

Independent Audit Report

TELEFÓNICA EMISIONES, S.A.

(Sole-Shareholder Company)

Financial Statements and Management Report

for the year ended

December 31, 2015

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, 2015, the income statement, the statement of changes in equity, the cash flows 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, 2015, 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 2015 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 2015 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 17, 2016

Telefónica Emisiones, S.A.

(Sole-Shareholder Company)

Financial statements for the year ended December 31, 2015



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TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Balance sheets at December 31, 2015

(Thousands of euros)

ASSETS	Notes*	2015	2014
NON-CURRENT ASSETS		28,072,937	31,792,078
Non-current investments in Group companies and associates	5, 10.2	28,072,937	31,792,078
Loans to companies		28,072,937	31,792,078
CURRENT ASSETS		7,375,976	3,965,635
Trade and other receivables		600	789
Prepayments to suppliers		392	392
Trade receivables for sales and services		6	6
Other receivables		178	375
Other receivables from public administrations		24	16
Current investments in Group companies and associates	5, 10.2	7,371,068	3,962,013
Loans to companies		7,371,068	3,962,013
Cash and cash equivalents	10.2	4,308	2,833
TOTAL ASSETS		35,448,913	35,757,713
EQUITY AND LIABILITIES	Notes*	2015	2014
EQUITY		7,833	6,197
CAPITAL AND RESERVES	6	7,833	6,197
Capital		62	62
Issued capital		62	62
Reserves		6,135	5,158
Legal and statutory reserves		12	12
Other reserves		6,123	5,146
Profit for the year		1,636	977
NON-CURRENT LIABILITIES		28,069,596	31,787,840
Non-current borrowings	7	28,069,596	31,787,840
Bonds and other marketable debt securities		28,069,596	31,787,840
CURRENT LIABILITIES		7,371,484	3,963,676
Current borrowings	7	7,370,058	3,962,614
Bonds and other marketable debt securities		7,370,058	3,962,614
Current borrowings from Group companies and associates	7, 8 and 10.2	481	349
Trade and other payables		945	713
Other payables	7	234	48
Trade payables, Group companies and associates	7, 10.2	711	665
TOTAL EQUITY AND LIABILITIES		35,448,913	35,757,713

* 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, 2015

(Thousands of euros)

	Notes*	2015	2014
Other operating expenses		(2,070)	(1,984)
External services	9.1	(2,066)	(1,981)
Taxes		(4)	(3)
OPERATING LOSS		(2,070)	(1,984)
Finance income	9.2	1,588,946	1,550,286
In Group companies and associates		1,588,946	1,550,286
Finance costs	9.3	(1,584,617)	(1,546,919)
Debts with Group companies and associates		-	(3)
Debts with third parties		(1,584,617)	(1,546,916)
Exchange gains (losses)	9.4	14	13
NET FINANCIAL INCOME		4,343	3,380
PROFIT BEFORE TAX		2,273	1,396
Income tax	8	(636)	(419)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		1,636	977
PROFIT FOR THE YEAR		1,636	977

*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, 2015
(Thousands of euros)

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

	(Thousands of euros)	
	2015	2014
PROFIT FOR THE YEAR	1,636	977
TOTAL RECOGNIZED INCOME AND EXPENSE	1,636	977

* The accompanying Notes 1 to 14 are an integral part of these statements of changes in equity.

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

	(Thousands of euros)			
	Capital	Reserves	Profit for the year	TOTAL
BALANCE AT JANUARY 1, 2014	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
Total recognized income and expense	-	-	1,636	1,636
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	977	(977)	-
Other adjustments	-	-	-	-
BALANCE AT DECEMBER 31, 2015	62	6,135	1,636	7,833

* The accompanying Notes 1 to 14 are an integral part of these statements of changes in equity.

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

(Thousands of euros)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	2,273	1,396
Adjustments to profit	(4,343)	(3,380)
Finance income	(1,588,946)	(1,550,286)
Finance costs	1,584,617	1,546,919
Exchange gains and losses	(14)	(13)
Change in working capital	421	66
Trade and other receivables	189	27
Trade and other payables	232	54
Other current liabilities	-	(15)
Other cash flows from operating activities	(1,214)	(1,108)
Interest paid	(1,619,190)	(1,698,501)
Interest received	1,618,667	1,698,473
Income tax receipts (payments)	(504)	(272)
Other payments (receipts)	(187)	(808)
CASH FLOWS FROM OPERATING ACTIVITIES	(2,863)	(3,026)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	(1,467,000)	(2,918,260)
Group and associates	(1,467,000)	(2,918,260)
Proceeds from disposal	3,296,469	4,058,975
Group and associates	3,296,469	4,058,975
CASH FLOWS USED IN INVESTING ACTIVITIES	1,829,469	1,140,715
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections from and payments for financial instruments	(1,825,136)	(1,137,154)
Issue		
Bonds and other marketable debt securities	1,467,000	2,917,755
Repayment and redemption of		
Bonds and other marketable debt securities	(3,292,136)	(4,054,909)
CASH FLOWS FROM FINANCING ACTIVITIES	(1,825,136)	(1,137,154)
NET FOREIGN EXCHANGE DIFFERENCE	5	(2)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	1,475	533
Cash and cash equivalents at beginning of year	2,833	2,300
Cash and cash equivalents at end of year	4,308	2,833

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

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

Notes to the financial statements for the year ended December 31, 2015

1. ACTIVITY

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

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

Telefónica Emisiones, S.A. (Sole-Shareholder Company) is a wholly-owned subsidiary of Telefónica, S.A.

The company's corporate purpose 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 authorization for issue of these financial statements.

The figures shown in these financial statements are presented in thousands 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 on March 16, 2016 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 2015 balance sheet, income statement, statement of changes in equity, and cash flows statement are disclosed for comparison with the information for 2014. 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 Key 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 2015 profit to be submitted by the joint and several Directors for approval by the Company's Sole Shareholder is as follows:

(Thousands of euros)	2015
Proposed appropriation	
Profit for the year	1,636
	1,636
Appropriation to:	
Voluntary reserves	1,636
	1,636

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

Loans and receivables

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, 2015 and December 31, 2014 is as follows:

(Thousands of euros)	2015	2014
Non-current investments in Group companies and associates		
Loans to Group companies (Note 5.1)	28,072,937	31,792,078
NON-CURRENT ASSETS	28,072,937	31,792,078
Current investments in Group companies and associates		
Loans to Group companies (Note 5.1)	7,371,068	3,962,013
CURRENT ASSETS	7,371,068	3,962,013

In 2015 the Company granted new financing to Telefónica, S.A. for a total of 1,467,000 thousand euros (in euro-denominated loans) and received funds from the amortization of loans (granted to the same borrower) of 3,296,469 thousand euros.

5.1 Loans to Group companies

The balance relates to loans granted to Telefonica, S.A. between 2006 and 2015. The breakdown of these loans is as follows:

(Thousands of euros)

Loan number	Signing date	Maturity date	Annual interest rate	Frequency of payment	2015 Non-current assets	2015 Current assets	2014 Non-current assets	2014 Current assets
Number 1	02/02/2006	02/02/2016	4.375%	Annual	-	1,819,312	1,747,632	69,640
Number 3	02/02/2006	02/02/2018	5.375%	Annual	1,020,325	49,960	960,920	47,076
Number 4	02/02/2006	02/02/2026	5.375%	Annual	679,109	33,306	639,806	31,384
Number 8	06/20/2006	06/20/2016	6.421%	Half-yearly	-	1,149,935	1,028,395	2,020
Number 9	06/20/2006	06/20/2036	7.045%	Half-yearly	1,826,246	4,114	1,636,985	3,705
Number 13	01/31/2007	12/30/2021	Euribor 6m+0.830%	Half-yearly	54,976	1	54,972	2
Number 14	01/31/2007	01/31/2018	Euribor 3m+0.700%	Quarterly	24,000	26	24,000	32
Number 22	07/02/2007	07/03/2017	6.221%	Half-yearly	642,433	20,101	575,823	18,058
Number 25	04/01/2009	04/01/2016	5.496%	Annual	-	1,041,080	998,945	41,547
Number 26	06/02/2009	06/02/2015	Euribor 3m+1.825%	Quarterly	-	-	-	400,549
Number 27	06/03/2009	04/01/2016	4.963%	Annual	-	521,172	504,842	18,812
Number 28	07/06/2009	01/15/2015	4.949%	Half-yearly	-	-	-	1,052,899
Number 29	07/06/2009	07/15/2019	5.877%	Half-yearly	916,916	24,892	821,885	22,321
Number 30	11/10/2009	11/11/2019	4.693%	Annual	1,747,184	11,220	1,746,617	11,250
Number 31	12/10/2009	12/09/2022	5.289%	Annual	883,777	2,823	832,584	2,660
Number 33	03/24/2010	03/24/2015	3.406%	Annual	-	-	-	1,018,689
Number 35	04/26/2010	04/27/2015	3.729%	Half-yearly	-	-	-	746,151
Number 36	04/26/2010	04/27/2020	5.134%	Half-yearly	1,282,912	11,849	1,149,934	10,637
Number 37	09/16/2010	09/18/2017	3.661%	Annual	998,990	10,431	998,568	10,431
Number 38	10/08/2010	10/08/2029	5.445%	Annual	543,103	6,829	511,675	6,435
Number 39	02/07/2011	02/07/2017	4.75%	Annual	1,199,025	51,060	1,198,420	51,060
Number 40	02/16/2011	02/16/2016	3.992%	Half-yearly	-	1,165,059	1,028,613	15,441
Number 41	02/16/2011	02/16/2021	5.462%	Half-yearly	1,374,016	28,249	1,231,666	25,334
Number 42	03/21/2011	02/07/2017	4.688%	Annual	100,111	4,205	100,154	4,207

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Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2015 Non-current assets	2015 Current assets	2014 Non-current assets	2014 Current assets
Number 43	11/03/2011	02/03/2016	4.967%	Annual	-	838,065	801,095	36,129
Number 44	11/04/2011	11/04/2016	2.8247%	Half-yearly	-	53,603	48,173	213
Number 45	02/07/2012	02/07/2017	4.75%	Annual	119,521	5,107	119,135	5,107
Number 46	02/21/2012	02/21/2018	4.797%	Annual	1,497,660	61,764	1,496,814	61,764
Number 47	03/12/2012	03/12/2020	5.597%	Annual	951,385	42,997	896,140	40,516
Number 48	03/30/2012	03/30/2017	3.934%	Annual	46,189	1,376	44,983	1,341
Number 49	07/11/2012	07/11/2018	4.25%	Half-yearly	76,294	1,519	68,856	1,387
Number 50	09/19/2012	09/05/2017	5.811%	Annual	1,002,274	17,998	1,003,407	18,031
Number 51	10/19/2012	01/20/2020	4.710%	Annual	1,197,128	53,423	1,196,565	53,423
Number 52	12/14/2012	12/14/2018	2.718%	Annual	230,286	297	207,392	268
Number 53	12/14/2012	12/14/2022	3.450%	Annual	137,988	226	124,297	204
Number 54	01/22/2013	01/23/2023	3.987%	Annual	1,495,437	56,036	1,494,948	56,200
Number 55	03/27/2013	03/26/2021	3.961%	Annual	972,897	30,386	968,475	30,386
Number 56	04/29/2013	04/27/2018	3.192%	Half-yearly	1,146,078	6,515	1,026,973	5,843
Number 57	04/29/2013	04/27/2023	4.570%	Half-yearly	686,318	5,597	615,193	5,019
Number 58	05/29/2013	05/29/2019	2.736%	Annual	748,555	12,143	748,193	12,143
Number 59	10/23/2013	10/23/2020	2.595%	Annual	207,127	1,022	186,560	921
Number 60	03/26/2014	03/26/2016	Euribor 3m+0.65%	Quarterly	-	199,974	199,814	10
Number 61	04/10/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	199,787	344	199,431	418
Number 62	05/27/2014	05/27/2022	2.242%	Annual	1,246,021	17,186	1,245,487	17,186
Number 63	06/04/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	100,374	184	100,456	209
Number 64	06/23/2014	06/23/2017	\$Libor 3m+0.66%	Quarterly	458,471	131	410,638	86
Number 65	10/17/2014	10/17/2029	2.932%	Annual	796,784	4,869	796,617	4,869
Number 66	06/18/2015	06/19/2017	Euribor 3m+0.33%	Quarterly	299,802	16	-	-
Number 67	07/21/2015	07/21/2022	Euribor 6m+0.83%	Half-yearly	66,743	267	-	-
Number 68	09/14/2015	09/14/2021	1.477%	Yearly	996,733	4,370	-	-
Number 69	12/11/2015	12/11/2017	Euribor 3m+0.53%	Quarterly	99,962	29	-	-
					28,072,937	7,371,068	31,792,078	3,962,013

The fair value of loans granted to Telefonica, S.A. was 38,159,475 thousand euros at December 31, 2015 and 39.702.805 thousand euros at December 31, 2014.

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 2015 and December 31, 2014 is as follows:

(Thousands of euros)	2015	2014
Between 1 and 2 years	5,266,939	6,357,509
Between 2 and 3 years	3,994,643	4,751,014
Between 3 and 4 years	3,412,656	3,784,955
Between 4 and 5 years	3,638,552	3,316,695
Over 5 years	11,760,147	13,581,905
TOTAL	28,072,937	31,792,078

6. EQUITY

6.1 Share capital

Share capital at December 31, 2015 comprised 62,000 shares with a nominal value of 1 euro each. The Company's Sole Shareholder is Telefonica, S.A.

Telefonica Emisiones, S.A. 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 Other 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, 2015 and December 31, 2014 is as follows:

(Thousands of euros)	Note	2015	2014
Non-current financial liabilities		28,069,596	31,787,840
Debentures, bonds and other marketable debt securities	7.1	28,069,596	31,787,840
Current financial liabilities		7,371,484	3,963,676
Debentures, bonds and other marketable debt securities	7.1	7,370,058	3,962,614
Current borrowings from Group companies and associates		481	349
Other payables	7.2	234	48
Trade payables, Group Companies and associates	7.2	711	665

In 2015 the Company issued bonds and debentures maturing at long term, guaranteed by Telefónica, S.A., for a total of 1,467,000 thousand euros (denominated in euros) and redeemed bonds and debentures totaling 3,292,136 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 2015 in euros, US dollars, Pounds sterling, Czech crowns, Japanese yen and Swiss francs. The debenture and bond issues are secured by Telefónica, 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	2015 Non-current liabilities	2015 Current liabilities	2014 Non-current liabilities	2014 Current liabilities
EMTN 1	02/02/2006	02/02/2016	4.375%	Annual	-	1,819,310	1,747,622	69,640
EMTN 3	02/02/2006	02/02/2018	5.375%	Annual	1,020,316	49,960	960,907	47,076
EMTN 4	02/02/2006	02/02/2026	5.375%	Annual	679,090	33,306	639,786	31,384
SHELF B	06/20/2006	06/20/2016	6.421%	Half-yearly	-	1,149,913	1,028,496	2,020
SHELF C	06/20/2006	06/20/2036	7.045%	Half-yearly	1,822,148	3,955	1,633,609	3,546
EMTN 9	01/31/2007	12/30/2021	Euribor 6m+0.83%	Half-yearly	54,972	1	54,967	2
EMTN 10	01/31/2007	01/31/2018	Euribor 3m+0.70%	Quarterly	23,988	26	23,983	32
SHELF G	07/02/2007	07/03/2017	6.221%	Half-yearly	642,493	19,777	575,908	17,735
EMTN 18 Tr1	04/01/2009	04/01/2016	5.496%	Annual	-	1,040,716	999,008	41,258
EMTN 19	06/02/2009	06/02/2015	Euribor 3m+1.825%	Quarterly	-	-	-	400,550
EMTN 18 Tr2	06/03/2009	04/01/2016	5.496%	Annual	-	521,051	502,921	20,629
SHELF H	07/06/2009	01/15/2015	4.949%	Half-yearly	-	-	-	1,052,908
SHELF I	07/06/2009	07/15/2019	5.877%	Half-yearly	917,095	24,892	822,065	22,321
EMTN 20	11/10/2009	11/11/2019	4.693%	Annual	1,747,186	11,250	1,746,657	11,250
EMTN 21	12/10/2009	12/09/2022	5.289%	Annual	883,772	2,823	832,612	2,660
EMTN 23	03/24/2010	03/24/2015	3.406%	Annual	-	-	-	1,018,651
SHELF K	04/26/2010	04/27/2015	3.729%	Half-yearly	-	-	-	746,051
SHELF L	04/26/2010	04/27/2020	5.134%	Half-yearly	1,282,845	11,737	1,149,823	10,525
EMTN 24	09/16/2010	09/18/2017	3.661%	Annual	999,004	10,431	998,588	10,431
EMTN 25	10/08/2010	10/08/2029	5.445%	Annual	543,052	6,829	511,657	6,435
EMTN 26 Tr1	02/07/2011	02/07/2017	4.75%	Annual	1,199,081	51,066	1,198,462	51,066
SHELF M	02/16/2011	02/16/2016	3.992%	Half-yearly	-	1,165,030	1,028,607	15,413
SHELF N	02/16/2011	02/16/2021	5.462%	Half-yearly	1,373,892	28,221	1,231,511	25,306
EMTN 26 Tr2	03/21/2011	02/07/2017	4.750%	Annual	100,143	4,255	100,298	4,255
EMTN 27	11/03/2011	02/03/2016	4.967%	Annual	-	838,056	801,209	36,129
EMTN 28	11/04/2011	11/04/2016	2.8247%	Half-year	-	53,598	48,169	201

Continued overleaf

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Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	2015 Non-current liabilities	2015 Current liabilities	2014 Non-current liabilities	2014 Current liabilities
EMTN 26 Tr3	02/07/2012	02/07/2017	4.750%	Annual	119,531	5,107	119,154	5,107
EMTN 29	02/21/2012	02/21/2018	4.797%	Annual	1,497,688	61,704	1,496,856	61,704
EMTN 30	03/12/2012	03/12/2020	5.597%	Annual	951,436	42,997	896,192	40,516
EMTN 31	03/30/2012	03/30/2017	3.934%	Annual	46,210	1,376	45,019	1,341
EMTN 32	07/11/2012	07/11/2018	4.250%	Half-yearly	76,282	1,519	68,841	1,387
EMTN 33 Tr1	09/19/2012	09/05/2017	5.811%	Annual	1,001,621	18,627	1,002,794	18,627
EMTN 34 Tr1	10/19/2012	01/20/2020	4.710%	Annual	1,197,157	53,423	1,196,589	53,423
EMTN 35 Tr1	12/14/2012	12/14/2018	2.718%	Annual	230,289	297	207,393	268
EMTN 35 Tr2	12/14/2012	12/14/2022	3.450%	Annual	138,007	226	124,313	204
EMTN 37	01/22/2013	01/23/2023	3.987%	Annual	1,495,626	56,036	1,495,160	56,036
EMTN 38	03/27/2013	03/26/2021	3.961%	Annual	972,896	30,386	968,472	30,386
SHELF O	04/29/2013	04/27/2018	3.192%	Half-yearly	1,146,238	6,515	1,027,123	5,842
SHELF P	04/29/2013	04/27/2023	4.570%	Half-yearly	686,457	5,597	615,292	5,019
EMTN 39	05/29/2013	05/29/2019	2.736%	Annual	748,554	12,143	748,191	12,143
EMTN 40	10/23/2013	10/23/2020	2.595%	Annual	207,163	1,022	186,581	921
EMTN 41	03/26/2014	03/26/2016	Euribor 3m+0.65%	Quarterly	-	199,981	199,876	8
EMTN 42 Tr1	04/10/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	199,826	312	199,501	378
EMTN 43	05/27/2014	05/27/2022	2.242%	Annual	1,246,266	16,738	1,245,767	16,738
EMTN 42 Tr2	06/04/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	100,089	156	100,347	189
SHELF Q	06/23/2014	06/23/2017	\$Libor 3m+0.65%	Quarterly	458,579	127	410,756	83
EMTN 44	10/17/2014	10/17/2029	2.932%	Annual	796,887	4,820	796,758	4,820
EMTN 45	06/18/2015	06/19/2017	Euribor 3m+0.33%	Quarterly	299,824	16	-	-
EMTN 46	07/21/2015	07/21/2022	Euribor 6m+0.83%	Half-yearly	66,780	267	-	-
EMTN 47	09/14/2015	09/14/2021	1.477%	Annual	997,117	4,431	-	-
EMTN 48	12/11/2015	12/11/2017	Euribor 3m+0.53%	Quarterly	99,996	32	-	-
					28,069,596	7,370,058	31,787,840	3,962,614

The fair value of the debentures and bonds issued by the Company was 38,144,720 thousand euros at December 31, 2015 and 39,682,515 thousand euros at December 31, 2014.

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, 2015 and December 31, 2014 is as follows:

(Thousands of euros)	2015	2014
Between 1 and 2 years	5,266,396	6,355,908
Between 2 and 3 years	3,994,801	4,750,827
Between 3 and 4 years	3,412,836	3,785,102
Between 4 and 5 years	3,638,601	3,316,914
Over 5 years	11,756,962	13,579,089
TOTAL NON-CURRENT LIABILITIES	28,069,596	31,787,840

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 481 thousand euros (349 thousand euros in 2014),
- ii) Telefónica Europe, B.V. for re-invoicing of credit rating services, which amount to 698 thousand euros (652 thousand euros in 2014) and
- iii) Telefónica Gestión de Servicios Compartidos España, S.A.U. for services rendered, which amount to 13 thousand euros (13 thousand euros in 2014).

8. INCOME 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 2015 and 2014 is as follows:

(Thousands of euros)	2015	2014
Accounting profit before tax	2,273	1,396
Permanent differences	-	-
Temporary differences	-	-
Adjusted accounting profit	2,273	1,396
Taxable income for the year	2,273	1,396
Tax expense	636	419

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 2015, it recognized a tax expense corresponding to 28% 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 481 thousand euros.

In 2015, the company made payments on account (in favor of Telefónica, S.A.) amounting to 155 thousand euros of income tax made during the year.

At December 31, 2015 and December 31, 2014, the Company has no unused tax credits on income tax.

9. INCOME AND EXPENSES

9.1 External Services

(Thousands of euros)	2015	2014
Independent professional services	199	353
Other services	1,864	1,625
Banking and similar services	3	3
TOTAL EXTERNAL SERVICES	2,066	1,981

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 programs.

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 are as follows:

2015 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Assets						
Loans to companies	576,946	10,749,180	4,213,615	47,565	131,417	15,718,723
Liabilities						
Debentures, bonds and other marketable debt securities	577,033	10,747,752	4,213,610	47,595	131,399	15,717,389

2014 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Assets						
Loans to companies	519,642	11,432,854	3,969,198	46,325	118,628	16,086,647
Liabilities						
Debentures, bonds and other marketable debt securities	519,734	11,432,854	3,969,261	46,376	118,599	16,086,824

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

2015 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Interest income	17,032	563,999	225,242	1,843	4,628	812,744
Interest expense	16,979	562,433	225,169	1,820	4,643	811,044

2014 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Interest income	14,958	532,463	204,670	3,908	4,429	760,428
Interest expense	14,912	531,314	204,651	3,885	4,251	759,013

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

(Thousands of euros)	2015	2014
Loans to companies		
Transactions settled during the financial year	130,197	5,656
Transactions pending settlement at year end	1,418,755	1,630,772
	1,548,952	1,636,428
Accounts payable		
Transactions settled during the financial year	(130,200)	(5,600)
Transactions pending settlement at year end	(1,418,738)	(1,630,815)
	(1,548,938)	(1,636,415)

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 2015 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:

(Thousands of euros)	Parent Company 2015	Other Group companies 2015	Parent Company 2014	Other Group companies 2014
Non-current loans (Note 5)	28,072,937	-	31,792,078	-
Current loans (Note 5)	7,371,068	-	3,962,013	-
Cash and cash equivalents	-	4,308	-	2,833
Current borrowings	481	711	349	665

10.3 Transactions

Transactions entered into with related parties are as follows:

(Thousands of euros)	Parent Company 2015	Other Group companies 2015	Parent Company 2014	Other Group companies 2014
External services (Note 9.1)	-	(64)	-	(68)
Finance income - interest (Note 9.2)	1.588.946	-	1.550.286	-
Exchange gains (Note 9.4)	1.548.952	-	1.636.428	-

11. OTHER DISCLOSURES

11.1 Auditors' fees

The fees accrued in 2015 and 2014 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. Sole-Shareholder Company) belongs amounted to 126 thousand euros in 2015 and 263 thousand euros in 2014, and were solely for audit services.

11.2 Directors disclosures

In 2015, 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 potential conflicts of interest.

11.3 Environmental disclosures

At December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014.

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 concerning the average supplier payment period. Third additional provision. "Information requirement" of Law 15/2010 of July 5.

In accordance with the aforementioned Law, the following information concerning the Company is disclosed:

	2015
	Days
Average Supplier Payment Period	48
Ratio of paid transactions	48
Ratio of pending payment transactions	-
	Euros
Total payments in the year	757
Total pending payments	-

Telefónica Emisiones, S.A. Sole-Shareholder Company has adapted its internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Legislative Decree 4/2013, which in turn amend Law 3/2004 establishing measures to combat late payments in commercial transactions. Engagement conditions with commercial suppliers in 2015 included payment periods of up to 60 days, pursuant to the timelines agreed between the parties.

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. (Sole-Shareholder Company) 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. SUBSEQUENT EVENTS

The following events regarding the Company took place between the end of 2015 and the date of authorization for issue of the accompanying financial statements:

- **Redemption** at the maturity date (February 2, 2016) of a bond issue in the amount of **1,750 million euros**. These bonds carry a coupon of 4.375% payable annually in arrears and were issued on February 2, 2006 under the Company's EMTN program.
- **Redemption** at the maturity date (February 3, 2016) of **802.1 million euros** in outstanding obligations on a bond issue with an initial notional amount of 1,000 million euros. These bonds carry a coupon of 4.967% payable annually in arrears and were issued on November 3, 2011 under the Company's EMTN program. By March 27, 2013 the Company had exchanged 197.9 million euros for newly issued bonds, which it subsequently redeemed early.
- **Redemption** at the maturity date (February 16, 2016) of a bond issue in the amount of **1,250 million US dollars (the equivalent of 1,112 million euros)**. These bonds carry a coupon of 3.992% payable six-monthly in arrears and were issued on February 16, 2011 by means of a supplement to the Telefónica Emisiones, S.A.U. prospectus guaranteed by Telefónica, S.A., dated May 8, 2009 and registered with the U.S. Securities and Exchange Commission.

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 2015

Summary of 2015

In 2015, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2015 income statements include:

- **Operating loss of 2,070 thousand euros** (1,984 thousand euros in 2014), of which the most significant item arose from credit rating agencies.
- **Net financial income of 4,343 thousand euros** (3,380 thousand euros in 2014), from interest and commissions earned on loans granted to Telefónica, S.A.
- The combination of these two figures and the income tax expense of 636 thousand euros (419 thousand euros in 2014), gave rise to **profit from ordinary activities of 1,636 thousand euros** (977 thousand euros in 2014).

Financial transactions undertaken in 2015 comprise bonds issuance totaling 1,467 million euros under the 40 thousand million euro European Medium Term Note (EMTN) program of June 5, by Telefónica Emisiones, S.A.U and guaranteed by Telefónica, S.A.

2016 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 2016 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. (Sole-Shareholder Company) 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 2015, as in 2014, the Company had two joint and several Directors:

- (i) Mr. Eduardo J. Álvarez Gómez.
- (ii) Mr. Juan Francisco Gallego Arrechea.

Treasury shares

The Company, as in 2014, has no treasury shares.

R&D activities

The Company does not conduct R&D.

Average supplier payment period

In 2015, 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 2015 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 conditions 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).

Funding could be more difficult and costly in the case of a significant deterioration of conditions in the international or local financial markets (especially with the recent volatility associated with uncertainties about China, the decline in commodity prices and the hikes in interest rates approved by the Federal Reserve, all of which impact

Latin America), or by an eventual deterioration in the solvency or operating performance of the Company, or if the Telefónica's divestment of its operations in the United Kingdom were to not be completed, or as a consequence of the credit rating downgrade of Spanish sovereign risk by rating agencies.

Moreover, in due consideration of the interrelation between economic growth and financial stability, the advent of any of the aforementioned economic, political and currency risks could have an adverse effect on the ability and costs of the Company to obtain finance and lend funds to the Telefónica Group; this in turn could therefore have a major adverse impact on the business, the financial position, the results or the cash generation of the Company and of the Telefónica Group.

Related party transactions

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

Shareholder remuneration

As in 2014, the Company did not pay any dividends in 2015.

The Company's joint and several Directors intend to propose to the Sole-Shareholder the appropriation of 2015 profit to voluntary reserves.

Annual corporate governance report

Despite the Company's notes (guaranteed by Telefónica, S.A.) are listed on regulated markets the Company is not considered as a listed Company and therefore, attending to the applicable law, a specific corporate governance report by the Company is not considered necessary. As its Sole-Shareholder is Telefonica, S.A., readers should refer to the Telefónica, S.A. annual corporate governance report.

Subsequent events

The following events regarding the Company took place between the end of 2015 and the date of authorization for issue of the accompanying financial statements:

- **Redemption** at the maturity date (February 2, 2016) of a bond issue in the amount of **1,750 million euros**. These bonds carry a coupon of 4.375% payable annually in arrears and were issued on February 2, 2006 under the Company's EMTN program.
- **Redemption** at the maturity date (February 3, 2016) of **802.1 million euros** in outstanding obligations on a bond issue with an initial notional amount of 1,000 million euros. These bonds carry a coupon of 4.967% payable annually in arrears and were issued on November 3, 2011 under the Company's EMTN program. By March 27, 2013 the Company had exchanged 197.9 million euros for newly issued bonds, which it subsequently redeemed early.

- **Redemption** at the maturity date (February 16, 2016) of a bond issue in the amount of **1,250 million US dollars (the equivalent of 1,112 million euros)**. These bonds carry a coupon of 3.992% payable six-monthly in arrears and were issued on February 16, 2011 by means of a supplement to the Telefónica Emisiones, S.A.U. prospectus guaranteed by Telefónica, S.A., dated May 8, 2009 and registered with the U.S. Securities and Exchange Commission.

CERTIFICATION

At their meeting on March, 16 2016 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 flows statement and notes for 2015, 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