amounts under the Instruments.																																				
B.19	Legal name of the Guarantor:	Telefónica, S.A.																																				
	Commercial name of the Guarantor:	Telefónica																																				
B.19	Domicile and legal form of the Guarantor:	The Guarantor is a corporation duly organised and existing under the laws of the Kingdom of Spain, incorporated on 19 April 1924.																																				

Section B – Issuer and Guarantor																																																								
		<p>The Guarantor is governed by the Restated Spanish Companies Act (<i>Texto Refundido de la Ley de Sociedades de Capital</i>), approved by Royal Legislative Decree 1/2010, of 2 July 2010 (<i>Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital</i>), as amended.</p> <p>The registered office of the Guarantor is at Gran Vía 28, 28013 Madrid, Spain and its registered number is A-28015865.</p>																																																						
B.19	Trends:	<p>The telecommunications industry is competitive and consumers generally have a choice of mobile and fixed line operators from which to select services. The Telefónica Group faces significant competition in most of the markets in which it operates.</p> <p>Newer competitors, including handset manufacturers, MVNOs, internet companies and software providers, are also entering the market and offering integrated communications services.</p>																																																						
B.19	The Group:	The Guarantor is the parent company of the Telefónica Group.																																																						
B.19	Profit Forecast:	Not applicable. No forecast or estimates of profits are contained in the Prospectus.																																																						
B.19	Audit Report Qualifications:	Not Applicable. There are no qualifications in the audit reports on the historical financial information of the Guarantor.																																																						
B.19	Key Financial Information:	<p>The tables below show certain selected summarised financial information which, without material changes, is derived from, and must be read together with, the Guarantor's audited consolidated financial statements for the year ended 31 December 2018 and audited consolidated financial statements for the year ended 31 December 2017.</p> <p>Selected key financial information:</p> <p><i>Consolidated Statement of Financial Position (Euros in millions)</i></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">31/12/2018</th> <th style="text-align: right; border-bottom: 1px solid black; width: 20%;">31/12/2017</th> </tr> </thead> <tbody> <tr> <td>ASSETS</td> <td></td> <td></td> </tr> <tr> <td>Non-Current Assets</td> <td style="text-align: right;">90,707</td> <td style="text-align: right;">95,135</td> </tr> <tr> <td>Intangible assets</td> <td style="text-align: right;">16,856</td> <td style="text-align: right;">18,005</td> </tr> <tr> <td>Goodwill.....</td> <td style="text-align: right;">25,748</td> <td style="text-align: right;">26,841</td> </tr> <tr> <td>Property, plant and equipment.....</td> <td style="text-align: right;">33,295</td> <td style="text-align: right;">34,225</td> </tr> <tr> <td>Investments accounted for by the equity method</td> <td style="text-align: right;">68</td> <td style="text-align: right;">77</td> </tr> <tr> <td>Financial assets and other non-current assets</td> <td style="text-align: right;">7,109</td> <td style="text-align: right;">8,167</td> </tr> <tr> <td>Deferred tax assets</td> <td style="text-align: right;">7,631</td> <td style="text-align: right;">7,820</td> </tr> <tr> <td>Current Assets</td> <td style="text-align: right;">23,340</td> <td style="text-align: right;">19,931</td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">1,692</td> <td style="text-align: right;">1,117</td> </tr> <tr> <td>Receivables and other current assets</td> <td style="text-align: right;">10,579</td> <td style="text-align: right;">10,093</td> </tr> <tr> <td>Tax receivables</td> <td style="text-align: right;">1,676</td> <td style="text-align: right;">1,375</td> </tr> <tr> <td>Other current financial assets</td> <td style="text-align: right;">2,209</td> <td style="text-align: right;">2,154</td> </tr> <tr> <td>Cash and cash equivalents.....</td> <td style="text-align: right;">5,692</td> <td style="text-align: right;">5,192</td> </tr> <tr> <td>Non-current assets classified as held for sale</td> <td style="text-align: right; border-bottom: 1px solid black;">1,492</td> <td style="text-align: right; border-bottom: 1px solid black;">—</td> </tr> <tr> <td>TOTAL ASSETS</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">114,047</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">115,066</td> </tr> <tr> <td>EQUITY AND LIABILITIES</td> <td></td> <td></td> </tr> </tbody> </table>		31/12/2018	31/12/2017	ASSETS			Non-Current Assets	90,707	95,135	Intangible assets	16,856	18,005	Goodwill.....	25,748	26,841	Property, plant and equipment.....	33,295	34,225	Investments accounted for by the equity method	68	77	Financial assets and other non-current assets	7,109	8,167	Deferred tax assets	7,631	7,820	Current Assets	23,340	19,931	Inventories	1,692	1,117	Receivables and other current assets	10,579	10,093	Tax receivables	1,676	1,375	Other current financial assets	2,209	2,154	Cash and cash equivalents.....	5,692	5,192	Non-current assets classified as held for sale	1,492	—	TOTAL ASSETS	114,047	115,066	EQUITY AND LIABILITIES		
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Section B – Issuer and Guarantor			
	Equity	26,980	26,618
	Equity attributable to equity holders of the parent and other holders of equity instruments	17,947	16,920
	Equity attributable to non-controlling interests	9,033	9,698
	Non-Current Liabilities	57,418	59,382
	Non-current financial liabilities	45,334	46,332
	Payables and other non-current liabilities	1,890	1,687
	Deferred tax liabilities	2,674	2,145
	Non-current provisions	7,520	9,218
	Current Liabilities	29,649	29,066
	Current financial liabilities	9,368	9,414
	Payables and other current liabilities	15,485	15,095
	Current tax payables	2,047	2,341
	Current provisions	1,912	2,216
	Liabilities associated with non-current assets held for sale	837	-
	TOTAL EQUITY AND LIABILITIES	114,047	115,066
<i>Consolidated Income Statement (Euros in millions)</i>			
		01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
	Revenues	48,693	52,008
	Other income	1,622	1,489
	Operating expenses	(34,744)	(37,310)
	Operating Income before D&A	15,571	16,187
	Depreciation and Amortization	(9,049)	(9,396)
	Operating Income	6,522	6,791
	Share of profit (loss) of investments	4	5
	Net financial income (expense)	(955)	(2,199)
	Profit before taxes	5,571	4,597
	Profit for the period	3,950	3,378
<p>Since 31 December 2018 there has been no material adverse change in the prospects of the Guarantor and the Group, and there has been no significant change in the financial or trading position of the Guarantor and the Group, save for: (i) on 23 January 2019, Telefónica, S.A. made a repayment for €100 million of its bilateral loan signed on 20 December 2017; (ii) on 25 January 2019, Telefónica Emisiones, S.A.U. redeemed €150 million of its notes issued on 25 January 2017 and guaranteed by Telefónica, S.A; and (iii) on 29 January 2019, Telefónica Emisiones, S.A.U. launched in the Euro market, under its Guaranteed Euro Programme for the Issuance of Debt Instruments, an issuance of notes guaranteed by Telefónica amounting to €1,000 million. These notes are due on 5 February 2024, pay an annual coupon of 1.069 per cent. and are issued at par (100 per cent.). The net proceeds of the notes are to be allocated towards projects aiming at improving the energy efficiency in</p>			

		Section B – Issuer and Guarantor																																		
		<p>the network, including transformation from copper to fibre optic in Spain (iv) on 18 February 2019, the Guarantor made an early repayment for EUR 500 million of its EUR 1,000 million bilateral loan signed on 26 June 2014 and originally scheduled to mature on 26 June 2019; (v) on 1 March 2019, Telefónica Emisiones S.A.U. issued U.S.\$1,250 million notes guaranteed by the Guarantor under its US Debt Registered Program (filed with the United States Securities and Exchange Commission on 20 April 2018). These notes are due on 1 March 2049, with a coupon of 5.520 per cent., payable semi-annually, issued at par (100 per cent.); (vi) on 12 March 2019, Telefónica Emisiones S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its EMTN Programme. These notes are due on 12 March 2029, pay an annual coupon of 1.788 per cent and are issued at par (100 per cent.); (vii) On 14 March 2019, Telefónica Europe, B.V issued EUR 1,300,000,000 Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of Telefónica, S.A. and (viii) On 13 March 2019 Telefónica Europe B.V. announced its decision to purchase EUR 586,500,000 in principal amount of its EUR 850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities, and EUR 348,200,000 in principal amount of its EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities, pursuant to a tender offer announced on 5 March 2019.</p>																																		
B.19	Recent Events:	Not applicable. There are no recent events material to an evaluation of the Guarantor's solvency.																																		
B.19	Dependence upon other entities within the Group:	Not applicable. The Guarantor is the parent company of the Telefónica Group and is not dependent upon other entities within the Telefónica Group.																																		
B.19	The Guarantor's Principal Activities:	The Telefónica Group is a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest telecommunications networks. It is focused on providing telecommunications services and is present principally in Europe and Latin America.																																		
B.19	Controlling Persons:	<p>According to information provided to the Guarantor, beneficial owners of 3 per cent. or more of the Guarantor's voting stock were as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="text-align: left;">Name of Beneficial Owner</th> <th colspan="2" style="text-align: center;">Percentage of shares carrying voting rights</th> <th colspan="2" style="text-align: center;">Percentage of voting rights through financial instruments</th> <th rowspan="2" style="text-align: center;">Percentage of voting rights</th> </tr> <tr> <th style="text-align: center;">Direct</th> <th style="text-align: center;">Indirect</th> <th style="text-align: center;">Direct</th> <th style="text-align: center;">Indirect</th> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;"><i>(per cent.)</i></td> <td colspan="2" style="text-align: center;"><i>(per cent.)</i></td> <td style="text-align: center;"><i>(per cent.)</i></td> </tr> </thead> <tbody> <tr> <td>Banco Bilbao Vizcaya Argentaria, S.A.⁽¹⁾</td> <td style="text-align: right;">5.264</td> <td style="text-align: right;">0.011</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">5.276</td> </tr> <tr> <td>CaixaBank, S.A.⁽²⁾.....</td> <td style="text-align: right;">5.000</td> <td style="text-align: right;">0.005</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">5.005</td> </tr> <tr> <td>BlackRock, Inc.⁽³⁾.....</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">4.839</td> <td style="text-align: right;">0.000</td> <td style="text-align: right;">0.160</td> <td style="text-align: right;">4.999</td> </tr> </tbody> </table> <p>⁽¹⁾ Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance.</p> <p>⁽²⁾ Based on the information provided by CaixaBank, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance. The indirect shareholding is held by Vidacaixa, S.A. de Seguros y Reaseguros which owns 342,072 shares.</p> <p>⁽³⁾ Based on the information notified to CNMV on 5 March 2019.</p> <p>To the extent that the Guarantor's shares are represented by account in the book-entry form, it does not keep a shareholder registry and its ownership structure cannot be known precisely. Based on the information available to Guarantor, there is no individual or corporation that directly or indirectly through one or more intermediaries may exercise any type of control over Guarantor. Nevertheless, the Guarantor has certain shareholders whose holdings are considered material.</p>	Name of Beneficial Owner	Percentage of shares carrying voting rights		Percentage of voting rights through financial instruments		Percentage of voting rights	Direct	Indirect	Direct	Indirect		<i>(per cent.)</i>		<i>(per cent.)</i>		<i>(per cent.)</i>	Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	5.264	0.011	0.000	0.000	5.276	CaixaBank, S.A. ⁽²⁾	5.000	0.005	0.000	0.000	5.005	BlackRock, Inc. ⁽³⁾	0.000	4.839	0.000	0.160	4.999
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Section B – Issuer and Guarantor		
B.19	Ratings assigned to the Guarantor or its Debt Instruments:	<p>As at the date of this Prospectus, the Guarantor has been assigned long term credit ratings of BBB (stable outlook), Baa3 (stable outlook), BBB (stable outlook), respectively, by S&P, Moody's and Fitch.</p> <p>As at the date of this Prospectus, the Guarantor has been assigned short term credit ratings of A2, P3 and F3, respectively, by S&P, Moody's and Fitch.</p>

Section C – The Instruments		
C.1	Description of Type and Class of Instruments:	<p>The Instruments are in bearer form.</p> <p>The Instruments were initially in the form of a temporary global instrument (the "Temporary Global Instrument"), without interest coupons, which was deposited on or around the Issue Date with a common depository for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, <i>société anonyme</i>, Luxembourg ("Clearstream, Luxembourg"). The Temporary Global Instrument was exchangeable, in whole or in part, for interests in a permanent global instrument (the "Permanent Global Instrument"), without interest coupons, not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Instruments cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Instrument will be exchangeable for Instruments in definitive form only in the certain limited circumstances set out in the Terms and Conditions of the Instruments.</p> <p>The denominations of the Instruments are EUR 100,000, EUR 10,000 and EUR 1,000.</p> <p>Security Identification Numbers:</p> <p><i>ISIN Code: XS0162869076</i></p> <p><i>Common Code: 016286907</i></p>
C.2	Currency of the Instruments Issue:	The currency of the Instruments is Euro (" EUR ").
C.5	Free Transferability:	The Instruments are freely transferable, however, the Issuer, the Guarantor and the Managers have agreed restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, the Kingdom of Spain, The Netherlands, Switzerland, The Republic of France, the Federal Republic of Germany and Japan.
C.8	The Rights Attaching to the Instruments, including Ranking and Limitations to those Rights:	<p>Status of the Instruments: The Instruments are issued on an unsubordinated basis.</p> <p>Status of the Guarantee: The Instruments are unconditionally and irrevocably guaranteed by the Guarantor, on an unsubordinated basis.</p> <p>Negative Pledge: So long as the Instruments remain outstanding, each of the Issuer and the Guarantor has undertaken that it will not create or have outstanding any encumbrance upon the whole or any part of its assets, present or future, in order to secure any capital markets</p>

Section C – The Instruments		
		<p>indebtedness issued or guaranteed by the Issuer, the Guarantor or by any other person.</p> <p>Cross Default: The Instruments will have the benefit of a cross default subject to a threshold of EUR 50,000,000.</p> <p>Taxation: All payments in respect of Instruments are made free and clear of withholding taxes of the Netherlands or The Kingdom of Spain, as the case may be, unless the withholding is required by law. In that event, the Issuer or, as the case may be, the Guarantor, will, subject to customary exceptions, pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Instruments had no such withholding been required.</p> <p>Governing Law: English law.</p> <p>Enforcement of Instruments in Global Form: In the case of Instruments in global form, individual investors' rights against the Issuer are governed by a Deed of Covenant dated 3 July 2002, a copy of which is available for inspection at the specified office of the Fiscal Agent.</p>
C.9	The Rights Attaching to the Instruments (Continued), Including Information as to Interest, Maturity, Yield and the Representative of the Holders:	<p>Interest: The Instruments bear interest from and including the Issue Date, payable on each Interest Payment Date at a rate of 5.875 per cent.</p> <p>Maturities: Unless previously redeemed or purchased and cancelled in accordance with the terms and conditions of the Instruments, the Instruments will mature on 14 February 2033.</p> <p>Redemption: The Instruments are redeemable at par.</p> <p>Indication of yield: The initial yield of the Instruments on the Issue Date was 5.89 per cent., calculated using the relevant Issue Price at the relevant Issue Date.</p> <p>Representative of the Holders of the Instruments: Not applicable.</p>
C.10	Derivative Components:	Not applicable.
C.11	Listing and Trading:	Application has been made to Euronext Dublin for the Instruments to be admitted to its Official List and to trading on the regulated market of Euronext Dublin.

Section D – Risks		
D.2	<p>Risks Specific to the Issuer:</p> <p>Risks Specific to the Guarantor:</p>	<p>No regulation of the Issuer by any regulatory authority.</p> <p>The Issuer is not required to be licensed, registered or authorised under any current relevant laws in the Netherlands, and will operate without supervision by any authority in any jurisdiction. Regulatory authorities in one or more jurisdictions may decide, however, that the Issuer is subject to certain laws in such jurisdiction, which could have an adverse impact on the Issuer or the holders of Instruments.</p> <p>Worsening of the economic and political environment could negatively affect Telefónica's business.</p> <p>Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to diverse legislation, as well as to the political and economic environments of the countries in which it operates. Any adverse</p>

	<p>developments or even uncertainties in this regard, including exchange-rate or sovereign-risk fluctuations, may adversely affect the Guarantor's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.</p> <p><i>The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates or interest rates.</i></p> <p>If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial position, results of operations and/or cash flows.</p> <p><i>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.</i></p> <p>The operation, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the implementation of Telefónica's strategic plan and new technologies, the renewal of licences or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing. A decrease in the liquidity of Telefónica, or a difficulty in refinancing maturing debt or raising new funds as debt or equity could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations and/or cash flows.</p> <p><i>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.</i></p> <p>The telecommunications sector is subject to laws and sector-specific regulations in the majority of the countries where the Group operates. Additionally, many of the services the Group provides require the granting of a licence, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to the acquisition of spectrum capacity. Among the main 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.</p> <p><i>Telefónica may not anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards, which could adversely affect Telefónica's business and reputation.</i></p> <p>To maintain and improve its position in the market <i>vis-à-vis</i> its competitors, it is vital that Telefónica has the ability to anticipate and adapt to the evolving needs and demands of its customers, and that it avoids commercial actions that may generate a negative perception of the Group or the products and services it offers, or that may have or be perceived to have a negative impact on society. In addition to harming Telefónica's reputation, such actions could also result in fines and other sanctions. If Telefónica were not able to anticipate or adapt to the evolving needs and demands of its customers or avoid inappropriate actions, its reputation could be adversely affected or it could otherwise have an adverse effect on</p>
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		<p>the business, financial condition, results of operations and/or cash flows of the Group.</p> <p><i>Telefónica's competitive position in some markets could be affected by the evolution of competition and market consolidation.</i></p> <p>The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors. The Group may also fail to meet its growth plans or to retain its customers, any of which may result in the decrease of the Group's profits and revenue margins. If Telefónica is not able to face the challenges posed by its competitors, the business, financial condition, results of operations and/or cash flows of the Group could be negatively affected.</p> <p><i>Telefónica operates in a sector characterised by rapid technological changes and it may not be able to anticipate and adapt to such changes or select the right investments to make.</i></p> <p>The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications. While automation and other digital processes may lead to significant cost and efficiency gains, there are also significant risks associated with such transformation processes. If Telefónica were not able to anticipate and adapt to the technological changes and trends in the sector, or to properly select the investments to be made, this could negatively affect the Group's business, financial condition, results of operations and/or cash flows.</p> <p><i>Telefónica depends on its suppliers.</i></p> <p>The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that a participant in the supply chain engages in practices that do not meet acceptable standards or that otherwise fail to meet Telefónica's performance expectations. This may include delays in the completion of projects or deliveries, poor-quality execution, cost deviations and inappropriate practices.</p> <p><i>Unanticipated network interruptions can lead to quality loss or the interruption of the service.</i></p> <p>Unforeseen network interruptions due to system failures, including those due to natural disasters caused by natural or meteorological events or phenomena, network failures, hardware or software failures, theft of network elements or cyber-attacks that affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group, could cause customer dissatisfaction, a reduction in revenues and traffic, the realisation of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, and damage to the image and reputation of the Telefónica Group or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.</p>
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		<p><i>Information technology is key to the Group's business and it could be subject to cybersecurity risks.</i></p> <p>The Group operates in an environment increasingly prone to cyber-threats. Consequently, it is necessary for the Group to continue to advance its capacity to identify and detect technical threats and vulnerabilities and improve its ability to react to incidents. This includes the need to strengthen security controls in the supply chain as well as to place increased focus on security measures adopted by partners of the Group and other third parties. Telecommunications companies worldwide face increasing cybersecurity threats as businesses have become increasingly dependent on telecommunications and computer networks and have adopted cloud computing technologies. Cybersecurity threats may include gaining unauthorised access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, corrupt Telefónica's data or disrupt its operations. Unauthorised access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones and intelligence gathering by employees with access. Further, the Group's employees or other persons may have unauthorised or authorised access to the Group's systems and/or take actions that affect the Group's networks in an inconsistent manner with the Group's policies or otherwise adversely affect the Group or its ability to adequately process internal information.</p> <p><i>Possible regulatory, business, economic or political changes and other factors could lead to asset impairment.</i></p> <p>The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognise impairments in goodwill, intangible assets, property, plant and equipment or financial assets. Although the recognition of impairments of these assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations</p> <p><i>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.</i></p> <p>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. Any of the foregoing could have an adverse effect on the business,</p>
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		<p>financial position, results of operations and/or cash flows of the Group.</p> <p><i>Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings.</i></p> <p>Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows.</p> <p><i>The telecommunications industry could be affected by factors related to sustainability and the environment. It could also be affected by the possible effects that electromagnetic fields could have on health.</i></p> <p>Telefónica's operations and assets (including its towers and submarine cables) are located in many areas that are subject to natural disasters and severe weather, and which may be adversely affected in the future by climate change. Climate-related factors, such as heat waves, drought, sea levels, storms or flooding, could lead to unanticipated network interruptions and costly repairs, and negatively impact the demand for Telefónica's services in affected areas.</p> <p>In addition, government restrictions, standards, or regulations intended to reduce greenhouse gas emissions or potential climate change impacts are likely to result in increased energy, transportation, or raw material and other supply costs.</p> <p>The telecommunications industry could also be affected by the possible effects that electromagnetic fields emitted by mobile devices and base stations could have on health, as well as by concerns relating to such matters. Concerns about electromagnetic fields may discourage the use of mobile telephony and new digital services, and may lead government authorities to impose significant restrictions on the location and operation of antennas or cells and the use of radio frequencies by mobile phones, as well as the deployment of smart meters and other products that use mobile technology.</p> <p>Any of the foregoing could have an adverse effect on the business, financial position, results of operations and/or cash flows of the Group.</p>
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D.3	Risks Specific to the Instruments:	<p><i>The Issuer may redeem the Instruments under certain circumstances.</i></p> <p>Holders should be aware that the Instruments may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued interest) in the event of certain changes affecting taxation in the Netherlands (in the case of the Issuer) or the Kingdom of Spain (in the case of the Guarantor). The relevant redemption amount may be less than the then current market value of the Instruments.</p> <p><i>Fixed rate instruments have a market risk.</i></p> <p>A holder of an instrument with a fixed interest rate is exposed to the risk that the price of such instrument falls as a result of changes in the current interest rate on the capital market (the "Market Interest Rate"). While the nominal interest rate of a instrument with a fixed interest rate is fixed during the life of such instrument or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such instrument to change. If the Market Interest Rate increases, the price of such instrument typically falls. If the Market Interest Rate falls, the price of an instrument with a fixed interest rate typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Instruments and can lead to losses for the holders of the Instruments if they sell the Instruments.</p> <p><i>Any decline in the credit ratings of the Issuer and/or the Guarantor may affect the market value of the Instruments.</i></p> <p>The rating assigned to the Instruments may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. In addition, any rating agency may change its methodologies for rating securities with features similar to the Instruments in the future. If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Instruments were to be subsequently lowered, this may have a negative impact on the trading price of the Instruments.</p> <p>Risks related to the Instruments generally</p> <p><i>Majority decisions bind all Holders.</i></p> <p>The Terms and Conditions of the Instruments contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of the Instruments including Holders of the Instruments who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.</p> <p><i>Change of law.</i></p> <p>The Terms and Conditions of the Instruments are based on laws in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to relevant law or administrative practice after the date of this Prospectus.</p>
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Section E – Offer		
E.2b	Reasons for the Offer and Use of Proceeds:	The net proceeds of the issue of the Instruments were applied by the Issuer to meet part of its general financing requirements.

E.3	Terms and Conditions of the Offer:	Not applicable. No offer of the Instruments is being made pursuant to this Prospectus.
E.4	Interests Material to the Issue:	<p>The managers of the initial issue of the Instruments were paid combined management and underwriting commission and a selling commission.</p> <p>Save for the foregoing, so far as the Issuer and the Guarantor are aware, no person involved in the issue had an interest material to the issue.</p>
E.7	Estimated Expenses:	No expenses were chargeable by the Issuer to an investor in connection with the issue of the Instruments.

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 Issuer and the Guarantor and the industries in which each of them operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the Terms and Conditions of the Instruments below, or elsewhere in this Prospectus, have the same meanings in this section.

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

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

Risks relating to the Issuer and the Guarantor

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

No regulation of the Issuer by any regulatory authority.

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

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

Group- Related Risks

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

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

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

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

implementing and by how Greece continues to manage its ongoing banking and economic restructuring process, after the country's recent exit from its bailout programme.

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

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

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

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

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

Mexico has a high commercial and financial exposure to the United States, which could generate uncertainty. Domestically, there is also uncertainty surrounding the new government's political agenda, despite having a relatively stable economic outlook. Both the political management by the new government of the structural achievements made in recent years and the final approval of the Agreement between the United States, Mexico and Canada ("USMCA") are expected to have a material impact on the economy.

While the signing of USMCA has significantly reduced uncertainty, it has not eliminated it, as the agreement still needs to be ratified by the respective national legislative chambers. Any higher than expected increase in interest rates in the United States and/or a possible re-negotiation of trade agreements between the above mentioned countries could result in higher restrictions on imports into the United States, which, together with political uncertainty surrounding such matters, could negatively impact economic activity and exchange rates in Mexico. The relative weight of Mexico in the consolidated revenues of the Telefónica Group was 2.4 per cent. in 2018.

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

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

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

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

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

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

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

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

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

constant currency and balance position equivalent to the position at that date and taking into account the derivative financial instruments arranged by the Group.

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

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

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

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

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

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

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

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

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

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

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

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available at 31 December 2018. As of 31 December 2018, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of EUR 12,219 million

(EUR 11,887 million of which were due to expire in more than 12 months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of 31 December 2018, 2.7 per cent. of the aggregate undrawn amount under credit lines was scheduled to expire prior to 31 December 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to concessions and licences previously granted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulation of wholesale services

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

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

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

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

MTRs for subsequent periods will be decided in 2019.

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

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

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

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

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

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

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

Regulation of universal service obligations

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

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

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

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

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

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

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

Regulation of fiber networks

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

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

Regulations on privacy

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

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

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

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

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

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

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

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

Regulation of network neutrality

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Telefónica depends on its suppliers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks in relation to Spanish Taxation.

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

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

This information must be provided by the Fiscal Agent to the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee), before the close of business on the Business Day (as defined in the 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 Fiscal 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 Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the Instruments. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

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

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

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

of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities (see "*Taxation — Spanish Tax — Payments made by the Guarantor*").

Risks related to the structure of the Instruments

The Issuer may redeem the Instruments under certain circumstances.

Holder should be aware that the Instruments may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued interest) in the event of certain changes affecting taxation in the Netherlands (in the case of the Issuer) or the Kingdom of Spain (in the case of the Guarantor), as defined in the Terms and Conditions of the Instruments.

The redemption at the option of the Issuer may affect the market value of the Instruments. During any period when the Issuer may elect to redeem the Instruments, the market value of the Instruments generally will not rise substantially above the price at which they can be redeemed. The relevant redemption amount may thus be less than the then current market value of the Instruments.

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

Fixed rate securities have a market risk.

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

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

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

In addition, each of S&P, Moody's and Fitch, or any other rating agency may change its methodologies for rating securities with features similar to the Instruments in the future. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Instruments sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Instruments were to be subsequently lowered, this may have a negative impact on the trading price of the Instruments.

Risks related to the Instruments generally

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

Majority decisions bind all Holders.

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

Change of law.

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

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

The Instruments will be represented by the Global Instruments except in certain limited circumstances described in each Permanent Global Instrument. The Global Instruments are deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in each Permanent 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 the Global Instruments, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

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

Exchange rate fluctuations may affect the value of the Instruments.

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

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

INFORMATION INCORPORATED BY REFERENCE

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

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

For ease of reference, the tables below set out:

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

Telefónica Europe B.V.

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Telefónica, S.A.

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

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

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

TERMS AND CONDITIONS OF THE INSTRUMENTS

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following are the Terms and Conditions of the Instruments which, as supplemented, modified or replaced in relation to any Instruments by the relevant Pricing Supplement, will be applicable to each Series of Instruments:

The Instruments are issued pursuant to and in accordance with an issue and paying agency agreement (as amended, supplemented, restated or replaced from time to time, the **Issue and Paying Agency Agreement**) dated 12 November 1996 and amended and restated on 3 July, 2002, and made between Telefónica Europe B.V. (the **Issuer**), Telefónica, S.A. (the **Guarantor**), Bankers Trust Company (succeeded by Deutsche Bank AG London) in its capacities as fiscal agent (the **Fiscal Agent**, which expression shall include any successor to Deutsche Bank AG London in its capacity as such) and as principal registrar (the **Principal Registrar**, which expression shall include any successor to Deutsche Bank AG London in its capacity as such), Bankers Trust Luxembourg S.A. (now Deutsche Bank Luxembourg S.A.) in its capacity as first alternative registrar (the **First Alternative Registrar**, which expression shall include any successor to Deutsche Bank Luxembourg S.A. in its capacity as such) and the paying agents named therein (the **Paying Agents**, which expression shall include the Fiscal 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 3 July, 2002 and executed by the Issuer in relation to the Instruments and a deed of guarantee (the **Guarantee**) dated 3 July, 2002, executed by the Guarantor in favour of, *inter alia*, the Holders (as defined below). Copies of the Issue and Paying Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Principal Registrar and the First 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 a pricing supplement (each, a **Pricing Supplement**), a copy of which will be available for inspection during normal business hours at the specified office of the Fiscal Agent and/or, as the case may be, the Registrar (as defined in Condition 2.02). In the case of a Tranche of Instruments in relation to which application has not been made for listing on any stock exchange, copies of the Pricing Supplement will only be available for inspection by a Holder of, or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.

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 Pricing Supplement are to the Pricing Supplement(s) prepared in relation to the Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by the Pricing Supplement.

1. Form and Denomination

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

Bearer Instruments

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

Where the Pricing Supplement applicable to a Tranche of Bearer Instruments specifies that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Pricing Supplement) 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 Pricing Supplement, 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 Pricing Supplement) 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 Pricing Supplement) and (unless the Pricing Supplement specifies that the TEFRA C Rules are applicable to the Instruments) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system for whose account the Temporary Global Instrument is held) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Pricing Supplement, 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 Pricing Supplement specifies that the TEFRA C Rules are applicable to the Instruments and subject to Condition 1.03, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system for whose account the Temporary Global Instrument is held) has been received by Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") or Clearstream Banking, société anonyme, Luxembourg ("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 Pricing Supplement 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 Pricing Supplement) 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 fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so; or (c) if so specified in the Pricing Supplement, 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 Fiscal 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 Fiscal 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 Pricing Supplement, 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 Pricing Supplement, 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 Pricing Supplement. Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

Denomination of Registered Instruments

1.09 Registered Instruments are in the minimum denomination specified in the Pricing Supplement or integral multiples thereof.

Currency of Instruments

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

Partly Paid Instruments

1.11 Instruments may be issued on a partly paid basis ("Partly Paid Instruments") if so specified in the Pricing Supplement. The subscription moneys therefor shall be paid in such number of instalments ("Partly Paid Instalments"), in such amounts, on such dates and in such manner as may be specified in the Pricing Supplement. The first such instalment shall be due and payable on the date of issue of the Instruments. For the purposes of these Terms and Conditions, in respect of any Partly Paid Instrument, "Paid Up Amount" means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such instalment) the Issuer shall publish a notice in accordance with Condition 14 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date ("Forfeiture Date") as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (referred to in Condition 5.02) (in the case of non-interest bearing Instruments, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 5.09).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, the Issuer shall on the Forfeiture Date forfeit all of the Instruments in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Instruments and shall be discharged from any obligation to repay such amount or to pay interest thereon, or (where such Instruments are represented by a Temporary Global Instrument or a Permanent Global Instrument) to exchange any interests in such Instrument for

interests in a Permanent Global Instrument or to deliver Definitive Instruments or Registered Instruments in respect thereof, but shall have no other rights against any person entitled to the Instruments which have been so forfeited.

Without prejudice to the right of the Issuer to forfeit any Instruments, for so long as any Partly Paid Instalment (together with any accrued interest) remains due but unpaid, and except in the case where an Event of Default shall have occurred and be continuing (a) no interests in a Temporary Global Instrument may be exchanged for interests in a Permanent Global Instrument and (b) no transfers of Registered Instruments or exchanges of Bearer Instruments for Registered Instruments may be requested or effected.

Until such time as all the subscription moneys (together with any accrued interest) in respect of Partly Paid Instruments shall have been paid in full and except in the case where an Event of Default shall have occurred and be continuing or if any of Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so, no interests in a Temporary Global Instrument or a Permanent Global Instrument may be exchanged for Definitive Instruments or Registered Instruments.

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.

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 First Alternative Registrar, as specified in the Pricing Supplement, 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 Pricing Supplement) 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 Pricing Supplement, 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 Fiscal 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 Fiscal 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 Fiscal 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 Fiscal Agent, in the place where the specified office of the Fiscal 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 Fiscal Agent or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Fiscal 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

3A.01 This Condition 3A is applicable in relation to Instruments specified in the Pricing Supplement as being unsubordinated or not specified as being subordinated (“**Unsubordinated Instruments**”).

3A.02 The Instruments constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as aforesaid) rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, except as may be preferred by law.

3B Status – Subordinated Instruments

Instruments may be issued on a subordinated basis (“**Subordinated Instruments**”), as specified in the Pricing Supplement.

3C Status – Unsubordinated Guarantee

This Condition 3C is applicable to all Instruments other than those which are specified in the Pricing Supplement 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, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, except for indebtedness that (i) has been evidenced by means of a Spanish Public Document, or (ii) is preferred by law.

“**Spanish Public Document**” means a public deed granted before, or document or instrument witnessed by, a Notary (which term also includes the former Official Stockbrokers and Commercial Notaries) (*escritura pública otorgada ante, o póliza o efecto intervenido por, Notario (término que engloba a los antiguos Corredores Oficiales de Comercio y Agentes de Cambio y Bolsa)*).

3C.02 The Guarantor undertakes not to evidence by means of a Spanish Public Document 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 (i) is, pursuant to mandatory provisions of the laws of the Kingdom of Spain, required to be notarised or intervened as aforesaid or (ii) consists of debt securities convertible into equity of the Guarantor.

3D Status – Subordinated Guarantee

Instruments may, if so specified in the applicable Pricing Supplement, be guaranteed on a subordinated basis.

4. Negative Pledge

So long as any of the Instruments of a Series remains outstanding (as defined in the Issue and Paying Agency Agreement) each of the Issuer and the Guarantor undertakes that it will not create or have outstanding any Encumbrance (as defined below) upon the whole or any part of its assets, present or future, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by the Issuer, the Guarantor or by any other Person (as defined below) unless (a) such Instruments are equally and rateably secured therewith, or (b) such other security is provided as the holders of the Instruments of the relevant Series shall approve by an Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement), 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, in the case of Encumbrances on the Guarantor's assets, or to residents of The Netherlands, in the case of Encumbrances on the Issuer's assets, (ii) by its terms matures within one year of its date of issue, or (iii) the Encumbrance affects the assets of an entity which, when the Encumbrance was created, was unrelated to the Issuer or the Guarantor, and which was subsequently acquired by the Issuer or the Guarantor; and provided, further, that nothing in this Condition 4 shall limit the ability of the Issuer or the Guarantor, as the case may be, to grant or permit to subsist Encumbrances over any or all of their respective present or future assets to secure Relevant Indebtedness issued or guaranteed by the Issuer, the Guarantor or any other Person, to the extent that the aggregate principal amounts so secured do not exceed 5% of the consolidated net tangible assets (as defined below) of the Guarantor, as reflected in the most recent balance sheet (prepared in accordance with such accounting principles as are generally accepted in the Kingdom of Spain 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 expressions "assets" and "obligations for the payment of borrowed money" as used in the definition of Relevant Indebtedness do not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in The Netherlands or the Kingdom of Spain, as the case may be, need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.

As used in this Condition 4, "consolidated net tangible assets of the Guarantor" means the total amount of assets of the Guarantor and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deduction of (i) deferred charges, (ii) goodwill in consolidation, (iii) intangible assets, and (iv) amounts due from stockholders for uncalled capital; and "Subsidiary" has the meaning given in Condition 18.

5. Interest

Interest

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

Interest-bearing Instruments

5.02 Instruments which are specified in the Pricing Supplement 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 Pricing Supplement specifies the Interest Rate applicable to the Instruments as being Floating Rate it shall also specify which page (the "Relevant Screen Page") on the Reuters Screen or Telerate 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 offered rate for deposits (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 rates for deposits) 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, on any Interest Determination Date, no such rate for deposits so appears (or, as the case may be, if fewer than two such rates for deposits so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as aforesaid) of the rates 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 pricing supplement), 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;
- (iii) 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
- (iv) 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 relevant margin (the "Relevant Margin") specified in the Pricing Supplement 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 Relevant 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 Rate Instruments

5.04 If the Pricing Supplement specifies the Interest Rate applicable to the Instruments as being ISDA Rate, each Instrument shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction with the Holder of such Instrument under the terms of an agreement to which the ISDA Definitions applied and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Fixed Price Payer, Floating Rate Payer, Floating Amount Payer or, as the case may be, the Floating Price Payer is the Issuer (as specified in the Pricing Supplement);

- the Effective Date is the Interest Commencement Date;
- the Termination Date is the Maturity Date;
- the Calculation Agent is the Calculation Agent as defined in Condition 5.09;
- the Calculation Periods are the Interest Accrual Periods;
- the Period End Dates are the Interest Period End Dates;
- the Payment Dates are the Interest Payment Dates;
- the Reset Dates are the Interest Period End Dates;
- the Calculation Amount is the principal amount of such Instrument;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Pricing Supplement or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the Applicable Business Day Convention applicable to any date is that specified in the Pricing Supplement or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Pricing Supplement.

Maximum or Minimum Interest Rate

5.05 If any Maximum or Minimum Interest Rate is specified in the Pricing Supplement, 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 Pricing Supplement 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 Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Fiscal Agent or, as the case may be, the Registrar 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 Pricing Supplement, 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 Fiscal Agent, the Registrar (in the case of Registered Instruments), the Issuer, the Guarantor, the Holders in accordance with Condition 14 and, if the Instruments are listed on a stock exchange and such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the relevant stock exchange. The Interest Amounts (provided that any modifications are de minimis) and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Instruments become due and payable

under Condition 7, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer, the Guarantor 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 any Instrument for any period shall be calculated by multiplying the product of the Interest Rate and the Outstanding Principal Amount by the Day Count Fraction (as defined in Condition 5.09), save that if the Pricing Supplement specifies a specific amount in respect of such period, the amount of interest payable in respect of such Instrument for such period will be equal to such specified 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 Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) 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 "Applicable Business Day Convention" means the "Business Day Convention" which may be specified in the Pricing Supplement as applicable to any date in respect of the Instruments unless the Pricing Supplement 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 a day:

- (i) in relation to Instruments denominated or payable in euro, on which the TARGET System is operating;
- (ii) in relation to Instruments payable in any other currency, 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
- (iii) in either case, on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the relevant Pricing Supplement.

"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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement as the Calculation Agent.

"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 Pricing Supplement and:

- (i) If **"Actual/Actual (ISMA)"** 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 (ISMA)"** 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/365"** or **"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"**, **"360/360"** or **"Bonds Basis"** is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes the last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vii) If **"30E/360"** or **"Eurobond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless,

in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

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.

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

"**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 Pricing Supplement) or such other date as may be specified as such in the Pricing Supplement.

"**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 Pricing Supplement 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 date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement and, if an Applicable Business Day Convention is specified in the Pricing Supplement, 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 Pricing Supplement as being the Interest 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, or determined in accordance with the provisions of, the Pricing Supplement and, if an Applicable Business Day Convention is specified in the Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement, 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, or calculated or determined in accordance with the provisions of, the Pricing Supplement.

"**ISDA Definitions**" means the 2000 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 Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.)).

"**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, in the case of a Partly Paid Instrument, the Paid Up Amount of such Instrument or otherwise as indicated in the Pricing Supplement.

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

"**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 Pricing Supplement 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).

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) system.

"**Telerate**" means, when used in connection with any designated page and any designated information, the display page so designated on the Telerate Services of Bridge Information Systems (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying such information).

Non-Interest Bearing Instruments

5.10 If any Maturity Redemption Amount (as defined in Condition 6.01) in respect of any Instrument which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Pricing Supplement or at such other rate as may be specified for this purpose in the Pricing Supplement 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 Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Fiscal Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.08 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Pricing Supplement or, if not so specified, 30E/360 (as defined in Condition 5.09).

6. Redemption and Purchase

Redemption at Maturity

6.01 Unless previously redeemed, or purchased and cancelled, or unless such Instrument is stated in the Pricing Supplement as having no fixed maturity date, each Instrument shall be redeemed at its maturity redemption amount (the "**Maturity Redemption Amount**") (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Pricing Supplement) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts

("Instalment Amounts") as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement) 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 Pricing Supplement.

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 Netherlands (in the case of the Issuer) or the Kingdom of Spain (in the case of the Guarantor) 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 Pricing Supplement, (1) the Issuer or, as the case may be, the Guarantor (if a demand were made under the Guarantee) would be required to pay additional amounts as provided in Condition 8 or (2) the Guarantor or any Subsidiary of the Guarantor is or would be required to deduct or withhold tax on any payment to the Issuer to enable the Issuer to make any payment (whether in respect of principal, premium, interest or otherwise); (ii) in each case, the payment of such additional amount in the case of (1) above or such deduction or withholding in the case of (2) above cannot be avoided by the Issuer or the Guarantor or such Subsidiary taking reasonable measures available to it and (iii) such circumstances are evidenced by the delivery by the Issuer or the Guarantor to the Fiscal Agent of a certificate signed by one director of the Issuer or two directors of the Guarantor stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the "Early Redemption Amount (Tax)") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) thereon provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

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

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

Optional Early Redemption (Call)

6.03 If this Condition 6.03 is specified in the Pricing Supplement as being applicable, then the Issuer may, having given the appropriate notice and subject to such conditions as may be specified in the Pricing Supplement, redeem all (but not, unless and to the extent that the Pricing Supplement specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "Early Redemption Amount (Call)") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as described in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) thereon on the date specified in such notice.

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

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

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than 30 days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates ("Call Option Date(s)") or a day falling within such period ("Call Option Period"), as may be specified in the Pricing Supplement and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the Early 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 Condition 6.03 and 6.04:

- in the case of Bearer Instruments (other than a Temporary Global Instrument or Permanent Global Instrument), the Instruments to be redeemed shall be drawn by lot in such European city as the Fiscal Agent may specify, or identified in such other manner or in such other place as the Fiscal 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 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 listing authority, stock exchange and/or quotation system (if any) on which the relevant Instruments may have been admitted to listing, trading and/or quotation.

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

Optional Early Redemption (Put)

6.06 If this Condition 6.06 is specified in the Pricing Supplement 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 "Early Redemption Amount (Put)") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as described in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) 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 ("Put Date(s)") or a day falling within such period ("Put Period") as may be specified in the Pricing Supplement), 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 Pricing Supplement or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

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

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

Purchase of Instruments

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

Cancellation of Redeemed and Purchased Instruments

6.08 All unmatured Instruments redeemed in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold. Unmatured Instruments, Receipts and Coupons purchased in accordance with this Condition 6 may, at the option of the issuer, be cancelled, reissued or, as the case may be, resold.

Further Provisions applicable to Redemption Amount and Instalment Amounts

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

6.10 References herein to "Redemption Amount" shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement.

6.11 In the case of any Instrument which is non-interest bearing, the "Amortised Face Amount" shall be an amount equal to the sum of:

- (i) the Issue Price specified in the Pricing Supplement; and
- (ii) the product of the Amortisation Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Pricing Supplement to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 5.09) specified in the Pricing Supplement for the purposes of this Condition 6.11.

6.12 If any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.11 but as if references in subparagraph (ii) to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:

- (i) the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made; and
- (ii) (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 Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

7. Events of Default

7.01 The following events or circumstances as modified by, and/or such other events as may be specified in, the Pricing Supplement (each an "Event of Default") shall be acceleration events in relation to the Instruments of any Series, namely:

- (i) if 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) if the Issuer fails to perform any other obligation arising from the Instruments of that Series or the Guarantor fails to perform any other obligation arising under the Guarantee of such Instruments and such failure continues for more than 60 days (90 days if the failure to perform relates to an obligation of the Issuer or the Guarantor arising under Condition 18) following the service by 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) if the Issuer or the Guarantor fails to fulfill (taking into account any applicable grace periods) any payment obligation in excess of €50,000,000 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) if the holders of any Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of €50,000,000 or its equivalent in any other currency as a result of the Issuer or the Guarantor entering into a transaction described under Condition 18, which transaction constitutes an event of default in respect of such other Relevant Indebtedness; or
- (v) (1) the Issuer or the Guarantor announces its inability to meet its financial obligations or files a petition before a court for a suspension of payments (*surséance van betaling* in The Netherlands, *suspensión de pagos* in Spain); or (2) if a court opens insolvency proceedings against the Issuer or Guarantor or imposes special measures (*bijzondere voorzieningen*) on the Issuer within the meaning of Chapter X of The Netherlands Act on the Supervision of Credit Institutions (*Wet toezicht kredietwezen 1992*); or (3) if 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) if the Issuer or Guarantor makes a filing seeking relief under any applicable bankruptcy or insolvency laws; or
- (vi) if the Guarantee ceases to be valid or legally binding for any reason.

7.02 If any Event of Default shall have occurred and be continuing in relation to any Series of Instruments, any Holder of an Instrument of the relevant Series may, by written notice to the Issuer and the Guarantor, declare that such Instrument and (if the Instrument is interest-bearing) all interest then accrued but unpaid on such Instrument shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the **Early Termination Amount**) (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with all interest (if any) 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.

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 Netherlands (in the case of payment by the Issuer) or the Kingdom of Spain (in the case of payment by the Guarantor) 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) presented for payment in Spain or The Netherlands; or
- (ii) 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 Netherlands (in the case of payments by the Issuer) or the Kingdom of Spain

(in the case of payments by the Guarantor) 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

- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) where the relevant Instrument or Coupon is 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 EU; or
- (v) presented for payment more than thirty 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
- (vi) presented for payment by or on behalf of any Holder who has failed to comply with any applicable certification, documentation, request for information or other reporting requirements concerning the Holder's nationality, residence, identity or connection with The Netherlands or Spain, as the case may be, if such compliance is required as a pre-condition to relief or exemption from such taxes or other governmental charges (including, without limitation, a certification that the Holder is not an individual resident of a member state of the European Union).

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 Fiscal Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14.

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

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

9. Payments

9A Payments – Bearer Instruments

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

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

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

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

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

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

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

9A.05 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day and a local banking day (both as defined in Condition 9C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, if appropriate, Condition 5.10.

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

- (iv) in the case of Definitive Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

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

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

9B Payments – Registered Instruments

9B.01 This Condition 9B is applicable in relation to Instruments in registered form.

9B.02 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments will be made 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 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 9C.03), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.10.

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 opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.06) before the due date for such payment (the "Record Date").

9B.04 Notwithstanding the provisions of Condition 9C.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 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 Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant

Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.06 or, as appropriate, Condition 5.10.

9C Payments – General Provisions

9C.01 Save as otherwise specified in these Terms and Conditions, this Condition 9C is applicable in relation to Instruments whether in bearer or in registered form.

9C.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) by cheque (in the case of payment in sterling, drawn on a town clearing branch of a bank in the city of London) or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

9C.03 For the purposes of these Terms and Conditions:

- (i) **“Relevant Financial Centre Day”** means, in the case of any currency other than euro, 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 Pricing Supplement or in the case of payment in euro, a day on which the TARGET System is operating; 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.

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

9D Redenomination

9D.01 Where Redenomination is specified in the relevant Pricing Supplement 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, elect that, with effect from the Redenomination Date (as defined below) specified in the notice, the Instruments shall be redenominated in euro.

9D.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 Pricing Supplement 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 Fiscal 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.

9E Exchangeability

Where Exchangeability is specified in the applicable Pricing Supplement 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, 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 Fiscal 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 Community regulations) into euro established by the Council of the European Union pursuant to Article 1091(4) of the Treaty;
- (ii) "**euro**" means the currency of participating member states of the European Union that adopt the single currency introduced at the start of the third stage of European economic and monetary union in accordance with the Treaty;
- (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, in the case of interest-bearing Instruments, any date for payment of interest under the Instruments or, in the case of zero coupon Instruments, any date, in each case 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 Pricing Supplement;
- (vi) "**Specified Denomination**" means the denomination specified in the relevant Pricing Supplement;
- (vii) "**Treaty**" means the Treaty establishing the European Communities as amended by the Treaty on European Union.

10. Prescription

10.01 Claims against the Issuer for payment, whether of principal and interest or otherwise, in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.02) for payment thereof.

10.02 In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9A.06 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

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

11.01 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Pricing Supplement. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal 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) a Fiscal Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Fiscal 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 of the UK Listing Authority and/or any other listing authority, stock exchange and/or quotation system and the rules of the UK Listing Authority and/or such other listing authority, stock exchange and/or quotation system so require, a Paying Agent (which may be the Fiscal 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 any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive (in the case of (i), (ii), (iii) and (vi) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer, failing whom the Guarantor, to the Holders in accordance with Condition 14.

11.02 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and the Guarantor and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

12. Replacement of Instruments

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Pricing Supplement (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 listing 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 listing authority, stock exchange and/or quotation system, subject to all applicable laws and the requirements of any listing 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 and Modification

The Issue and Paying Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Instruments of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Instruments. An Extraordinary Resolution passed at any meeting of the Holders of Instruments of any Series will be binding on all Holders of the Instruments of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Instruments of such Series.

The Issuer may, with the consent of the Fiscal Agent, but without the consent of the Holders of the Instruments of any Series or any Receipts or Coupons, amend these Terms and Conditions, the Agency Agreement and the Deed of Covenant insofar as they may apply to such Instruments where such amendment is of a formal, minor or technical nature, or is made to correct a manifest error or to comply with mandatory provisions of law, or where such amendment is not materially prejudicial to the interests of the Holders of the relevant Instruments. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of an Extraordinary Resolution.

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 Pricing Supplement, 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 Pricing Supplement or, in the case of Instruments which have been redenominated pursuant to Condition 9D, 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 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 Netherlands, a covenant by the Substitute Debtor corresponding to the provisions of Condition 8 with the addition of such territory to the references to The Netherlands;
 - (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.
- (b) **Legal opinion:** the delivery by the Issuer to the Fiscal 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 any company of which the Guarantor has control and "control" for the purpose hereof means the beneficial ownership whether direct or indirect of the majority of the issued share capital or the right to direct the management and policies whether by the ownership of share capital, contract or otherwise.

The Deed Poll shall be deposited with and held by the Fiscal 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 of 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 Netherlands (in the case of a consolidation, merger, conveyance, transfer or lease involving the Issuer) or the Kingdom of Spain (in the case of a consolidation, merger, conveyance, transfer or lease involving the Guarantor), 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 of the Guarantor has delivered to the Fiscal 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.

19. Law and Jurisdiction

19.01 The Instruments and all matters connected with the Instruments are governed by, and shall be construed in accordance with, English law.

19.02 The courts of England have exclusive jurisdiction to settle any dispute (a "Dispute") arising from or connected with the Instruments.

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 Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

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.

PRICING SUPPLEMENT

PRICING SUPPLEMENT

Series No.: 17

Tranche No: 1

**TELEFÓNICA EUROPE B.V.,
incorporated with limited liability under Netherlands law,
having its corporate seat in Rotterdam**

Programme for the Issuance of Debt Instruments

unconditionally and irrevocably guaranteed

by

TELEFÓNICA, S.A.

Issue of

€500,000,000

5.875 per cent. Instruments due 2033

This Pricing Supplement (as referred to in the Information Memorandum in relation to the above Programme) relates to the Tranche of Instruments referred to above and must be read in conjunction with such Information Memorandum. The particulars to be specified in relation to such Tranche are as follows:

1. Issuer: Telefónica Europe B.V.
2. Guarantor: Telefónica, S.A.

DISTRIBUTION

3. Relevant Dealer/Joint-Lead Managers: ABN AMRO Bank N.V., Barclays Bank PLC and J.P. Morgan Securities Ltd.
4. Syndicated: Yes.
5. Other Dealers/Co-Lead Managers (if any): Banco Santander Central Hispano, S.A., BNP PARIBAS, Credit Suisse First Boston (Europe) Limited, Lehman Brothers International (Europe), Morgan Stanley & Co. International Limited and Société Générale.

**GENERAL PROVISIONS
APPLICABLE TO THE
INSTRUMENTS**

6. Status: Unsubordinated.
7. Currency: Euro ("€").
- of Denomination
- of Payment €.
- (Condition 1.10)
8. Aggregate Principal Amount of:
- (i) Series €500,000,000.
- (ii) Tranche €500,000,000.
9. If interchangeable with existing Series, Series No: Not Applicable.
10. Issue Date: 14 February 2003.
11. Issue Price: 98.757 per cent. of the Aggregate Principal Amount.
12. Commission Payable: Combined management and underwriting commission of 0.25 per cent. of the Aggregate Principal Amount and a selling commission of 0.35 per cent. of the Aggregate Principal Amount.
13. Selling Concession: Not Applicable.
14. Expenses: If applicable, the Issuer will bear the cost of printing Definitive Instruments.
15. (a) Form of Instruments: Bearer.
- (b) Bearer Instruments exchangeable for Registered Instruments: No.
16. If issued in Bearer form:
- (a) Initially represented by a Temporary Global Instrument or Permanent Global Instrument: Instruments will be represented initially by a Temporary Global Instrument. Exchanges for a Permanent Global Instrument will be

Permanent Global Instrument:	made not earlier than 40 days after the Issue Date.
Condition 1.02)	
(b) Temporary Global Instrument exchangeable for Definitive Instruments:	No.
Specify date from which exchanges for Registered Instruments will be made: (Condition 1.02)	Not Applicable.
(c) Permanent Global Instrument exchangeable at the option of the Holder for Definitive Instruments. (Condition 1.05)	No.
(d) Issuer to bear cost and expense of exchange of Permanent Global Instrument for Definitive Instruments:	Yes, if applicable.
(e) Coupons to be attached to Definitive Instruments: (Condition 1.06)	Yes, if applicable.
(f) Talons for future Coupons to be attached to Definitive Instruments: (Condition 1.06)	Yes, if applicable.
(g) Receipts to be attached to Instalment Instruments which are Definitive Instruments: (Condition 1.07)	Not Applicable.
(h) (i) Definitive Instruments to be security printed.	Yes, if applicable.
(ii) if the answer to (i) is yes, whether steel engraved plates will be used:	Yes, if applicable.
(i) Definitive Instruments to be in IPMA or successors format:	Yes, if applicable.
17. Denomination(s): (Condition 1.08 or 1.09)	€1,000; €10,000; €100,000.

18. Partly Paid Instruments: No.
(Condition 1.11)

If yes, specify number, amounts and dates for, and method of, payment of instalments of subscription moneys and any further additional provisions (including Forfeiture Dates in respect of late payment of Partly Paid Instalments)

19. If issued in Registered Form
- Registrar: Not Applicable.
(Condition 2.02)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

20. Interest: Interest bearing.
(Condition 5)

(a) If Interest bearing:

(i) Interest Rate: 5.875 per cent. per annum.

(ii) Interest Payment Dates (or if the Applicable Business Day Convention is the FRN Convention specify number of calendar months): 14 February in each year; the first Interest Payment Date will be 14 February 2004.

(iii) Interest Period End Dates (or if the Applicable Business Day Convention is the FRN Convention specify number of calendar months): 14 February in each year.

(iv) Applicable Business Day Convention: No Adjustment.

(v) Definition of Business Day: Condition 5.09 applies.

(vi) Day Count Fraction: Actual/Actual-ISMA.

(vii) Interest Commencement Date (if different from the Issue Date): Not Applicable.

(viii) Relevant Time: Not Applicable.

- (ix) Minimum Interest Rate: Not Applicable.
- (x) Maximum Interest Rate: Not Applicable.
- (xi) Default Interest Rate: Not Applicable.
(Condition 5.02)
- (b) If non-interest bearing: Not Applicable.
 - Amortisation Yield:
 - rate of interest on overdue amounts:
(Condition 5.10)
- 21. Calculation Agent: Not Applicable.
(Condition 5.03)
- 22. Reference Banks: Not Applicable.
(Condition 5.03)
- 23. Maturity Date: 14 February 2033.
(Condition 6.01)
- 24. Dates for payment of Instalment Amounts (Instalment Instruments): Not Applicable.
(Condition 6.01)
- 25. Maturity Redemption Amount: Outstanding Principal Amount.
(Condition 6.01)
- 26. Instalment Amounts: Not Applicable.
(Condition 6.01)

PROVISIONS RELATING TO REDEMPTION

- 27. Early Redemption for Taxation Reasons:
(Condition 6.02)
 - (a) Early Redemption Amount Outstanding Principal Amount.
(Tax):
 - (b) Date after which changes in Subscription Agreement Date.
law, etc. entitle Issuer to redeem:
- 28. Optional Early Redemption (Call) No.
(Condition 6.03):

- (a) Early Redemption Amount Not Applicable.
(Call):
 - (b) Series redeemable in part: Not Applicable.
 - (c) Call Option Date(s)/Call Not Applicable.
Option Period:
29. Optional Early Redemption (Put) No.
(Condition 6.06)
- (a) Early Redemption Amount Not Applicable.
(Put):
 - (b) Put Date(s)/Put Period: Not Applicable.
30. Events of Default (Condition 7.01):
- (a) Early Termination Amount: Outstanding Principal Amount.
 - (b) Any additional (or No.
modifications to) Events of
Default:
31. Payments:
(Condition 9)
- (a) Unmatured Coupons missing Paragraph (i) of Condition 9A.06 applies.
upon Early Redemption:
 - (b) Relevant Financial Centre A day on which the TARGET System is
Day: operating.
(Condition 9C.03)
32. Replacement of Instruments: Condition 12 applies.
(Condition 12):
33. Notices: Condition 14 applies.
(Condition 14)
34. Listing: Application has been made for the
Instruments to be admitted to the Official List
of the UK Listing Authority and for the
Instruments to be admitted to trading on the
London Stock Exchange.
35. Selling Restrictions: As per the Programme.
- United States of America: Not Rule 144A eligible; Regulation S,
Category 2, TEFRA D rules apply.

Exchange Date shall be not earlier than 27 March 2003.

The Netherlands/Global:

Selling restriction I(iv) of the Information Memorandum applies: the Instruments are not and will not be offered anywhere in the world other than to individuals or legal entities who or which trade or invest in securities in the conduct of a business or profession (which includes banks, securities firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which are regularly active in the financial markets in a professional manner).

The Kingdom of Spain:

The Instruments may not be offered, sold or distributed in the Kingdom of Spain save in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1998, de 28 de julio, del Mercado de Valores*) as amended and restated, and Royal Decree 291/1992, of 27 March, on issues and public offerings of securities (*Real Decreto 291/1992, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Venta de Valores*) as amended and restated and the decrees and regulations made thereunder.

Other:

Not Applicable.

36. Stabilising Institution:

In connection with the Instruments, J.P. Morgan Securities Ltd. may over-allot or effect transactions with a view to supporting the market price of the Instruments at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on J.P. Morgan Securities Ltd. to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws,

regulations and rules.

OPERATIONAL INFORMATION

- | | | |
|-----|---|---|
| 37. | ISIN: | XS0162869076. |
| 38. | Common Code: | 016286907. |
| 39. | WKN: | 753897. |
| 40. | Common Depository: | Deutsche Bank AG London. |
| 41. | Any Clearing System other than Euroclear and Clearstream, Luxembourg: | Not Applicable. |
| 42. | Settlement Procedures: | Delivery Against Payment. Customary eurobond settlement and payment procedures apply. |
| 43. | Other Relevant Terms and Conditions: | Not Applicable. |

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Instruments described herein pursuant to the listing of the €8,000,000,000 Programme for the Issuance of Debt Instruments of Telefónica Europe B.V. guaranteed by Telefónica, S.A.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: DAVID MAROTO

Duly authorised

Date: 13 February 2003

SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS IN GLOBAL FORM

The Instruments were initially in the form of a Temporary Global Instrument which was deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg.

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

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

The Permanent Global Instrument will become exchangeable in whole, but not in part, for Instruments in definitive form ("**Definitive Instruments**") in the denominations of EUR 100,000, EUR 10,000 and EUR 1,000 each at the request of the bearer of the Permanent Global Instrument against presentation and surrender of the Permanent Global Instrument to the Fiscal Agent if either of the following events (each, an "**Exchange Event**") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 7 (*Events of Default*) occurs.

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

If:

- (a) the Issuer does not make the required delivery of Definitive Notes 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; or
- (b) the Permanent Global Instrument is not duly redeemed (or the funds required for such redemption are not available to the Fiscal 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 the Permanent Global Instrument became immediately redeemable,

then the Permanent Global Note will become void in accordance with its terms (but without prejudice to the rights conferred by a deed of covenant dated 3 July 2002 (the "**Deed of Covenant**") executed by the Issuer).

Payments: All payments in respect of each Temporary Global Instrument and Permanent Global Instrument will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Instrument or (as the case may be) Permanent Global Instrument to or to the order of any Fiscal Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments.

Payments on business days: In the case of all payments made in respect of a Temporary Global Instrument or a Permanent Global Instrument "**business day**" means a day on which the TARGET System is operating and on which commercial banks are open for business and foreign exchange markets settle payments in any place specified in the relevant Pricing Supplement.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Instruments are represented by the Permanent Global Note and the Permanent Global Note is deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to holders of the Instruments may be given by delivery of the relevant notice 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 and, in any case, such notices shall be deemed to have been given to the holders of the Instruments in accordance

with Condition 14 (*Notices*) on the fourth weekday after the date of such delivery to Euroclear and Clearstream, Luxembourg

USE OF PROCEEDS

The net proceeds of the issue of the Instruments were applied by the Issuer to meet part of its general financing requirements.

DESCRIPTION OF THE ISSUER

Introduction

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

Business

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

Directors

The Directors of the Issuer are as follows:

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

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

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

Auditors

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

DESCRIPTION OF THE GUARANTOR

Introduction

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

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

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

Recent Developments

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

- On 13 March 2019, Telefónica Europe, B.V announced the final results of the invitations to holders to tender for purchase of the following hybrid notes:
 - (i) EUR 850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**EUR 2019 Notes**"),
 - (ii) EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**EUR 2020 Notes**"),

The Issuer accepted validly tendered Notes pursuant to the Offers for purchase in cash in an aggregate principal amount of EUR 934,700,000, of which (i) an amount of EUR 586,500,000 in principal amount relates to the EUR 2019 Notes, and (ii) an amount of EUR 348,200,000 in principal amount relates to the EUR 2020 Notes.

Following the settlement of the Offers and subsequent cancellation of the repurchased Notes, more than 80 per cent. of the initial aggregate principal amount of the EUR 2019 Notes have been purchased and cancelled by the Issuer. Pursuant to the terms and conditions of the EUR 2019 Notes, the Issuer will therefore have the option to redeem (after providing the required notice) all of the remaining outstanding EUR 2019 Notes (in whole but not in part) at their principal amount plus any interest accrued to, but excluding, the relevant day on which the EUR 2019 Notes become due for early redemption in accordance with the Conditions and any Arrears of Interest (as defined in the Conditions).

- On 5 March 2019, Telefónica Europe, B.V priced and closed the terms and conditions of an issuance of Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of Telefónica, S.A., for an aggregate nominal amount of 1,300 million euros subject to a call option exercisable by the Issuer from the sixth anniversary of the issuance date (the "Securities"). The issue price of the Securities is established at 100% of their face value. The Securities will accrue interest at a rate of 4.375% annually as from (and including) the issue date up to (but excluding) 14 March 2025. From (and including) 14 March 2025 the Securities will accrue a fixed rate of interest equal to the applicable 6 year swap rate plus a margin of:
 - 4.107% per year as from 14 March 2025 up to (but excluding) 14 March 2029;

- 4.357% per year as from 14 March 2029 up to (but excluding) 14 March 2045; and
- 5.107% per year as from (and including) 14 March 2045.

The Securities will have a face value per unit of 100,000 euros and will be perpetual, although they will be subject to a call option exercisable by the Issuer on certain dates and at any time upon the occurrence of certain circumstances as set out in the terms and conditions of the Securities. The Issuer may defer payment of the interest accrued on the Securities at its sole discretion (the "Deferred Interest") without triggering an event of default. The Deferred Interest will in turn accrue interest and will be payable at the option of the Issuer at any time or on an obligatory basis in certain circumstances as set out in the terms and conditions of the Securities.

The Securities will be governed by English Law, and it is envisaged that they will be listed and admitted to trading on the regulated market of The Irish Stock Exchange plc, trading as Euronext Dublin.

The issue is addressed exclusively at professional investors and eligible counterparties.

- On 5 March 2019, Telefónica Emisiones, S.A.U., announced the launch in the Euro market under its Guaranteed Euro Programme for the Issuance of Debt Instruments (EMTN Programme) an issuance of Notes guaranteed by Telefónica, S.A. amounting to 1,000 million euros. These Notes are due on 12 March 2029 pay an annual coupon of 1.788% and are issued at par (100%). The settlement and closing date is scheduled for 12 March 2019. Application will be made for the Notes to be listed on the regulated market of The Irish Stock Exchange plc trading as Euronext Dublin.
- On 23 January 2019, Telefónica announced that Telefónica UK Limited had agreed non-binding heads of terms with Vodafone Limited to strengthen their existing network sharing partnership in the United Kingdom. The parties plan to extend the term of their existing network sharing partnership and include 5G capacity at joint radio network sites, and to upgrade transmission networks to support 5G technology. They also intend to devolve more activities to their joint venture company, Cornerstone Telecommunications Infrastructure Limited, which manages passive tower infrastructure.
- On 23 January 2019, Telefónica announced that it was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (*Tribunal Económico-Administrativo Central*) partially upholding the claims filed against the assessments relating to the 2008-2011 Corporate Income Tax Audit. On 15 March 2019 Telefónica was notified an Execution Notice issued by the Agencia Estatal de Administración Tributaria in connection with the Tribunal Económico-Administrativo Central Resolution, ordering a 702 million euro refund to Telefonica pertaining to overpayments made by the company in those tax years. Telefonica is evaluating the available legal actions against this Notice, based among other reasons, on the lack of inclusion of delayed interests. For further information see "*Tax Proceedings – Inspections in the tax group in Spain*" below.
- On 24 January 2019, Telefónica Centroamérica Inversiones, S.L. (60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. of which is owned by Corporación Multi Inversiones), reached an agreement with América Móvil, S.A.B. de C.V. for the sale of the entire share capital of Telefónica Móviles Guatemala, S.A. and 99.3 per cent. of Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica Móviles El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.

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

- On 5 February 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its Guaranteed Euro Programme for the Issuance of Debt Instruments (the "**EMTN Programme**"). These notes are due on 5 February 2024, pay an annual coupon of 1.069 per cent. and were issued at par (100 per cent.). The net proceeds of the notes are to be allocated

towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain.

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

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

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

Business Overview

Highlights

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

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

Accesses	2017	2018	Change year- on-year
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses ⁽¹⁾	36,898.6	34,941.4	(4.3)
Internet and data accesses ⁽²⁾	21,864.6	22,087.5	1.0
Broadband ⁽³⁾	21,417.5	21,645.2	1.1
FTTx/Cable	10,961.6	13,213.1	20.5
Mobile accesses	271,766.9	270,814.9	(0.4)
Prepay	155,868.5	147,062.0	(5.6)
Contract	115,898.4	123,752.9	6.8
M2M	16,137.2	19,483.0	20.7
Pay TV	8,467.7	8,875.4	4.8
Final Clients Accesses	338,997.9	336,719.3	(0.7)
Wholesale Accesses	19,124.9	19,520.0	2.1
Fixed wholesale accesses	4,460.2	3,951.5	(11.4)
Mobile wholesale accesses ⁽⁴⁾	14,664.7	15,568.5	6.2
Total Accesses	358,122.8	356,239.4	(0.5)

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- (1) Includes "fixed wireless" and VoIP accesses.
 - (2) Also referred to as fixed broadband accesses.
 - (3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.
 - (4) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.

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

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

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

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

SEGMENT RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

Telefónica Spain

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

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

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

⁽²⁾ Also referred to as fixed broadband accesses.

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

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

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

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

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

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

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

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

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

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

Telefónica United Kingdom

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

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

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

⁽²⁾ Also referred to as fixed broadband accesses.

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

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

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

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

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

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

Telefónica Germany

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

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

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

⁽²⁾ Also referred to as fixed broadband accesses.

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

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

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

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

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

Telefónica Brazil

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

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

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

⁽²⁾ Also referred to as fixed broadband accesses.

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

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

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

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

Telefónica Hispam Norte

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

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

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

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

(2) referred to as fixed broadband accesses.

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

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

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

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

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

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

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

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

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

Telefónica Hispam Sur

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

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

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

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

(2) Also referred to as fixed broadband accesses.

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

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

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

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

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

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

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

Telefónica's services and products

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

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

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

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

Mobile business

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

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

Fixed-line telephony business

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

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

Digital services

The main highlights in services developed by Telefónica Digital are:

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

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

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

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

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

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

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

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

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

Sales and Marketing

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

Competition

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

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

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

Strategic Partnerships

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

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

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

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

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

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

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

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

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

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

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

Legal Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

On 30 September 2013, Telefónica filed its reply. On 18 December 2013, the European Commission filed its appeal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Telefônica Brasil has not yet paid the fine, although Telefônica Brasil has guaranteed its payment through a guarantee insurance submitted to the court.

The procedure is in the first instance and a date has not yet been set for the conciliation hearing.

Other Proceedings

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

Tax Proceedings

Inspections in the tax group in Spain

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

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

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

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

With respect to the use of tax loss carryforwards in the years subject to settlement during the inspection 2008 to 2011, still under litigation, in November 2017 Telefônica brought a judicial appeal to the Audiencia Nacional, against the alleged dismissal of the claim in the absence of a reply from the authorities. On 23 January 2019, Telefônica announced that it was notified of a resolution issued by the Central Economic-Administrative Court which partially upheld the claims made by Telefônica in connection with the tax inspections for the years 2008 to 2011. Telefônica intends to appeal this resolution (which is pending execution) in respect of such matters that were not resolved in favour of Telefônica.

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

Telefónica Brazil

State taxes

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

To date the most significant issues have focused on the requirement to collect ICMS on penalties charged to customers for non-compliance, Internet advertising services, and complementary or additional services to the basic telecommunications services such as value-added services, modem rental, and the application of this tax on the basic fee (assinatura básica). In the case of the latter (assinatura básica), a case is still pending before the Supreme Court including Oi, which could affect other companies of the telecommunications sector.

All related procedures are being contested in all instances (administrative and court proceedings). The aggregate amount of the relevant proceedings, updated to take into account interest, fines and other items, is approximately 16,295 million Brazilian reais (approximately EUR 3,672 million, see Note 21 to the 2018 Consolidated Financial Statements). Telefónica Brazil has obtained independent expert reports supporting its position, i.e. that the aforesaid services are not subject to ICMS.

Federal taxes

Regarding the income tax (federal tax) the tax authorities proposed adjustments in relation to the tax amortisation in the period from 2011 to 2014 of the goodwill generated by Telefónica Brazil's acquisition and merger with Vivo. The tax inspections were conducted from 2016 to 2018 and the accumulated amount at 31 December 2018 was 8,654 million Brazilian reais (approximately EUR 1,950 million). These proceedings are at the administrative stage and no provisions have been made since the potential risk associated with them has been classified as "not probable" and Telefónica Brazil has received independent expert reports that support this view.

Telefónica del Perú

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

In August 2015, the court of second instance handed down a ruling partially upholding the position of Telefónica del Perú, ruling in its favour on three of the five objections filed by the tax authorities and appealed against to the courts, relating, inter alia, to corporate income tax for 2000 to 2001 (among others). This dispute accounts for more than 75 per cent. of the total amount under litigation, with the objections relating to insolvency provisions, interest on borrowing and leases of space for public telephones. Both the tax authorities and Telefónica del Perú have filed appeals against the decision in higher courts.

The settlements carried out by SUNAT for 2000 and 2001 are in the final stage of the legal process (under review by the Supreme Court) and a ruling has not yet been released as of the date of this Prospectus. In connection with these proceedings in Peru, the Group and its legal advisors consider that the Group's position continues to be based on robust legal arguments.

In January 2019, Telefónica was notified that the Supreme Court handed down a ruling partially upholding its position in relation to certain matters relating to 1998. In particular, on one hand, it has made a final ruling in favour of Telefónica in matters relating to the lease of space for public telephones, and on the other, it has resolved the matter relating to insolvency provisions by annulling the ruling of the court of second instance and returning the case to the court of first instance for it to pass judgment on the matter again.

In parallel to the aforementioned court proceedings, the tax authorities proceeded to collect corporate income tax due for the years 2000 to 2001 and payments on account of corporate income tax in respect of the year 2000. There were successive reductions to the sums claimed in the two cases following appeals filed by Telefónica del Perú against the settlements and due to the precautionary measures imposed.

Telefónica del Perú paid out 286 million Peruvian soles (approximately, EUR 80 million) in 2012 and 2013 pending the final rulings.

In the context of these execution processes, in June 2015 the tax authorities issued Compliance Resolutions demanding payment of 1,521 million Peruvian soles (approximately EUR 431 million). An appeal was filed against this with the Tax Court, and the adoption of precautionary suspension measures duly requested from the legal authorities (as a definitive court ruling on these cases is currently pending). No ruling was made in relation to these appeals in 2018, whilst in January 2018 the Tax Court suspended payment until the final ruling of the Supreme Court.

Given the sentences and rulings handed down in June and August 2015, the Group recognised a provision in its consolidated financial statements, that at 31 December 2018 amounted to 1,697 million Peruvian soles (approximately EUR 439 million). See Note 21 to the 2018 Consolidated Financial Statements.

Tax deductibility of financial goodwill in Spain

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

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

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

As of the date of this Prospectus, the three decisions continue to be subject to a final ruling. The first two were annulled by two judgments of the General Court of the European Union, which were appealed by the EC before the Court of Justice of the European Union and sent again to the General Court by the Judgment dated 21 December 2016, to reassess the tax incentive. In its ruling of 15 November 2018, the General Court confirmed the applicability of the legitimate expectations principle, but considered the "goodwill amortisation" as state aid not compatible with the common market. This ruling has been appealed before the Court of Justice of the European Union.

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

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

Years open for inspection

Years open for inspection in the Group companies

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain the taxes from 2013 onwards are open to inspection.

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

- The last fourteen years in Germany.
- The last nine years in United Kingdom.
- The last seven years in Argentina.
- The last five years in Brazil, Mexico, Uruguay and the Netherlands.
- The last six years in Colombia (except in respect of years in which there were tax losses that are then used to offset tax charges, in which case the period is extended to 12 years).
- The last four years in Peru, Guatemala, Nicaragua and Costa Rica.
- From 2015 onwards. Since 2016, the statute of limitation is six years in Venezuela.
- The last three years in Chile, Ecuador, El Salvador, the United States and Panama.

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

Major Shareholders

As at the date of this Prospectus, Telefónica had 5,192,131,686 shares outstanding, each having a nominal value of EUR 1.00 per share. All outstanding shares have the same rights.

As at the date of this Prospectus, according to information provided to Telefónica or to the Spanish National Securities Commission (*Comisión Nacional de Mercado de Valores* or the "CNMV"), beneficial owners of 3 per cent. or more of Telefónica's voting stock were as follows:

Name of Beneficial Owner	Percentage of shares carrying voting rights		Percentage of voting rights through financial instruments		Percentage of voting rights
	Direct (per cent.)	Indirect	Direct (per cent.)	Indirect	
Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	5.264	0.011	0.000	0.000	5.276
CaixaBank, S.A. ⁽²⁾	5.000	0.005	0.000	0.000	5.005
BlackRock, Inc. ⁽³⁾	0.000	4.839	0.000	0.160	4.999

⁽¹⁾ Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance.

⁽²⁾ Based on the information provided by CaixaBank, S.A. as at 31 December 2018 for the Group's 2018 Annual Report on Corporate Governance. The indirect shareholding is held by Vidacaixa, S.A. de Seguros y Reaseguros which owns 342,072 shares.

⁽³⁾ Based on the information notified to CNMV on 5 March 2019.

To the extent that Telefónica shares are represented by account in the book-entry form, it does not keep a shareholder registry and its ownership structure cannot be known precisely. Based on the information available to Telefónica there is no individual or corporation that directly or indirectly through one or more intermediaries may exercise any type of control over Telefónica. Nevertheless, Telefónica has certain shareholders whose holdings are considered material.

Directors and Senior Management of Telefónica

During 2018, Telefónica's Board of Directors met 12 times. As at the date of this Prospectus, Telefónica's Board of Directors had met two times during 2019. As at the date of this Prospectus, Telefónica's directors, their respective positions on its Board and the year they were first appointed were as follows:

Name	Date of Birth	Age	First Appointed	Current Term Ends
Chairman				
Mr. José María Álvarez - Pallete López ⁽¹⁾	12/12/1963	55	2006	2021
Vice-Chairmen				
Mr. Isidro Fainé Casas ⁽¹⁾⁽²⁾	10/07/1942	76	1994	2020

<u>Name</u>	<u>Date of Birth</u>	<u>Age</u>	<u>First Appointed</u>	<u>Current Term Ends</u>
Mr. José María Abril Pérez ⁽¹⁾⁽³⁾⁽⁶⁾	19/03/1952	66	2007	2022
Members				
Mr. Ángel Vilá Boix ⁽¹⁾	29/07/1964	54	2017	2022
Mr. Juan Ignacio Cirac Sasturain ⁽⁶⁾	11/10/1965	53	2016	2020
Mr. José Javier Echenique Landiribar ⁽¹⁾⁽⁴⁾⁽⁷⁾	20/11/1951	67	2016	2020
Mr. Peter Erskine ⁽¹⁾⁽⁶⁾⁽⁷⁾	10/11/1951	67	2006	2020
Ms. Sabina Fluxà Thienemann ⁽⁷⁾	26/04/1980	38	2016	2020
Mr. Luiz Fernando Furlán ⁽⁷⁾	29/07/1946	72	2008	2022
Ms. Carmen García de Andrés ⁽⁴⁾⁽⁸⁾	15/12/1962	56	2017	2021
Ms. María Luisa García Blanco ⁽⁵⁾⁽⁸⁾	25/10/1965	53	2018	2022
Mr. Jordi Gual Solé ⁽²⁾⁽⁵⁾⁽⁶⁾	12/06/1957	61	2018	2022
Mr. Peter Löscher ⁽⁶⁾⁽⁸⁾	17/09/1957	61	2016	2020
Mr. Ignacio Moreno Martínez ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁸⁾	30/07/1957	61	2011	2021
Mr. Francisco Javier de Paz Mancho ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	24/07/1958	60	2007	2022
Mr. Francisco José Riberas Mera	01/06/1964	54	2017	2021
Mr. Wang Xiaochu ⁽⁹⁾	24/08/1958	60	2015	2020

⁽¹⁾ Member of the Executive Commission of the Board of Directors.

⁽²⁾ Nominated by CaixaBank, S.A.

⁽³⁾ Nominated by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA).

⁽⁴⁾ Member of the Audit and Control Committee.

⁽⁵⁾ Member of the Regulation and Institutional Affairs Committee.

⁽⁶⁾ Member of the Strategy and Innovation Committee.

⁽⁷⁾ Member of the Nominating, Compensation and Corporate Governance Committee.

⁽⁸⁾ Member of the Service Quality and Customer Service Committee.

⁽⁹⁾ Nominated by China Unicom (Hong Kong) Limited.

The principal activities inside and outside the Group of each of the directors of Telefónica are as follows:

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
José María Álvarez- Palleto López.....	Executive Chairman of Telefónica, S.A.	
Isidro Fainé Casas	Vice Chairman of Telefónica, S.A.	<p>Chairman of Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona (la "Caixa")</p> <p>Chairman of Criteria Caixa, S.A.U.</p> <p>Honorary Chairman of Naturgy Energy Group, S.A.</p> <p>Chairman of the Spanish Confederation of Savings Banks (<i>Confederación Española de Cajas de Ahorros</i>, CECA)</p> <p>Chairman of European Savings Bank Group (ESGB)</p> <p>Deputy Chairman of the World Savings Banks Institute (WSBI)</p> <p>Director of the Bank of East Asia (BEA)</p> <p>Director of Suez Environnement Company</p> <p>Chairman of the Spanish Confederation of Directors and Executives (<i>Confederación Española de Directivos y Ejecutivos</i>, CEDE)</p> <p>Chairman of the Spanish Chapter of the Club of Rome Chairman of the Circulo Financiero</p>
José María Abril Pérez.....	Vice Chairman of Telefónica, S.A.	

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
Ángel Vilá Boix	Chief Operating Officer and Executive Director of Telefónica, S.A.	
Juan Ignacio Cirac Sasturain	Director of Telefónica, S.A.	Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University Director of the Theory Division of Max-Planck Institut for Quantenoptik and member of the Max-Plank Society. Member of the Advisory Board of the Russian Quantum Center. Member of the Advisory Board of Annalen der Physik Member of the Review Panel, QSIT, of the Swiss National Science Foundation.
José Javier Echenique Landiribar	Director of Telefónica, S.A. Director of Telefónica Móviles México, S.A. de C.V. Director of Telefónica Audiovisual Digital, S.L.U.	Vice Chairman of Banco Sabadell, S.A. Director of ACS Actividades de Construcción y Servicios, S.A Director of ACS Servicios, Comunicaciones y Energía S.L. Director of Grupo Empresarial Ence , S.A. Trustee of Novia Salcedo Foundation Member of the Board of Deusto Business School Member of the Basque Businessmen Circle
Peter Erskine	Director of Telefónica, S.A. Member of the Supervisory Board of Telefónica Deutschland Holding AG	Chairman of the Henley Business School Strategy Board Member of the Council of the University of Reading Member of the Reading University's Strategy and Finance Committee
Sabina Fluxà Thienemann	Director of Telefónica, S.A.	Vice President and CEO of Iberostar Group Member of the Regional Advisory Board of BBVA Member of the Board of Directors of APD Illes Balears Sponsor of Iberostar Foundation
Luiz Fernando Furlán	Director of Telefónica, S.A. Director of Telefónica Brasil, S.A	Member of the Board of Directors of Brasil Food, S.A. (BRF)
Carmen García de Andrés	Director of Telefónica, S.A	Chairwoman of Tomillo Foundation Member of the Trust of the Young Business Spain Foundation

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
		Treasurer of the Asociación Española de Fundaciones (AEF)
		Member of the Trust of Rais and Xavier de Salas Foundations
		Member of the Board of Directors of the collective initiative <i>Juntos por el Empleo de los más desfavorecidos</i>
María Luisa García Blanco	Director of Telefónica, S.A	Partner at the law firm Salama García Blanco
		Member of the Royal Academy of Jurisprudence and Legislation.
Jordi Gual Solé	Director of Telefónica, S.A.	Chairman of CaixaBank, S.A.
		Member of the Supervisory Board of ERSTE Group Bank
		Member of the Market Monitoring Group of the Institute of International Finance (IIF)
		Chairman of FEDEA
		Vice President of the Círculo de Economía
		Vice President of the Cotect Foundation
		Trustee of the CEDE Foundation
		Trustee of the Institución Cultural del CIC
		Trustee of the Real Instituto Elcano
		Member of the Board of Trustees of COTEC Foundation
Peter Löscher	Director of Telefónica, S.A.	Chairman of the Supervisory Board of Sulzer AG
		Chairman of the Supervisory Board of OMV Aktiengesellschaft
		Member of the Board of Directors of TBG AG, Switzerland
Ignacio Moreno Martínez	Director of Telefónica, S.A.	Chairman of Metrovacesa, S.A.
		Member of the Board of Roadis Transportation Holding, S.L.U.
		Senior Advisor of BC Partners for Spain
Francisco Javier de Paz Mancho	Director of Telefónica, S.A.	
	Director of Telefónica Móviles de Argentina, S.A.	
	Director of Telefónica Brasil, S.A.	
	Chairman of Telefónica Ingeniería de Seguridad, S.A.	

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
	Director of Telefónica Móviles México, S.A. de C.V.	
Francisco José Riberas Mera	Director of Telefónica, S.A.	Chairman and CEO of Gestamp Automoción, S.A. Member of the Board of Directors of CIE Automotive Member of the Board of Directors of Global Dominion Access, S.A. Member of the Board of Directors of Sideacero Group Chairman of the of the Family Business Institute
Wang Xiaochu	Director of Telefónica, S.A.	Chairman of China United Network Communications Group Company Limited Chairman, Executive Director and CEO of China Unicom (Hong Kong) Limited

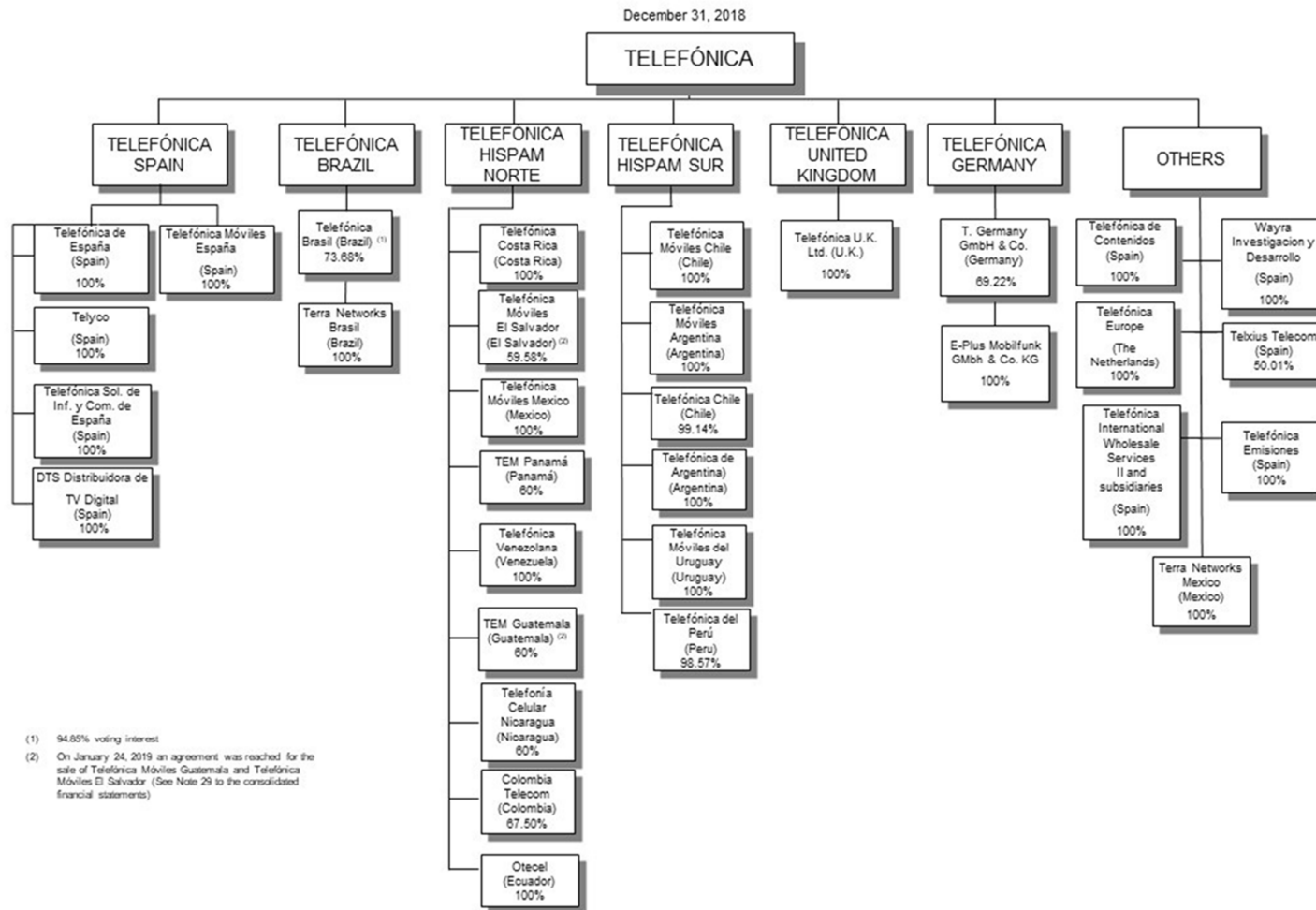
The business address of each of the directors of the Guarantor is Distrito Telefónica Ed. Central, Ronda de la Comunicación s/n, 28050 Madrid, España.

Conflicts of Interest

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

Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 31 December 2018, including their jurisdictions of incorporation and Telefónica's ownership interest.



TAXATION

The following is a general description of certain tax considerations relating to the Instruments. It does not purport to be a complete analysis of all tax considerations relating to the Instruments whether in those countries or elsewhere. Prospective purchasers of Instruments should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Netherlands and the Kingdom of Spain of acquiring, holding and disposing of Instruments and receiving payments of interest, principal and/or other amounts under the Instruments. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in 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. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Dutch Tax

For the purpose of the paragraph "Taxes on Income and Capital Gains" below it is assumed that, a holder of Instruments, being an individual or a non-resident entity, does not have nor will have a substantial interest (*aanmerkelijk belang*), or - in the case of such holder being an entity - a deemed substantial interest, in the Issuer and that no connected person (*verbonden persoon*) to the holder has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has or is deemed to have or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company

Generally speaking, a non-resident entity has a substantial interest in a company if such entity directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (*winstbewijzen*) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company. An entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a holder of Instruments, an individual holding Instruments or an entity holding Instruments, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in the Instruments or otherwise being regarded as owning Instruments for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "the Netherlands" or "Dutch" it refers only to the European part of the Kingdom of the Netherlands.

Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of Instruments.

1. WITHHOLDING TAX

All payments of principal and interest by the Issuer under the Instruments can be made without withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

2. TAXES ON INCOME AND CAPITAL GAINS

Residents

Resident entities

An entity holding Instruments which is or is deemed to be resident in the Netherlands for Dutch corporate tax purposes and which is not tax exempt, will generally be subject to Dutch corporate tax in respect of income or a capital gain derived from the Instruments at the prevailing statutory rates (up to 25 per cent. in 2019).

Resident individuals

An individual holding Instruments who is or is deemed to be resident in the Netherlands for Dutch income tax purposes will be subject to Dutch income tax in respect of income or a capital gain derived from the Instruments at the prevailing statutory rates (up to 51.75 per cent. in 2019) if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, such individual will be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Instruments. For 2019, the deemed return ranges from 1.94 per cent. to 5.60 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Instruments). The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

Non-residents

A holder of Instruments which is not and is not deemed to be resident in the Netherlands for the relevant tax purposes will not be subject to Dutch taxation on income or a capital gain derived from the Instruments unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in the Netherlands and the holder derives profits from such enterprise (other than by way of the holding of Instruments); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

3. GIFT AND INHERITANCE TAXES

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of Instruments by way of gift by, or on the death of, a holder of Instruments, unless:

- (i) the holder is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

4. VALUE ADDED TAX

There is no Dutch value added tax payable by a holder of Instruments in respect of payments in consideration for the issue or acquisition of the Instruments, payments of principal or interest under the Instruments or payments in consideration for the disposal of Instruments.

5. OTHER TAXES AND DUTIES

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in the Netherlands by a holder of Instruments in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of the Netherlands) of the Instruments or the performance of the Issuer's obligations under the Instruments.

6. RESIDENCE

A holder of Instruments will not be and will not be deemed to be resident in the Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise become subject to Dutch taxation, by reason only of acquiring, holding or disposing of Instruments or the execution, performance, delivery and/or enforcement of Instruments.

Spanish Tax

Applicable law for Spanish tax purposes

The Guarantor believes that the First Additional Provision of Law 10/2014 (as defined in the Terms and Conditions of the Instruments) shall apply to the Instruments according to its Section 8, provided that the Instruments are issued by a company which is (i) tax resident in the European Union and (ii) whose voting rights are completely held directly by an entity which is resident in Spain for tax purposes.

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

Payments made by the Guarantor

In the opinion of the Guarantor, any payments of principal and interest that do not remunerate the use of funds in Spain made by the Guarantor under the Guarantee should not be subject to taxation in Spain.

However, payments of interest made under the Guarantee to the beneficial owners of the income arising from the Instruments (each of them, a "**Holder**", and collectively the "**Holders**") may be subject to Spanish taxation and, hence, to Spanish withholding tax at the then applicable rate (as at the date of this Prospectus, 19 per cent.) to the extent it remunerates the use of funds in Spain. According to Spanish tax legislation, "interest" includes payment of coupons and income deriving from the transfer, redemption or reimbursement of the Instruments, on the basis of the positive difference between the amounts obtained in the transfer, redemption or reimbursement of the Instruments and their tax basis.

For Non-Spanish tax resident Holders not acting with respect to the Instruments through a permanent establishment in Spain, such income should be exempt from Spanish tax in accordance with the First Additional Provision of Law 10/2014 and, therefore, no Spanish withholding may be due.

The application of the abovementioned exemption from Spanish withholding tax is conditional upon the submission by the Fiscal Agent, in a timely manner, to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) with a certificate containing certain information relating to the Instruments in accordance with section 44 of the Royal Decree 1065/2007, as detailed under the Fiscal Agency Agreement.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Instruments so that 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 Guarantor must receive from the Fiscal Agent a certificate containing certain information relating to the Instruments as prescribed under section 44 paragraph 5 of the Royal Decree 1065/2007. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the Instrument. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

Notwithstanding the above, if, before the tenth calendar day of the month following the month in which the relevant income is paid, the Fiscal Agent provides the required information, the Guarantor will reimburse the amounts withheld.

If the First Additional Provision of Law 10/2014 was not deemed applicable to the Instruments, the relevant Additional Amounts will be payable according to Condition 8 (*Taxation*) of the Terms and Conditions of the Instruments.

Holders not acting with respect to the Instruments through a permanent establishment in Spain and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Fiscal Agent (as the case may be) of a valid certificate of tax residence of the Holder or certain information relating to the Instruments (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Holders are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Furthermore, Non-Spanish tax resident Holders not acting with respect to the Instruments through a permanent establishment in Spain may take the position that payments of interest received from the Guarantor under the Guarantee should be characterised as an indemnity under Spanish law and, hence, should have been made free of withholding or deduction on account of any Spanish tax. In such a case, these Holders should apply directly to the Spanish tax authorities for any refund to which they may be entitled.

In connection with Spanish tax resident Holders and Non-Spanish tax resident Holders acting with respect to the Instruments through a permanent establishment in Spain, income deriving from the Instruments and the Guarantee is subject to tax in Spain. Payments made under the Guarantee which correspond to payments of interest under the Instruments may be subject to withholding on account of Spanish taxes.

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.

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.

The FTT proposal remains subject to negotiation between participating Member States and it may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Instruments are strongly advised to seek their own professional advice in relation to the FTT.

US Foreign Account Tax Compliance Withholding.

Under certain provisions of the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder (commonly referred to as "**FATCA**"), a 30 per cent. withholding tax may apply to certain "foreign passthru payments" made by a foreign financial institution (an "**FFI**"), including an FFI in the chain of ownership between an ultimate beneficial owner and the issuer of an obligation that has entered into an agreement with the U.S. Internal Revenue Service pursuant to which it agrees to certain due diligence, reporting and withholding functions (such an FFI referred to as a "**PFFI**"). FATCA withholding may apply to payments made by a PFFI to (a) an FFI that is not a PFFI and is not otherwise exempt from FATCA and to (b) certain other payees who fail to provide sufficient identifying information (including, in certain cases, regarding their U.S. owners). Certain aspects of the application of these rules are modified by intergovernmental agreements between the United States and certain other countries ("**Intergovernmental Agreements**"), including Spain. The term "foreign passthru payment" is not defined currently and withholding on foreign passthru payments will not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". It is uncertain how foreign passthru payment withholding will apply under Intergovernmental Agreements, if at all. Given the uncertainty of the FATCA provisions, although the Issuer does not expect FATCA withholding to apply to payments it makes on the Instruments, FATCA may impact payments by custodians or intermediaries in the payment chain between the Issuer and the ultimate beneficial owner of the Instruments. The Issuer and the Guarantor have no responsibility for any FATCA withholding applied by any such custodians or intermediaries in the ownership chain and would not be required to pay any additional amounts were any amount deducted or withheld from any payment pursuant to FATCA. Investors should consult their own tax advisers with respect to FATCA and its application to the Instruments and should consider carefully the FATCA compliance status of any financial intermediaries in the chain of ownership through which they hold Instruments.

SUBSCRIPTION AND SALE

The managers in respect of the Instruments (the "**Managers**") agreed, in a subscription agreement dated 13 February 2003 relating to the Instruments (a "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Managers upon the terms and subject to the conditions contained therein, jointly and severally to subscribe for the Instruments.

United Kingdom

Each Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Instruments in, from or otherwise involving the United Kingdom.

United States of America

The Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Instruments are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Instruments, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Instruments, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Instruments during the distribution compliance period 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 commencement of the offering, an offer or sale of Instruments within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Netherlands

Each Joint Bookrunner has represented and agreed that the Instruments are not, and may not be, offered to the public in the Netherlands other than to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

The Kingdom of Spain

Neither the Instruments nor this Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Instruments may not be offered, sold or distributed, nor may any subsequent resale of the Instruments be carried out in Spain, except in circumstances which do not constitute a public offer of Instruments in Spain within the meaning of Article 35 of the Spanish Securities Market Law approved by legislative Royal Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (the "**Spanish Securities Market Law**"), Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005, de 4 de noviembre*), and supplemental rules

enacted thereunder and only to professional clients (*clientes profesionales*) and eligible counterparties (*contrapartes elegibles*) as these terms are defined in the Spanish Securities Market Law.

General

Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Prospectus or any other offering material relating to the Instruments, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Instruments was authorised by resolutions of the Board of Managing Directors of the Issuer dated 6 November 1996. The giving of the Guarantee of the Instruments was authorised by a resolution of the Board of Directors of the Guarantor dated 30 October 1996 and resolutions of the Executive Committee of the Board of Directors of the Guarantor dated 14 March 2001 and 29 May 2002.

Legal and Arbitration Proceedings

Save as described in "*Risk Factors – Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings*" on page 37 of this Prospectus and under "*Description of the Guarantor – Legal Proceedings*" and "*Description of the Guarantor – Tax Proceedings*" on pages [72 to 79] of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its subsidiaries.

Significant/Material Change

Since 31 December 2018 there has been no material adverse change in the prospects of the Issuer and there has been no significant change in the financial or trading position of the Issuer. Since 31 December 2018 there has been no material adverse change in the prospects of the Guarantor and the Group and there has been no significant change in the financial or trading position of the Guarantor and the Group, save for: (i) on 23 January 2019, the Guarantor made a repayment for EUR 100 million of its bilateral loan signed on 20 December 2017; (ii) on 25 January 2019, Telefónica Emisiones, S.A.U. redeemed EUR 150 million of its notes issued on 25 January 2017 and guaranteed by the Guarantor; (iii) on 5 February 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its EMTN Programme. These notes are due on 5 February 2024, pay an annual coupon of 1.06 per cent and are issued at par (100 per cent.). The net proceeds of the notes are to be allocated towards projects aiming at improving the energy efficiency in the network transformation from copper to fiber optic in Spain; (iv) on 18 February 2019, the Guarantor made an early repayment for EUR 500 million of its EUR 1,000 million bilateral loan signed on 26 June 2014 and originally scheduled to mature on 26 June 2019; (v) on 1 March 2019, Telefónica Emisiones S.A.U. issued U.S.\$1,250 million notes guaranteed by the Guarantor under its US Debt Registered Program (filed with the United States Securities and Exchange Commission on 20 April 2018). These notes are due on 1 March 2049, with a coupon of 5.520 per cent., payable semi-annually, issued at par (100 per cent.); (vi) on 12 March 2019, Telefónica Emisiones S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its EMTN Programme. These notes are due on 12 March 2029, pay an annual coupon of 1.788 per cent and are issued at par (100 per cent.); (vii) On 14 March 2019, Telefónica Europe, B.V issued EUR 1,300,000,000 Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of Telefónica, S.A. and (viii) On 13 March 2019 Telefónica Europe B.V. announced its decision to purchase EUR 586,500,000 in principal amount of its EUR 850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities, and EUR 348,200,000 in principal amount of its EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities, pursuant to a tender offer announced on 5 March 2019.

Auditors

The consolidated financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Auditores S.L. with its registered address at Torre PwC, Paseo de la Castellana, 259B, 28046 Madrid, Spain, registered with the Official Registry of Accounting Auditors ("**ROAC**") under number S0242.

The unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Accountants N.V. with its registered address at Thomas R. Malthusstraat 5, 1066 JR Amsterdam, the Netherlands, registered in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 34180285. The auditor that signed the auditor's report on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

Documents on Display

Electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent and at the registered/head office of the Issuer and the Guarantor for so long as the Instruments are listed:

- a) the articles of association of the Issuer (together with English translations thereof);
- b) the by-laws of the Guarantor (together with English translations thereof);
- c) the Amended and Restated Issue and Paying Agency Agreement, the Deed of Covenant and the Deed of Guarantee in respect of the Instruments;
- d) the audited unconsolidated financial statements of the Issuer for the years ended 31 December 2018 and 2017; and
- e) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2018 and 2017.

Each of the translations into English of the Issuer's articles of association and of the by-laws of the Guarantor is a direct and accurate translation of the corresponding document. In the event of any discrepancy between the English language version and the original language version, the original language version shall prevail.

In addition, this Prospectus will be available, in electronic format, on the website of the Irish Stock Exchange (www.ise.ie).

Yield

On the basis of the issue price of the Instruments of 98.757 per cent. of their principal amount, the yield of the Instruments was 5.89 per cent. on an annual basis. The yield is calculated at the Issue Date on the basis of the Issue Price and it is not an indication of future yield.

Legend Concerning US Persons

The Instruments and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Listing

It is expected that the listing of the Instruments on the Official List and the admission of the Instruments to trading on the regulated market of Euronext Dublin will take place on or about 19 March 2019.

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for the listing of the Instruments to the Official List of Euronext Dublin and the admission of the Instruments to trading on the regulated market of Euronext Dublin.

Fees

The estimated costs and expenses in relation to admission to trading are EUR 5,000.

Legal Entity Identifier

The Legal Entity Identifier (LEI) code of the Issuer is 7245007FZS0M65WUGP67.

ISIN and Common Code

The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

The ISIN of the Instruments is XS0162869076 and the common code is 016286907.

**REGISTERED AND HEAD
OFFICE OF THE ISSUER**

Telefónica Europe B.V.
Zuidplein 112, H Tower, 13th Floor
1077 XV Amsterdam
The Netherlands

**REGISTERED AND HEAD
OFFICE OF THE GUARANTOR**

Telefónica, S.A.
Gran Vía, 28
28013 Madrid
Spain

FISCAL AGENT

The Bank of New York Mellon, London Branch

One Canada Square
London E14 5AL
United Kingdom

IRISH LISTING AGENT

The Bank of New York Mellon SA/NV, Dublin Branch

Riverside II, Sir John Rogerson's Quay
Grand Canal Dock
Dublin 2
Republic of Ireland

LEGAL ADVISERS

To the Issuer and the Guarantor as to Spanish, English and Dutch 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

Clifford Chance LLP
Droogbak 1A
1013 GE Amsterdam
The Netherlands

To the Issuer and the Guarantor as to Spanish tax law:

Uría Menéndez Abogados, S.L.P.
Príncipe de Vergara, 187
28002 Madrid
Spain

AUDITORS TO THE ISSUER

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
The Netherlands

AUDITORS TO THE GUARANTOR

PricewaterhouseCoopers Auditores S.L.
Torre PwC
Paseo de la Castellana, 259B
28046 Madrid
Spain