

Independent Audit Report

TELEFÓNICA EMISIONES, S.A.

(Sole-Shareholder Company)

Financial Statements and Management Report
for the year ended
December 31, 2014

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 14)

INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Sole-Shareholder of
Telefónica Emisiones, S.A. (Sole-Shareholder Company)

Report on the financial statements

We have audited the accompanying financial statements of Telefónica Emisiones, S.A. (Sole-Shareholder Company), which comprise the balance sheet at December 31, 2014, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the financial statements

The Company's joint and several Directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity and financial position and the results of Telefónica Emisiones, S.A. (Sole-Shareholder Company) in accordance with the regulatory framework for financial information applicable to the Entity in Spain, identified in Note 2 to the accompanying financial statements, and for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of financial statements by the Directors of the Company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica Emisiones, S.A. (Sole-Shareholder Company) at December 31, 2014, and its results and cash flow for the year then ended, in accordance with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

Emphasis of matter

We draw attention to Notes 5 and 10 to the accompanying financial statements, which describe that the Company executes a high volume of transactions with its Sole Shareholder, Telefónica, S.A. and the related balances at year end. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

The accompanying 2014 management report contains such explanations as the joint and several Directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2014 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.



Alicia Martínez Durán

March 24, 2015



Telefónica Emisiones, S.A.

(Sole-Shareholder Company)

Financial statements for the year ended December 31, 2014



2014

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TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Balance sheets at December 31

(Thousand of euros)

ASSETS	Notes*	2014	2013
NON-CURRENT ASSETS		31,792,078	30,422,852
Non-current investments in Group companies and associates	5, 10.2	31,792,078	30,422,852
Loans to companies		31,792,078	30,422,852
CURRENT ASSETS		3,965,635	4,986,834
Trade and other receivables		789	816
Prepayments to suppliers		392	392
Trade receivables for sales and services		6	55
Other receivables		375	369
Other receivables from public administrations		16	-
Current investments in Group companies and associates	5, 10.2	3,962,013	4,983,718
Loans to companies		3,962,013	4,983,718
Cash and cash equivalents	10.2	2,833	2,300
TOTAL ASSETS		35,757,713	35,409,686
EQUITY AND LIABILITIES	Notes*	2014	2013
EQUITY		6,197	5,220
CAPITAL AND RESERVES	6	5,220	5,220
Capital		62	62
Issued capital		62	62
Reserves		5,158	5,068
Legal and statutory reserves		12	12
Other reserves		5,146	5,056
Profit for the year		977	90
NON-CURRENT LIABILITIES		31,787,840	30,419,346
Non-current borrowings	7	31,787,840	30,419,346
Bonds and other marketable debt securities		31,787,840	30,419,346
CURRENT LIABILITIES		3,963,676	4,985,120
Current borrowings	7	3,962,614	4,984,244
Bonds and other marketable debt securities		3,962,614	4,984,244
Current borrowings from Group companies and associates	7, 8, 10.2	349	202
Trade and other payables	7	713	674
Other payables		48	101
Trade payables, Group companies and associates	7, 10.2	665	558
Other payables to public administrations		-	15
TOTAL EQUITY AND LIABILITIES		35,757,713	35,409,686

* The accompanying Notes 1 to 14 are an integral part of these balance sheets.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Income statements for the year ended December 31

(Thousand of euros)			
	Notes*	2014	2013
Other operating expenses		(1,984)	(2,999)
External services	9.1	(1,981)	(2,995)
Taxes		(3)	(4)
OPERATING LOSS		(1,984)	(2,999)
Finance income	9.2	1,550,286	1,712,140
In Group companies and associates		1,550,286	1,712,140
Finance costs	9.3	(1,546,919)	(1,709,061)
Debts with Group companies and associates		(3)	-
Debts with third parties		(1,546,916)	(1,709,061)
Exchange gains (losses)	9.4	13	49
NET FINANCIAL INCOME		3,380	3,128
PROFIT BEFORE TAX		1,396	129
Income tax	8	(419)	(39)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		977	90
PROFIT FOR THE YEAR		977	90

*The accompanying Notes 1 to 14 are an integral part of these income statements.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Statements of changes in equity for the year ended December 31
(Thousand of euros)

A) Statement of recognized income and expenses for the year ended December 31

	(Thousand of euros)	
	2014	2013
PROFIT FOR THE YEAR	977	90
TOTAL RECOGNIZED INCOME AND EXPENSE	977	90

* The accompanying Notes 1 to 14 are an integral part of these balance sheets.

B) Statements of total changes in equity for the year ended December 31

	(Thousand of euros)			
	Issued capital	Reserves	Profit for the year	TOTAL
BALANCE AT JANUARY 1, 2013	62	3,124	1,944	5,130
Total recognized income and expense	-	-	90	90
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	1,944	(1,944)	-
Other adjustments	-	-	-	-
BALANCE AT DECEMBER 31, 2013	62	5,068	90	5,220
Total recognized income and expense	-	-	977	977
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	90	(90)	-
Other adjustments	-	-	-	-
BALANCE AT DECEMBER 31, 2014	62	5,158	977	6,197

* The accompanying Notes 1 to 14 are an integral part of these balance sheets.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Cash flow Statements for the years ended December 31

(Thousand of euros)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,396	129
Adjustments to profit	(3,380)	(3,128)
Finance income	(1,550,286)	(1,712,140)
Finance costs	1,546,919	1,709,061
Exchange gains/losses	(13)	(49)
Change in working capital	66	244
Trade and other receivables	27	124
Trade and other payables	54	167
Other current liabilities	(15)	(47)
Other cash flows from operating activities	(1,108)	(570)
Interest paid	(1,698,501)	(1,676,567)
Interest received	1,698,473	1,676,972
Income tax receipts (payments)	(272)	(505)
Other payments (receipts)	(808)	(470)
CASH FLOWS USED IN OPERATING ACTIVITIES	(3,026)	(3,325)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	(2,918,260)	(4,352,887)
Group and associates	(2,918,260)	(4,352,887)
Proceeds from disposal	4,058,975	3,598,155
Group and associates	4,058,975	3,598,155
CASH FLOWS USED IN INVESTING ACTIVITIES	1,140,715	(754,732)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections from and payments for financial instruments	(1,137,154)	758,081
Issue		
Bonds and other marketable debt securities	2,917,755	4,352,384
Repayment and redemption of		
Bonds and other marketable debt securities	(4,054,909)	(3,594,303)
CASH FLOWS FROM FINANCING ACTIVITIES	(1,137,154)	758,081
NET FOREIGN EXCHANGE DIFFERENCE	(2)	(12)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	533	12
Cash and cash equivalents at beginning of year	2,300	2,288
Cash and cash equivalents at end of year	2,833	2,300

* The accompanying Notes 1 to 14 are an integral part of these cash flow Statements.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)

Notes to the financial statements for the year ended December 31, 2014

1. ACTIVITY

Telefónica Emisiones, S.A. (Sole-Shareholder Company) (the "Company" or "Telefónica Emisiones, S.A.U.") was incorporated as a public limited company for an unlimited period on November 29, 2004 as "Telefónica Emisiones, S.A.U."

Its registered office is at c/Gran Vía, 28 – 28013 Madrid.

Telefónica Emisiones, S.A.U. is a wholly-owned subsidiary of Telefónica, S.A.

The corporate purpose of Telefónica Emisiones, S.A.U. is the issuance of preferred shares and/or other financial debt instruments.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the general Chart of Accounts approved by Royal Decree 1514/2007, of November 16, as amended by Royal Decree 1159/2010 of September 17 and mercantile law prevailing at the authorisation for issue of these financial statements.

The figures shown in these financial statements are presented in thousand of euros unless otherwise indicated.

2.1 True and fair view

These annual financial statements have been prepared on the basis of the Company's accounting records and have been drawn up in accordance with the Spanish generally accepted accounting principles, as stated in legislation in force.

These financial statements present a true and fair view of the Company's equity, financial position and results of operations. The cash flows statement has been prepared to present fairly the origin and usage of monetary assets such as cash and cash equivalents.

These financial statements were authorized by the Company's joint and several directors ("Directors") on March 23, 2015 and it is expected that they will be approved by the Sole Shareholder without modification.

2.2 Comparison of information

In accordance with commercial law, each item in the 2014 balance sheet, income statement, statement of changes in equity, and cash flows statement are disclosed for comparison with the information for 2013. Quantitative information from the previous year is also disclosed in the notes to the financial statements, except when an accounting standard specifically states that this is not necessary.

2.3 Critical issues regarding the valuation and estimation of uncertainty

No key assumptions exist regarding the future, or other relevant information regarding uncertainty estimation at the reporting date, which represent a considerable risk that the carrying amounts of assets and liabilities may require significant adjustments in the following financial year.

3. APPROPRIATION OF PROFIT

The appropriation of 2014 profit to be submitted by the joint and several Directors for approval by the Company's Sole Shareholder is as follows:

(Thousand of euros)	2014
Proposed appropriation	
Profit for the year	977
	977
Appropriation to:	
Voluntary reserves	977
	977

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied by the Company in the preparation of these financial statements are the following:

4.1 Financial investments

Recognition and measurement

Loans granted are classified according to their maturities: loans maturing in 12 months or less are classified as current and those maturing in over 12 months as non-current.

Upon initial recognition on the balance sheet, they are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Subsequent to initial recognition, these financial investments are measured at amortized cost, using the effective interest rate method.

Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

To determine impairment loss, the Company assesses the potential loss of individual assets and also groups of assets with similar risk characteristics.

Cancellation

Financial assets (or, where applicable, a part of a financial assets or part of a group of similar financial assets) are derecognized when the rights to receive cash flows have expired or when the Company has transferred its rights to receive cash flows and has transferred substantially all the risks and rewards of the assets.

Interest

Interest received is recognized as revenue in the income statement. Interest must be recognized using the effective interest rate method from when the related loan is granted.

Financial assets are recognized separately on initial measurement based on maturity and accrued explicit interest receivable at that date. Explicit interest refers to that obtained by applying the contract interest rate to the financial instrument.

4.2 Financial liabilities

Recognition and measurement

These include financial liabilities originating from the issuance of debentures; they are classified according to their maturities: amounts maturing in 12 months or less are classified as current and those maturing in over 12 months as non-current.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted by directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortized cost. Interest accrued is recognized in the income statement using the effective interest rate method.

Cancellation

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing debt instrument is replaced by another on substantially different terms, the original financial liability is derecognized and the new financial liability is recognized. Financial liabilities whose contractual terms are substantially modified are also recognized.

The difference between the carrying amount of the derecognized financial liability (or part of it) and the consideration given, plus any attributable transaction costs, which also includes any new asset transferred other than cash or any liability assumed, is recognized in the income statement in the year in which it arises.

When existing debt instruments are exchanged for other debt instruments on terms that are not substantially different, the original financial liability is not derecognized, and the commissions paid are recognized as an adjustment to the carrying amount. The new amortized cost of a financial liability is determined by applying the effective interest rate, which equates the carrying amount of the financial liability on the modification date to the cash flows to be paid as per the new terms.

Terms are deemed to be substantially different when the lender is the same entity that granted the initial loan and the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Interest

Interest expense is recognized in the income statement. Interest expense must be recognized using the effective interest rate method from when the related liabilities are issued.

Financial liabilities are recognized separately on initial measurement based on maturity and accrued explicit interest payable at that date. Explicit interest refers to that obtained by applying the contract interest rate to the financial instrument.

4.3 Cash and cash equivalents

This heading includes the unrestricted balance held in the Company's account with the Group company, Telefónica Finanzas, S.A.U, including local and foreign currency deposits fulfilling all the following requirements:

- They are readily convertible to cash.
- They mature within three months from the acquisition date.
- They are subject to an insignificant risk of changes in value; and
- They are part of the Company's standard cash management strategy.

4.4 Income tax

The Company files consolidated corporate income tax returns with its Sole Shareholder.

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognized deferred tax assets and liabilities. The corresponding tax expense is recognized in the income statement, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity while tax expense or income incurred in connection with business combinations is recorded with a charge or credit to goodwill.

Deferred income tax is recognized using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the balance sheet, as applicable.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed by prevailing tax legislation.

The Company recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carryforwards, to the extent that it is probable that future

taxable profit will be available for the tax group against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each reporting date, the Company assesses the deferred tax assets recognized and those that have not been previously recognized. Based on this assessment, the Company derecognizes a previously recognized asset if its recovery is no longer probable, or it recognizes any deferred tax asset previously unrecognized, provided that it is probable that future taxable profit will be available against which these assets may be utilized.

Deferred tax assets and liabilities are measured using the tax rate expected to apply at the date of their reversal, as required by current legislation and based on the manner in which the deferred tax asset or liability is reasonably expected to be recovered or settled.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or liabilities, respectively.

4.5 Revenue and expenses

Income and expenses are recognized on an accrual basis.

4.6 Foreign currency transactions

The Company's functional and presentation currency is the euro. Positive and negative balances and costs denominated in foreign currencies are translated to euros at the exchange rates prevailing at the transaction date, and are adjusted at year end to the exchange rates then prevailing.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the income statement in the period in which they occur.

4.7 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company's operating cycle and it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; when they differ from the aforementioned assets and they are expected to mature, to be sold or settled within one year; when they are held for trading or are cash and cash equivalents whose use is not restricted to one year.

4.8 Related party transactions

Related party transactions are accounted for in accordance with the criteria described above.

4.9 Measurement criteria under International Financial Reporting Standards (IFRS)

The Company has issued securities listed on an organized market of an EU member state and only publishes separate annual financial statements. Application of IFRS as adopted by the European Union would not result in material differences in equity or in the income statement.

5. FINANCIAL ASSETS

The composition of “Financial assets” at December 31, 2014 and December 31, 2013 is as follows:

(Thousand of euros)	2014	2013
Non-current financial assets		
Loans to Group companies (Note 5.1)	31,792,078	30,422,852
	31,792,078	30,422,852
Current financial assets		
Loans to Group companies (Note 5.1)	3,962,013	4,983,718
TOTAL FINANCIAL ASSETS	3,962,013	4,983,718

In 2014 the Company extended additional financing to Telefónica, S.A. for a total of 2,918,260 thousand euros (in loans denominated in euros, US dollars, and Swiss francs) and received funds from the settlement of loans (to the same borrower) of 4,058,975 thousand euros.

5.1 Loans to Group companies

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2014. The breakdown of these loans is as follows:

(Thousand of euros)

Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2014 Non-current assets	2014 Current assets	2013 Non-current assets	2013 Current assets
Nº 1	02/02/2006	02/02/2016	4.375%	Annual	1,747,632	69,640	1,745,671	69,640
Nº 3	02/02/2006	02/02/2018	5.375%	Annual	960,920	47,076	897,288	43,982
Nº 4	02/02/2006	02/02/2026	5.375%	Annual	639,806	31,384	597,648	29,321
Nº 8	06/20/2006	06/20/2016	6.421%	Half-yearly	1,028,395	2,020	904,742	1,778
Nº 9	06/20/2006	06/20/2036	7.045%	Half-yearly	1,636,985	3,705	1,440,620	3,281
Nº 12	12/28/2006	01/31/2014	5.888%	Annual	-	-	-	373,789
Nº 13	01/31/2007	12/30/2021	Euribor 6 m + 0.830%	Half-yearly	54,972	2	54,969	-
Nº 14	01/31/2007	01/31/2018	Euribor 3 m + 0.700%	Quarterly	24,000	32	24,000	38
Nº 15	02/07/2007	02/07/2014	4.674%	Annual	-	-	-	1,563,108
Nº 17	06/19/2007	06/19/2014	4.623%	Annual	-	-	-	97,102
Nº 22	07/02/2007	07/03/2017	6.221%	Half-yearly	575,823	18,058	506,724	15,936
Nº 24	02/03/2009	02/03/2014	5.431%	Annual	-	-	-	2,098,142
Nº 25	04/01/2009	04/01/2016	5.496%	Annual	998,945	41,547	998,388	41,547
Nº 26	06/02/2009	06/02/2015	Euribor 3 m + 1.825%	Quarterly	-	400,549	399,778	663
Nº 27	06/03/2009	04/01/2016	4.963%	Annual	504,842	18,812	507,122	18,898
Nº 28	07/06/2009	01/15/2015	4.949%	Half-yearly	-	1,052,899	905,639	20,684
Nº 29	07/06/2009	07/15/2019	5.877%	Half-yearly	821,885	22,321	723,281	19,650
Nº 30	11/10/2009	11/11/2019	4.693%	Annual	1,746,617	11,250	1,746,104	11,250
Nº 31	12/10/2009	12/09/2022	5.289%	Annual	832,584	2,660	777,688	2,485
Nº 32	12/23/2009	12/23/2014	Euribor 3 m + 0.700%	Quarterly	-	-	-	100,018
Nº 33	03/24/2010	03/24/2015	3.406%	Annual	-	1,018,689	991,754	26,127
Nº 35	04/26/2010	04/27/2015	3.729%	Half-yearly	-	746,151	651,967	4,438
Nº 36	04/26/2010	04/27/2020	5.134%	Half-yearly	1,149,934	10,637	1,011,955	9,377
Nº 37	09/16/2010	09/18/2017	3.661%	Annual	998,568	10,431	998,160	10,431
Nº 38	10/08/2010	10/08/2029	5.445%	Annual	511,675	6,435	477,967	6,012
Nº 39	02/07/2011	02/07/2017	4.75%	Annual	1,198,420	51,060	1,197,857	51,060

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Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2014 Non-current assets	2014 Current assets	2013 Non-current assets	2013 Current assets
N° 40	02/16/2011	02/16/2016	3.992%	Half-yearly	1,028,613	15,441	904,973	13,597
N° 41	02/16/2011	02/16/2021	5.462%	Half-yearly	1,231,666	25,334	1,083,935	22,306
N° 42	03/21/2011	02/07/2017	4.688%	Annual	100,154	4,207	100,197	4,209
N° 43	11/03/2011	02/03/2016	4.967%	Annual	801,095	36,129	800,322	36,129
N° 44	11/04/2011	11/04/2016	2.8247%	Half-yearly	48,173	213	48,351	210
N° 45	02/07/2012	02/07/2017	4.75%	Annual	119,135	5,107	118,770	5,107
N° 46	02/21/2012	02/21/2018	4.797%	Annual	1,496,814	61,764	1,496,027	61,764
N° 47	03/12/2012	03/12/2020	5.597%	Annual	896,140	40,516	836,934	37,853
N° 48	03/30/2012	03/30/2017	3.934%	Annual	44,983	1,341	45,437	1,356
N° 49	07/11/2012	07/11/2018	4.25%	Half-yearly	68,856	1,387	69,098	1,392
N° 50	09/19/2012	09/05/2017	5.811%	Annual	1,003,407	18,031	1,004,496	18,063
N° 51	10/19/2012	01/20/2020	4.710%	Annual	1,196,565	53,423	1,196,028	53,423
N° 52	12/14/2012	12/14/2018	2.718%	Annual	207,392	268	203,018	262
N° 53	12/14/2012	12/14/2022	3.450%	Annual	124,297	204	121,702	200
N° 54	01/22/2013	01/23/2023	3.987%	Annual	1,494,948	56,200	1,494,644	56,200
N° 55	03/27/2013	03/26/2021	3.961%	Annual	968,475	30,386	964,247	30,277
N° 56	04/29/2013	04/27/2018	3.192%	Half-yearly	1,026,973	5,843	903,478	5,143
N° 57	04/29/2013	04/27/2023	4.570%	Half-yearly	615,193	5,019	541,383	4,425
N° 58	05/29/2013	05/29/2019	2.736%	Annual	748,193	12,143	747,841	12,143
N° 59	10/23/2013	10/23/2020	2.595%	Annual	186,560	921	182,649	902
N° 60	03/26/2014	03/26/2016	Euribor 3 m + 0.65%	Quarterly	199,814	10	-	-
N° 61	04/10/2014	04/10/2017	Euribor 3 m + 0.75%	Quarterly	199,431	418	-	-
N° 62	05/27/2014	05/27/2022	2.242%	Annual	1,245,487	17,186	-	-
N° 63	06/04/2014	06/04/2017	Euribor 3 m + 0.75%	Quarterly	100,456	209	-	-
N° 64	06/23/2014	06/23/2017	\$Libor 3 m + 0.66%	Quarterly	410,638	86	-	-
N° 65	10/17/2014	10/17/2029	2.932%	Annual	796,617	4,869	-	-
					31,792,078	3,962,013	30,422,852	4,983,718

The fair value of loans granted to Telefónica, S.A. was 39,702,805 thousand euros at December 31, 2014 and 37,758,470 thousand euros at December 31, 2013.

The calculation of the fair values of the Company's investments in Group companies and associates required an estimate for each currency of a credit spread curve using the prices of the Telefónica Group's bonds and credit derivatives (where applicable).

The maturity schedule for non-current assets included in this category at December 31, 2014 and December 31, 2013 is as follows:

(Thousand of euros)	2014	2013
Between 1 and 2 years	6,357,509	2,949,137
Between 2 and 3 years	4,751,014	5,909,569
Between 3 and 4 years	3,784,955	3,971,638
Between 4 and 5 years	3,316,695	3,592,909
Over 5 years	13,581,905	13,999,599
TOTAL	31,792,078	30,422,852

6. EQUITY

6.1 Share capital

Share capital at December 31, 2014 comprised 62,000 shares with a nominal value of 1 euro each. The Company's Sole Shareholder is Telefónica, S.A.

Telefónica Emisiones, S.A.U. is a Sole-Shareholder company and this fact, together with the identity of the Sole Shareholder, is on record at the pertinent mercantile registry.

6.2 Reserves

In accordance with the Corporate Enterprises Act, until the balance of the legal reserve exceeds 20% of share capital, it cannot be distributed to the Sole Shareholder and can only be used to offset losses if no other reserves are available. The reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase.

The legal reserve is fully set up and the remaining reserves are unrestricted.

7. FINANCIAL LIABILITIES

The composition of “Financial liabilities” at December 31, 2014 and December 31, 2013 is as follows:

(Thousand of euros)	Note	2014	2013
Non-current financial liabilities		31,787,840	30,419,346
Debentures, bonds and other marketable securities	7.1	31,787,840	30,419,346
Current financial liabilities		3,963,676	4,985,120
Debentures, bonds and other marketable securities	7.1	3,962,614	4,984,244
Current borrowings from Group companies and associates	7.2	349	202
Other payables		48	101
Trade payables, Group Companies and associates	7.2	665	558
Other payables to public administrators		-	15

In 2014 the Company issued bonds and debentures maturing at long term, secured by Telefónica, S.A., for a total of 2,917,755 thousand euros (denominated in euros, US dollars, and Swiss francs) and redeemed bonds and debentures totaling 4,054,909 thousand euros.

7.1 Debentures, bonds and other marketable debt securities

Non-current and current borrowings include the debentures and bonds issued by the Company from 2006 to 2014 in euros, US dollars, Pounds sterling, Czech crowns, Japanese yen and Swiss francs. The debenture and bond issues are secured by Telefonica, S.A. and are quoted on the London, New York and Zurich stock exchanges. The breakdown of these issues is as follows:

Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	(Thousand of euros)		
					2014 Non-current liabilities	2014 Current liabilities	2013 Non-current liabilities
EMTN 1	02/02/2006	02/02/2016	4.375%	Annual	1,747,622	69,640	1,745,652
EMTN 3	02/02/2006	02/02/2018	5.375%	Annual	960,907	47,076	897,270
EMTN 4	02/02/2006	02/02/2026	5.375%	Annual	639,786	31,384	597,625
SHELF B	06/20/2006	06/20/2016	6.421%	Semestral	1,028,496	2,020	904,905
SHELF C	06/20/2006	06/20/2036	7.045%	Semestral	1,633,609	3,546	1,437,850
EMTN 8	12/28/2006	01/31/2014	5.888%	Annual	-	-	-
EMTN 9	01/31/2007	12/30/2021	Euribor 6 m + 0.830%	Semestral	54,967	2	54,965
EMTN 10	01/31/2007	01/31/2018	Euribor 3 m + 0.700%	Trimestral	23,983	32	23,977
EMTN 11	02/07/2007	02/07/2014	4.674%	Annual	-	-	-
EMTN 13	06/19/2007	06/19/2014	4.623%	Annual	-	-	-
SHELF G	07/02/2007	07/03/2017	6.221%	Semestral	57,908	17,735	506,819
EMTN 17	02/03/2009	02/03/2014	5.431%	Annual	-	-	-
EMTN 18 Tr1	04/01/2009	04/01/2016	5.496%	Annual	999,008	41,258	998,581
EMTN 19	06/02/2009	06/02/2015	Euribor 3 m + 1.825%	Trimestral	-	400,550	399,782
EMTN 18 Tr2	06/03/2009	04/01/2016	5.496%	Annual	502,921	20,629	505,302
SHELF H	07/06/2009	01/15/2015	4.949%	Semestral	-	1,052,908	905,664
SHELF I	07/06/2009	07/15/2019	5.877%	Semestral	822,065	22,321	723,458
EMTN 20	11/10/2009	11/11/2019	4.693%	Annual	1,746,657	11,250	1,746,152
EMTN 21	12/10/2009	12/09/2022	5.289%	Annual	832,612	2,660	777,744
EMTN 22	12/23/2009	12/23/2014	Euribor 3 m + 0.700%	Trimestral	-	-	-
EMTN 23	03/24/2010	03/24/2015	3.406%	Annual	-	1,018,651	991,736
SHELF K	04/26/2010	04/27/2015	3.729%	Semestral	-	746,051	652,001
SHELF L	04/26/2010	04/27/2020	5.134%	Semestral	1,149,823	10,525	1,011,789
EMTN 24	09/16/2010	09/18/2017	3.661%	Annual	998,588	10,431	998,188
EMTN 25	10/08/2010	10/08/2029	5.445%	Annual	511,657	6,435	477,976
EMTN 26Tr1	02/07/2011	02/07/2017	4.75%	Annual	1,198,462	51,066	1,197,885

Continued overleaf

Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	2014 Non-current liabilities	2014 Current liabilities	2013 Non-current liabilities	2013 Current liabilities
SHELF M	02/16/2011	02/16/2016	3.992%	Semestral	1,028,607	15,413	904,958	13,569
SHELF N	02/16/2011	02/16/2021	5.462%	Semestral	1,231,511	25,306	1,083,748	22,278
EMTN 26 Tr2	03/21/2011	02/07/2017	4.750%	Annual	100,298	4,255	100,447	4,255
EMTN 27	11/03/2011	02/03/2016	4.967%	Annual	801,209	36,129	800,525	36,129
EMTN 28	11/04/2011	11/04/2016	2.8247%	Semestral	48,169	201	48,349	202
EMTN 26 Tr3	02/07/2012	02/07/2017	4.750%	Annual	119,154	5,107	118,796	5,107
EMTN 29	02/21/2012	02/21/2018	4.797%	Annual	1,496,856	61,704	1,496,080	61,704
EMTN 30	03/12/2012	03/12/2020	5.597%	Annual	896,192	40,516	836,987	37,853
EMTN 31	03/30/2012	03/30/2017	3.934%	Annual	45,019	1,341	45,486	1,356
EMTN 32	07/11/2012	07/11/2018	4.250%	Semestral	68,841	1,387	69,244	1,392
EMTN 33 Tr1	09/19/2012	09/05/2017	5.811%	Annual	1,002,794	18,627	1,003,906	18,627
EMTN 34 Tr1	10/19/2012	01/20/2020	4.710%	Annual	1,196,589	53,423	1,196,275	53,268
EMTN 35 Tr1	12/14/2012	12/14/2018	2.718%	Annual	207,393	268	203,019	262
EMTN 35 Tr2	12/14/2012	12/14/2022	3.450%	Annual	124,313	204	121,718	200
EMTN 37	01/22/2013	01/23/2023	3.987%	Annual	1,495,160	56,036	1,494,712	56,200
EMTN 38	03/27/2013	03/26/2021	3.961%	Annual	968,472	30,386	964,242	30,277
SHELF O	04/29/2013	04/27/2018	3.192%	Semestral	1,027,123	5,842	903,570	5,143
SHELF P	04/29/2013	04/27/2023	4.570%	Semestral	615,292	5,019	541,431	4,418
EMTN 39	05/27/2013	05/29/2019	2.736%	Annual	748,191	12,143	747,838	12,143
EMTN 40	10/23/2013	10/23/2020	2.595%	Annual	186,581	921	182,694	902
EMTN 41	03/26/2014	03/26/2016	Euribor 3 m + 0.65%	Trimestral	199,876	8	-	-
EMTN 42 Tr1	04/10/2014	04/10/2017	Euribor 3 m + 0.75%	Trimestral	199,501	378	-	-
EMTN 43	05/27/2014	05/24/2022	2.242%	Annual	1,245,767	16,738	-	-
EMTN 42 Tr2	06/04/2014	04/10/2017	Euribor 3 m + 0.75%	Trimestral	100,347	189	-	-
SHELF Q	06/23/2014	06/23/2017	\$Libor 3m + 0.65%	Trimestral	410,756	83	-	-
EMTN 44	10/17/2014	10/17/2029	2.932%	Annual	796,758	4,820	-	-
					31,787,840	3,962,614	30,419,346	4,984,244

The fair value of the debentures and bonds issued by the Company was 39,682,515 thousand euros at December 31, 2014 and 37,750,846 thousand euros at December 31, 2013.

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives; the same used for financial assets (see Note 5).

The maturity schedule for non-current liabilities included in this category at December 31, 2014 and December 31, 2013 is as follows:

(Thousand of euros)	2014	2013
Between 1 and 2 years	6,355,908	2,949,184
Between 2 and 3 years	4,750,827	5,908,272
Between 3 and 4 years	3,785,102	3,971,528
Between 4 and 5 years	3,316,914	3,593,162
Over 5 years	13,579,089	13,997,200
TOTAL NON-CURRENT LIABILITIES	31,787,840	30,419,346

7.2 Payable to Group companies and associates

The heading primarily includes accounts payable in the short term: i) in connection with current amounts payable to Telefónica, S.A., as head of the tax group to which the Company belongs for, amount to 349 thousand euros (202 thousand euros in 2013), (ii) Telefónica Europe, B.V. for re-invoicing of credit rating services, which amount to 652 thousand euros (545 thousand euros in 2013) and (iii) Telefónica Gestión de Servicios Compartidos España, S.A.U. for services rendered, which amount to 13 thousand euros (13 thousand euros in 2013).

8. TAXES

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company is open to inspection of all taxes for which it is liable over the last four years.

The Company's joint and several directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

The reconciliation of profit for the year to taxable income for 2014 and 2013 is as follows:

(Thousand of euros)	2014	2013
Accounting profit before tax	1,396	129
Permanent differences	-	-
Temporary differences	-	-
Adjusted accounting profit	1,396	129
Taxable income for the year	1.396	129
Tax expense	419	39

The Company files consolidated income tax as part of Tax Group 24/90, whose parent is Telefónica, S.A. with tax identification number A28015865. As the Company obtained a profit in 2014, it recognized a tax expense corresponding to 30% of this profit.

As a result of the previous settlements of income tax account realized during current year between the Company and Telefónica, S.A., as fiscal group parent, balance receivable for consolidated tax amounts to 349 thousand euros.

Payments on account of income tax made during the year made to Telefónica, S.A., as parent of the tax group, amounted to 71 thousand euros.

At December 31, 2014 and December 31, 2013, the Company has no unused tax credits on income tax payable in future years.

9. INCOME AND EXPENSES

9.1 External services

(Thousand of euros)	2014	2013
Independent professional services	353	546
Other services	1,625	2,446
Banking and similar services	3	3
TOTAL EXTERNAL SERVICES	1,981	2,995

Independent professional services primarily include audit related expenses, while other services primarily reflect costs incurred on services provided by (i) rating agencies, by (ii) the tax certification agent for coupon payments and by (iii) the paying agent for the Company's debt issuance programmes.

9.2 Finance income

Finance income from investments in Group companies and associates primarily includes interest earned on loans granted to Telefónica, S.A.

9.3 Finance costs

Finance costs on third-party borrowings include expenses accrued during the respective years on outstanding debentures.

9.4 Exchange gains (losses)

The breakdown of assets and liabilities in foreign currencies at December 31 is as follows:

2014 (Thousand of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Assets					
Loans to companies	519,642	11,432,854	3,969,198	46,325	118,628
Liabilities					
Debentures, bonds and other marketable debt securities	519,734	11,432,854	3,969,261	46,376	118,599

2013 (Thousand of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Assets					
Loans to companies	508,734	9,698,550	4,080,968	143,895	119,051
Liabilities					
Debentures, bonds and other marketable debt securities	508,837	9,698,850	4,081,099	143,969	119,187

The breakdown of transactions executed in foreign currencies is as follows:

2014 (Thousand of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Interest income	14,958	532,463	204,670	3,908	4,429
Interest expense	14,912	531,314	204,651	3,885	4,251

2013 (Thousand of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Interest income	10,823	522,254	226,180	6,606	4,806
Interest expense	10,782	521,390	226,068	6,575	4,936

The breakdown of exchange differences recognized in the income statement by type of financial instrument is as follows:

(Thousand of euros)	2014	2013
Loans to companies		
Transactions settled during the financial year	5,656	18,699
Transactions pending settlement at year end	1,630,772	601,892
	1,636,428	620,591
Accounts payable		
Transactions settled during the financial year	(5,600)	(18,651)
Transactions pending settlement at year end	(1,630,815)	(601,891)
	(1,636,415)	(620,542)

Exchange gains and losses are generated on the various securities and loans issued in foreign currencies, which are measured at the exchange rates prevailing at the reporting date.

10. RELATED PARTY DISCLOSURES

10.1 Related parties

Company transactions in 2014 with related parties, carried out under market conditions, and the nature of the relationship are as follows:

	Nature of the relationship
Telefónica, S.A.	Group parent
Telefónica Finanzas, S.A.U.	Group company
Telefónica GSC España, S.A.U.	Group company
Telefónica Europe, B.V.	Group company

10.2 Balances

Balances with related parties are as follows:

(Thousand of euros)	Parent Company 2014	Other Group companies 2014	Parent Company 2013	Other Group companies 2013
Non-current loans (Note 5)	31,792,078	-	30,422,852	-
Current loans (Note 5)	3,962,013	-	4,983,718	-
Cash and cash equivalents	-	2,833	-	2,300
Current borrowings	349	665	202	558

10.3 Transactions

Transactions entered into with related parties are as follows:

(Thousand of euros)	Parent Company 2014	Other Group companies 2014	Parent Company 2013	Other Group companies 2013
External services (Note 9.1)	-	(68)	-	(69)
Finance income - interest (Note 9.2)	1,550,286	-	1,712,137	3
Exchange gains (Note 9.4)	1,636,428	-	620,591	-

11. OTHER DISCLOSURES

11.1 Auditors' fees

The fees accrued in 2014 and 2013 to the various member firms of the EY global organization (formerly Ernst & Young), to which Ernst & Young, S.L. (the auditors of Telefónica Emisiones, S.A.U.) belongs amounted to 263 thousand euros in 2014 and 263 thousand euros in 2013, and were solely for audit services.

11.2 Directors disclosures

In 2014, the Company's joint and several Directors received no remuneration of any kind. No advances or loans have been granted to Directors, nor does the Company have any pension or life insurance pension obligations to them.

Regarding sections 229 and 230 of the Corporate Enterprises Act, the joint and several directors have not reported any the potential conflicts of interest.

11.3 Environmental disclosures

At December 31, 2014 and December 31, 2013, the Company had not designated significant assets to environmental protection or restoration, nor had it incurred any expenses for this purpose during the year. Likewise, no environmental grants were received during the years ended December 31, 2014 and December 31, 2013.

The Company's joint and several Directors consider that the environmental risks which might arise in connection with the Company's business activities are adequately covered, and that such liabilities would not be significant.

11.4 Information on deferred payments to third parties. (Third additional provision, "Information requirement" of Law 15/2010 of 5 July)

The Company has completed the adaptation of its internal processes and payment timeframe policy in line with Law 15/2010 establishing measures to combat late payment in commercial transactions. Conditions for agreements with commercial suppliers in 2014 and 2013 included payment timeframes equal to or shorter than 60 days in both periods, as laid down in Transitional Provision Two of the aforementioned law.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules whereby payments are made on set days. Invoices falling due between two payments days are settled on the following payment date in the schedule. This is not deemed to be a deferred payment.

Information on contracts entered into after Law 15/2010 took effect that exceed the maximum period established in this law is shown in the table below.

(Thousand of euros)	Payments made and outstanding at the reporting date			
	2014		2013	
	Amount	%	Amount	%
Within the maximum legal timeframe	2,490	100	2,453	100
Others	-	-	-	-
Total payments in the year	2,490	100	2,453	100
Weighted average payment days	-	-	-	-
Deferrals at year-end exceeding the legal limit	-	-	-	-

At both December 31, 2014 and December 31, 2013, there were no balances payable to suppliers outstanding after the legal payment term.

11.5 Contracts entered into with the Sole Shareholder

Details of contracts entered into with the Sole Shareholder, Telefónica, S.A., including the date these contracts were signed and a brief description of their purpose, characteristics and inherent obligations of the contracting parties are as follows:

Contract	Start date	Purpose	Characteristics
Financing framework agreement	04/29/2005	Awarding of loans to Sole Shareholder	The Company will award loans under this framework agreement pursuant to the specific terms and conditions agreed between the parties for each loan.

12. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The debt issued by Telefónica Emisiones, S.A.U. on the capital markets is guaranteed by Telefónica, S.A. Therefore, the credit risk on its issues is equivalent to a direct investment in Telefónica, S.A.

The terms and conditions of financial assets held by Telefónica, S.A. are essentially the same as those of its financial liabilities. Therefore, they are hedged against interest rate and liquidity risk.

13. EVENTS AFTER THE REPORTING PERIOD

Between the end of 2014 and the date of authorization for issue of the accompanying financial statements, the only event regarding the Company was the redemption on the related maturity date, January 15, 2015, of 1,250 million US dollar bond issue (equivalent to 1,068 million euros), issued on July 6, 2009, bearing a coupon of 4.949%, under the Company's SHELF programme.

14. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements were originally prepared in Spanish. In the event of discrepancy, the Spanish-language version prevails.

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting principles applied by the Company may not conform with generally accepted principles in other countries.

TELEFÓNICA EMISIONES, S.A.
(Sole-Shareholder Company)

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Summary of 2014

In 2014, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2014 income statements include:

- Operating losses of 1,984 thousand euros (2,999 thousand euros in 2013), of which the most significant item arose from credit rating agencies.
- Net financial income of 3,380 thousand euros (3,128 thousand euros in 2013), from interest and commissions earned on loans granted to Telefónica, S.A.
- The combination of these two figures and the income tax expense of 419 thousand euros (39 thousand euros in 2013), gave rise to income from ordinary activities of 977 thousand euros (90 thousand euros in 2013).

Financial transactions undertaken in 2014 comprise bonds issuance totaling 2,550 million euros under the 40 thousand million euro European Medium Term Note (EMTN) program of June 13, 2013 last updated on June 10, 2014 by Telefónica Emisiones, S.A. (Sole-Shareholder Company) and guaranteed by Telefónica, S.A. and 500 million USD in an addendum to the prospectus of Telefónica Emisiones guaranteed by Telefónica, S.A. dated May 22, 2012 and registered in the U.S. Securities and Exchange Commission.

2015 Targets

Going forward, the Company is expected to carry on its line of business, performing financial transactions to raise finance for the Telefónica Group. In this regard, during 2015 the Company will actively monitor the international capital markets so as to issue bonds (or any other financial instrument it deems appropriate) if the market conditions are right and if these meet the Company's borrowing requirements.

Capital Structure

Telefónica Emisiones, S.A. is a Sole-Shareholder Company, whose share capital comprises 62,000 ordinary shares with a nominal value of 1 euro each. Share capital is fully subscribed and paid in. The Sole Shareholder is Telefónica, S.A. a company legally incorporated in Spain, with its registered office at Gran Vía 28, 28013 – Madrid.

Company's management

In 2014, as in 2013, the Company had two joint and several Directors: (i) D. Eduardo J. Álvarez Gómez and (ii) D. Juan Francisco Gallego Arrechea.

We would note that in April 2014, Juan José Gómez Migueláñez stepped down from his position as joint and several director of the Company. On the same date, pursuant to a

decision by the Sole- Shareholder, Juan Francisco Gallego Arrechea was duly appointed to replace him.

Treasury shares

The Company has no treasury shares.

R&D

The Company does not conduct R&D.

Average supplier payment period

In 2014, the average supplier payment period for commercial transactions was less than 60 days.

Likewise, and pursuant to Law 15/2010 (amended by Law 31/2014) and Royal Decree-Law 4/2013, which in turn amend Law 3/2004, establishing measures to combat late payment in commercial transactions, in 2014 the Company did not enter into any agreements with commercial suppliers with average payment periods in excess of 60 days.

Main business risks

Concentration of revenue, liquidity and other financial risks

Practically all of the Company's revenue comes from a single client (Telefónica, S.A.). Therefore, the Company's ability to honour its obligations with third parties is closely related to the financial condition of Telefónica, S.A. and its ability to honour the loan contracts signed with the Company.

The terms and conditions of financial assets held by Telefónica, S.A. which represents practically all of the Company's financial assets have essentially the same as those of its financial liabilities (bonds issued). Therefore, interest rate, exchange rate and liquidity risks are substantially mitigated.

Credit risk from investment in bonds and other marketable securities issued by the Company

Currently, all of the bonds in circulation issued by Telefónica Emisiones, S.A. (Sole-Shareholder Company) are guaranteed by Telefónica, S.A. Therefore, the credit risk from investing in corporate bonds is similar to investing directly to Telefónica, S.A.

Worsening of the financial markets

The current conditions and the worsening of the financial markets may limit access to the debt markets and, as a result, the Company's ability to continue its activities (securing financing for the Telefónica Group).

The performance of financial markets in terms of liquidity, cost of credit, and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the pace of the economic recovery the health of the international banking system or the concerns regarding the burgeoning deficits of some European countries. Worsening credit conditions in the international financial markets due to any of these factors could make it more complicated to access financing, or make it more difficult and expensive to raise funds, which could determine the Company's ability to lend new funds to the Telefónica Group.

Related party transactions

The Company extends financing to its shareholder, Telefónica, S.A., and has asset balances with related companies.

Shareholder remuneration

As in 2013, the Company did not pay any dividends in 2014.

The Company's joint and several Directors intend to propose to the Sole-Shareholder the appropriation of 2014 profit to voluntary reserves.

Annual corporate governance report

The Company is a Sole-Shareholder company and therefore a specific corporate governance report by the Company and the information required by Article 61 bis of the Spanish Securities Market Law is not considered necessary. As its Sole-Shareholder is Telefónica, S.A., readers should refer to the Telefónica, S.A. annual corporate governance report.

Events after the reporting period

Between the end of 2014 and the date of authorization for issue of the accompanying financial statements the only noteworthy event regarding the Company was the redemption, at maturity (January 15, 2015), of 1,250 million USD bond issue (equivalent to 1,068 million euros). These bonds, bearing a coupon of 4.949% and settled annually at maturity, were issued on July 6, 2009 in a supplement to the Telefónica Emisiones, S.A. (Sole-Shareholder Company) prospectus and guaranteed by Telefónica, S.A. dated May 8, 2012 and registered with the U.S. Securities and Exchange Commission.

CERTIFICATION

At their meeting on March, 23 2015 the joint and several Directors of Telefónica Emisiones, S.A. (Sole-Shareholder Company) authorized for issue these financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes for 2014, which form an integral part of this document.

The aforementioned Financial Statements and Management Report are endorsed on each sheet, and this certification serves, for all purposes, as the signature for all the documents comprising the Financial Statements and Management Report.

Joint and several Directors

(Signed on the original in Spanish)

Eduardo J. Álvarez Gómez

Juan Francisco Gallego Arrechea