

Independent Audit Report

TELEFÓNICA EMISIONES, S.A.
(Sole-Shareholder Company)
Financial Statements and Management Report
for the year ended
December 31, 2016

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, 2016, 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, 2016, 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 2016 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 2016 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.

(Signed on the original in Spanish)

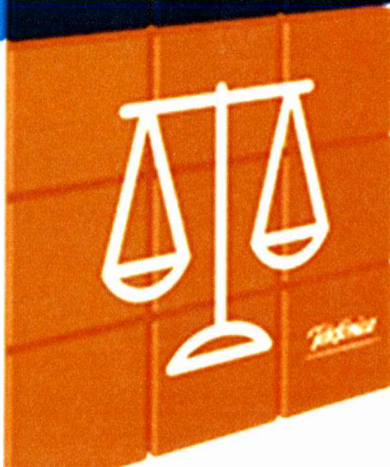
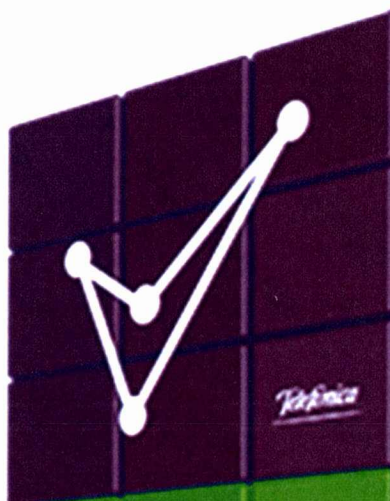
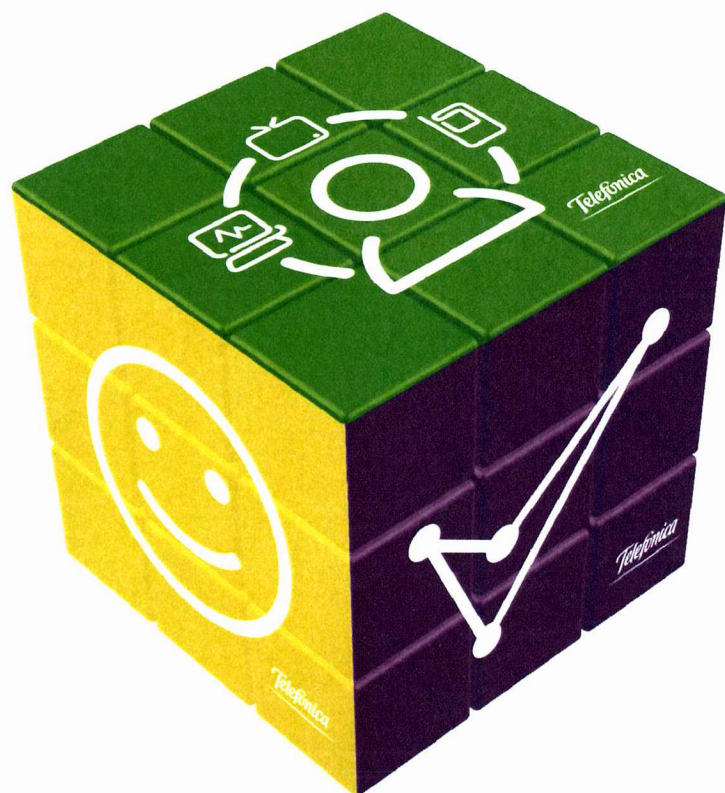
José Enrique Quijada Casillas

February 21, 2017

TELEFÓNICA EMISIONES, S.A.

(Sole-Shareholder Company)

Financial statements for the year ended December 31, 2016



2016

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

(Thousands of euros)			
ASSETS	Notes*	2016	2015
NON-CURRENT ASSETS		27,473,206	28,072,937
Non-current investments in Group companies and associates	5, 10.2	27,377,145	28,072,937
Loans to companies		27,377,145	28,072,937
Non-current deferred income tax receivable	5,8	96,061	-
Non-current deferred income tax receivable		96,061	-
CURRENT ASSETS		5,903,441	7,375,976
Trade and other receivables		2,243	600
Prepayments to suppliers		-	392
Trade receivables for sales and services		19	6
Other receivables		178	178
Other receivables from public administrations		2,046	24
Current investments in Group companies and associates	5, 10.2	5,898,022	7,371,068
Loans to companies		5,898,022	7,371,068
Cash and cash equivalents	10.2	3,176	4,308
TOTAL ASSETS		33,376,647	35,448,913
EQUITY AND LIABILITIES	Notes*	2016	2015
EQUITY		9,833	7,833
CAPITAL AND RESERVES	6	9,833	7,833
Capital		62	62
Issued capital		62	62
Reserves		7,771	6,135
Legal and statutory reserves		12	12
Other reserves		7,759	6,123
Profit for the year		2,000	1,636
NON-CURRENT LIABILITIES		27,470,113	28,069,596
Non-current borrowings	7	27,374,052	28,069,596
Bonds and other marketable debt securities		27,374,052	28,069,596
Debt with group companies due to consolidated tax payments, long term	8	96,061	-
Debt with group companies due to consolidated tax payments, long term		96,061	-
CURRENT LIABILITIES		5,896,701	7,371,484
Current borrowings	7	5,896,033	7,370,058
Bonds and other marketable debt securities		5,896,033	7,370,058
Current borrowings from Group companies and associates	7, 8 and 10.2	453	481
Trade and other payables		212	945
Other payables	7	210	234
Trade payables, Group companies and associates	7, 10.2	2	711
Current tax payables		3	-
TOTAL EQUITY AND LIABILITIES		33,376,647	35,448,913

* The accompanying Notes 1 to 13 are an integral part of these balance sheets.

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

		(Thousands of euros)	
	Notes*	2016	2015
Other operating expenses		(1,173)	(2,070)
External services	9.1	(1,169)	(2,066)
Taxes		(4)	(4)
OPERATING LOSS		(1,173)	(2,070)
Finance income	9.2	1,336,929	1,588,946
In Group companies and associates		1,336,929	1,588,946
Finance costs	9.3	(1,332,832)	(1,584,617)
Debts with Group companies and associates		(7)	-
Debts with third parties		(1,332,825)	(1,584,617)
Exchange gains (losses)	9.4	65	14
NET FINANCIAL INCOME		4,162	4,343
PROFIT BEFORE TAX		2,989	2,273
Income tax	8	(989)	(636)
Current profit tax		(99,065)	(636)
Deferred corporation tax		98,076	-
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		2,000	1,636
PROFIT FOR THE YEAR		2,000	1,636

*The accompanying Notes 1 to 13 are an integral part of these income statements.

TELEFÓNICA EMISIONES, S.A. (Sole-Shareholder Company)
Statements of changes in equity for the year ended December 31, 2016

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

	(Thousands of euros)	
	2016	2015
PROFIT FOR THE YEAR	2,000	1,636
TOTAL RECOGNIZED INCOME AND EXPENSE	2,000	1,636

* The accompanying Notes 1 to 13 are an integral part 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, 2015	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)	-
BALANCE AT DECEMBER 31, 2015	62	6,135	1,636	7,833
Total recognized income and expense	-	-	2,000	2,000
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	1,636	(1,636)	-
BALANCE AT DECEMBER 31, 2016	62	7,771	2,000	9,833

* The accompanying Notes 1 to 13 are an integral part of changes in equity.

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

		(Thousands of euros)	
	Notes*	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,989	2,273
Adjustments to profit		(4,163)	(4,343)
Finance income		(1,336,929)	(1,588,946)
Finance costs		1,332,831	1,584,617
Exchange gains and losses		(65)	(14)
Change in working capital		(2,373)	421
Trade and other receivables		(1,643)	189
Trade and other payables		(733)	232
Other current liabilities		3	-
Other cash flows from operating activities		(2,011)	(1,214)
Interest paid		(1,496,107)	(1,619,190)
Interest received		1,495,257	1,618,667
Income tax receipts (payments)		(3,032)	(504)
Other payments (receipts)		1,871	(187)
CASH FLOWS FROM OPERATING ACTIVITIES		(5,558)	(2,863)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments	5	(4,900,000)	(1,467,000)
Group and associates	5	(4,900,000)	(1,467,000)
Proceeds from disposal	5	6,539,976	3,296,469
Group and associates	5	6,539,976	3,296,469
CASH FLOWS USED IN INVESTING ACTIVITIES		1,639,976	1,829,469
CASH FLOWS FROM FINANCING ACTIVITIES			
Collections from and payments for financial instruments		(1,635,541)	(1,825,136)
Issue			
Bonds and other marketable debt securities	8	4,900,000	1,467,000
Repayment and redemption of			
Bonds and other marketable debt securities	8	(6,535,541)	(3,292,136)
CASH FLOWS FROM FINANCING ACTIVITIES		(1,635,541)	(1,825,136)
NET FOREIGN EXCHANGE DIFFERENCE		(9)	5
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		(1,132)	1,475
Cash and cash equivalents at beginning of year		4,308	2,833
Cash and cash equivalents at end of year		3,176	4,308

* The accompanying Notes 1 to 13 are an integral part of these cash flow statement.

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 602/2016, of December 2, 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 February 21, 2017 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 2016 balance sheet, income statement, statement of changes in equity, and cash flows statement are disclosed for comparison with the information for 2015. 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.

The Company belongs to the Tax Group whose parent is Telefónica, S.A. The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. Actual income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

3. APPROPRIATION OF PROFIT

The appropriation of 2016 profit to be submitted by the joint and several Directors for approval by the Company's Sole Shareholder is as follows:

(Thousands of euros)	2016
Proposed appropriation	
Profit for the year	2,000
	2,000
Appropriation to:	
Voluntary reserves	2,000
	2,000

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, Telfisa Global, B.V., 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, 2016 and December 31, 2015 is as follows:

(Thousands of euros)	2016	2015
Non-current assets	27.473.206	28.072.937
Loans to Group companies (Note 5.1)	27,377,145	28,072,937
Non-current deferred income tax receivable	96,061	-
Current assets	5,898,022	7,371,068
Loans to Group companies (Note 5.1)	5,898,022	7,371,068

In 2016 the Company extended additional financing to Telefónica, S.A. for a total of 4,900,000 thousand euros (in loans denominated in euros) and received funds from the settlement of loans (to the same borrower) of 6,539,976 thousand euros.

5.1 Loans to Group companies

The balance relates to loans granted to Telefonica, S.A. between 2006 and 2016. The breakdown of these loans is as follows:

Loan number	Signing date	Maturity date	Annual interest rate	Frequency of payment	2016		2015		(Thousands of euros)
					current assets	Non-current assets	current assets	Non-current assets	
1	02/02/2006	02/02/2016	4.375%	Annual	-	-	-	-	1,819,312
3	02/02/2006	02/02/2018	5.375%	Annual	876,215	-	42,884	1,020,325	49,960
4	02/02/2006	02/02/2026	5.375%	Annual	582,965	-	28,590	679,109	33,306
8	06/20/2006	06/20/2016	6.421%	Half-yearly	-	-	-	-	1,149,935
9	06/20/2006	06/20/2036	7.045%	Half-yearly	1,887,535	-	4,244	1,826,246	4,114
13	01/31/2007	12/30/2021	Euribor 6m+0.830%	Half-yearly	54,980	-	1	54,976	1
14	01/31/2007	01/31/2018	Euribor 3m+0.700%	Quarterly	24,000	-	16	24,000	26
22	07/02/2007	07/03/2017	6.221%	Half-yearly	-	-	684,770	642,433	20,101
25	04/01/2009	04/01/2016	5.496%	Annual	-	-	-	-	1,041,080
27	06/03/2009	04/01/2016	4.963%	Annual	-	-	-	-	521,172
29	07/06/2009	07/15/2019	5.877%	Half-yearly	947,662	-	25,711	916,916	24,892
30	11/10/2009	11/11/2019	4.693%	Annual	1,747,949	-	11,250	1,747,184	11,220
31	12/10/2009	12/09/2022	5.289%	Annual	758,847	-	2,423	883,777	2,823
36	04/26/2010	04/27/2020	5.134%	Half-yearly	1,325,916	-	12,235	1,282,912	11,849
37	09/16/2010	09/18/2017	3.661%	Annual	-	-	1,009,969	998,990	10,431
38	10/08/2010	10/08/2029	5.445%	Annual	466,226	-	5,861	543,103	6,829
39	02/07/2011	02/07/2017	4.75%	Annual	-	-	1,250,873	1,199,025	51,060
40	02/16/2011	02/16/2016	3.992%	Half-yearly	-	-	-	-	1,165,059
41	02/16/2011	02/16/2021	5.462%	Half-yearly	1,419,988	-	29,178	1,374,016	28,249
42	03/21/2011	02/07/2017	4.688%	Annual	-	-	104,281	100,111	4,205
43	11/03/2011	02/03/2016	4.967%	Annual	-	-	-	-	838,065
44	11/04/2011	11/04/2016	2.8247%	Half-yearly	-	-	-	-	53,603
45	02/07/2012	02/07/2017	4.75%	Annual	-	-	125,050	119,521	5,107
46	02/21/2012	02/21/2018	4.797%	Annual	1,498,739	-	61,764	1,497,660	61,764
47	03/12/2012	03/12/2020	5.597%	Annual	816,909	-	36,898	951,385	42,997
48	03/30/2012	03/30/2017	3.934%	Annual	-	-	47,622	46,189	1,376

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Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2016 Non-current assets	2016 Current assets	2015 Non-current assets	2015 Current assets
49	07/11/2012	07/11/2018	4.25%	Half-yearly	81,030	1,632	76,294	1,519
50	09/19/2012	09/05/2017	5.811%	Annual	-	1,019,185	1,002,274	17,998
51	10/19/2012	01/20/2020	4.71%	Annual	1,197,879	53,423	1,197,128	53,423
52	12/14/2012	12/14/2018	2.718%	Annual	232,531	300	230,286	297
53	12/14/2012	12/14/2022	3.45%	Annual	139,304	228	137,988	226
54	01/22/2013	01/23/2023	3.987%	Annual	1,496,126	56,037	1,495,437	56,036
55	03/27/2013	03/26/2021	3.961%	Annual	977,663	30,386	972,897	30,386
56	04/29/2013	04/27/2018	3.192%	Half-yearly	1,184,789	6,730	1,146,078	6,515
57	04/29/2013	04/27/2023	4.57%	Half-yearly	709,293	5,781	686,318	5,597
58	05/29/2013	05/29/2019	2.736%	Annual	748,988	12,143	748,555	12,143
59	10/23/2013	10/23/2020	2.595%	Annual	209,118	1,031	207,127	1,022
60	03/26/2014	03/26/2016	Euribor 3m+0.65%	Quarterly	-	-	-	199,974
61	04/10/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	-	200,189	199,787	344
62	05/27/2014	05/27/2022	2.242%	Annual	1,246,648	17,186	1,246,021	17,186
63	06/04/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	-	100,605	100,374	184
64	06/23/2014	06/23/2017	\$Libor 3m+0.66%	Quarterly	-	474,297	458,471	131
65	10/17/2014	10/17/2029	2.932%	Annual	797,019	4,869	796,784	4,869
66	06/18/2015	06/19/2017	Euribor 3m+0.33%	Quarterly	-	299,939	299,802	16
67	07/21/2015	07/21/2022	Euribor 6m+0.83%	Half-yearly	66,782	194	66,743	267
68	09/14/2015	09/14/2021	1.477%	Annual	997,309	4,370	996,733	4,370
69	12/11/2015	12/11/2017	Euribor 3m+0.53%	Quarterly	-	99,995	99,962	29
70	04/13/2016	04/13/2022	0.75%	Annual	1,396,059	7,692	-	-
71	04/13/2016	04/13/2026	1.46%	Annual	1,345,320	14,299	-	-
72	10/17/2016	10/17/2020	0.318%	Annual	1,246,866	848	-	-
73	10/17/2016	10/17/2031	1.93%	Annual	746,517	2,994	-	-
74	12/28/2016	12/28/2051	4.00%	Annual	149,974	49	-	-
					27,377,145	5,898,022	28,072,937	7,371,068

The fair value of loans granted to Telefonica, S.A. was 35,812,706 thousand euros at December 31, 2016 and 38,159,475 thousand euros at December 31, 2015.

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 2016 and December 31, 2015 is as follows:

(Thousands of euros)	2016	2015
Between 1 and 2 years	3,897,304	5,266,939
Between 2 and 3 years	3,444,599	3,994,643
Between 3 and 4 years	4,796,687	3,412,656
Between 4 and 5 years	3,449,940	3,638,552
Over 5 years	11,788,615	11,760,147
TOTAL	27,377,145	28,072,937

5.2 Main business risks

(i) 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.

(ii) 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.

(iii) 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 or by an eventual deterioration

in the solvency or operating performance of the Company or as a consequence of the credit rating downgrade of Spanish sovereign risk by rating agencies.

The emergence of any of the aforementioned risks could restrict the Company's capacity to obtain financing which it would subsequently loan to the Telefónica Group (and increase the cost of this financing). This, in turn, could have an adverse effect on its businesses, financial position, results and cash flow generation capacity and those of the Telefónica Group.

6. EQUITY

6.1 Share capital

Share capital at December 31, 2016 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, 2016 and December 31, 2015 is as follows:

(Thousands of euros)	Note	2016	2015
Non-current financial liabilities		27,470,113	28,069,596
Debentures, bonds and other marketable debt securities	7.1	27,374,052	28,069,596
Payable to Group companies and associates for consolidated taxation, non-current	7.2	96,061	-
Current financial liabilities		5,896,701	7,371,484
Debentures, bonds and other marketable debt securities	7.1	5,896,033	7,370,058
Current borrowings from Group companies and associates		453	481
Other payables	7.2	210	234
Trade payables, Group Companies and associates	7.3	2	711
Current income taxes payable		3	-

In 2016 the Company issued bonds and debentures maturing at long term, guaranteed by Telefónica, S.A. for a total of 4,900,000 thousand euros (denominated in euros) and redeemed bonds and debentures totaling 6,535,541 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 2016 in euros, US dollars, Pounds sterling, Czech crowns, Japanese yen and Swiss francs. The debenture and bond issues are guaranteed 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	2016 Non-current liabilities	2016 Current liabilities	2015 Non-current liabilities	2015 Current liabilities
EMTN 1	02/02/2006	02/02/2016	4.375%	Annual	-	-	-	1,819,310
EMTN 3	02/02/2006	02/02/2018	5.375%	Annual	876,222	42,873	1,020,316	49,960
EMTN 4	02/02/2006	02/02/2026	5.375%	Annual	582,956	28,582	679,090	33,306
SHELF B	06/20/2006	06/20/2016	6.421%	Half-yearly	-	-	-	1,149,913
SHELF C	06/20/2006	06/20/2036	7.045%	Half-yearly	1,882,805	4,085	1,822,148	3,955
EMTN 9	01/31/2007	12/30/2021	Euribor 6m+0.83%	Half-yearly	54,977	1	54,972	1
EMTN 10	01/31/2007	01/31/2018	Euribor 3m+0.70%	Quarterly	23,994	16	23,988	26
SHELF G	07/02/2007	07/03/2017	6.221%	Half-yearly	-	684,466	642,493	19,777
EMTN 18 Tr1	04/01/2009	04/01/2016	5.496%	Annual	-	-	-	1,040,716
EMTN 18 Tr2	06/03/2009	04/01/2016	5.496%	Annual	-	-	-	521,051
SHELF I	07/06/2009	07/15/2019	5.877%	Half-yearly	947,829	25,711	917,095	24,892
EMTN 20	11/10/2009	11/11/2019	4.693%	Annual	1,747,973	11,220	1,747,186	11,250
EMTN 21	12/10/2009	12/09/2022	5.289%	Annual	758,672	2,416	883,772	2,823
SHELF L	04/26/2010	04/27/2020	5.134%	Half-yearly	1,325,873	12,123	1,282,845	11,737
EMTN 24	09/16/2010	09/18/2017	3.661%	Annual	-	1,009,974	999,004	10,431
EMTN 25	10/08/2010	10/08/2029	5.445%	Annual	466,156	5,861	543,052	6,829
EMTN 26 Tr1	02/07/2011	02/07/2017	4.75%	Annual	-	1,250,948	1,199,081	51,066
SHELF M	02/16/2011	02/16/2016	3.992%	Half-yearly	-	-	-	1,165,030
SHELF N	02/16/2011	02/16/2021	5.462%	Half-yearly	1,419,891	29,150	1,373,892	28,221
EMTN 26 Tr2	03/21/2011	02/07/2017	4.75%	Annual	-	104,249	100,143	4,255
EMTN 27	11/03/2011	02/03/2016	4.967%	Annual	-	-	-	838,056
EMTN 28	11/04/2011	11/04/2016	2.8247%	Half-yearly	-	-	-	53,598
EMTN 26 Tr3	02/07/2012	02/07/2017	4.75%	Annual	-	125,051	119,531	5,107
EMTN 29	02/21/2012	02/21/2018	4.797%	Annual	1,498,754	61,704	1,497,688	61,704
EMTN 30	03/12/2012	03/12/2020	5.597%	Annual	816,949	36,898	951,436	42,997
EMTN 31	03/30/2012	03/30/2017	3.934%	Annual	-	47,626	46,210	1,376

Continued overleaf

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Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	2016 Non-current liabilities	2016 Current liabilities	2015 Non-current liabilities	2015 Current liabilities
EMTN 32	07/11/2012	17/11/2018	4.25%	Half-yearly	81,022	1,632	76,282	1,519
EMTN 33 Tr1	09/19/2012	09/05/2017	5.811%	Annual	-	1,019,162	1,001,621	18,627
EMTN 34 Tr1	10/19/2012	01/20/2020	4.71%	Annual	1,197,912	53,423	1,197,157	53,423
EMTN 35 Tr1	12/14/2012	12/14/2018	2.718%	Annual	232,533	300	230,289	297
EMTN 35 Tr2	12/14/2012	12/14/2022	3.45%	Annual	139,323	228	138,007	226
EMTN 37	01/22/2013	01/23/2023	3.987%	Annual	1,496,292	56,047	1,495,626	56,036
EMTN 38	03/27/2013	03/26/2021	3.961%	Annual	977,663	30,386	972,896	30,386
SHELF O	04/29/2013	04/27/2018	3.192%	Half-yearly	1,184,893	6,730	1,146,238	6,515
SHELF P	04/29/2013	04/27/2023	4.57%	Half-yearly	709,433	5,781	686,457	5,597
EMTN 39	05/29/2013	05/29/2019	2.736%	Annual	748,987	12,143	748,554	12,143
EMTN 40	10/23/2013	10/23/2020	2.595%	Annual	209,147	1,031	207,163	1,022
EMTN 41	03/26/2014	03/26/2016	Euribor 3m+0.65%	Quarterly	-	-	-	199,981
EMTN 42 Tr1	04/10/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	-	200,166	199,826	312
EMTN 43	05/27/2014	05/27/2022	2.242%	Annual	1,246,858	16,738	1,246,266	16,738
EMTN 42 Tr2	06/04/2014	04/10/2017	Euribor 3m+0.75%	Quarterly	-	100,121	100,089	156
SHELF Q	06/23/2014	06/23/2017	\$Libor 3m+0.65%	Quarterly	-	474,333	458,579	127
EMTN 44	10/17/2014	10/17/2029	2.932%	Annual	797,116	4,820	796,887	4,820
EMTN 45	06/18/2015	06/19/2017	Euribor 3m+0.33%	Quarterly	-	299,946	299,824	16
EMTN 46	07/21/2015	07/21/2022	Euribor 6m+0.83%	Half-yearly	66,814	194	66,780	267
EMTN 47	09/14/2015	09/14/2021	1.477%	Annual	997,625	4,370	997,117	4,431
EMTN 48	12/11/2015	12/11/2017	Euribor 3m+0.53%	Quarterly	-	100,003	99,996	32
EMTN 49	04/13/2016	04/13/2022	0.75%	Annual	1,396,247	7,537	-	-
EMTN 50	04/13/2016	04/13/2026	1.46%	Annual	1,345,520	14,148	-	-
EMTN 51	10/17/2016	10/17/2020	0.318%	Annual	1,247,002	817	-	-
EMTN 52	10/17/2016	10/17/2031	1.93%	Annual	746,615	2,974	-	-
EMTN 53	12/28/2016	12/28/2051	4.00%	Annual	149,999	49	-	-
					27,374,052	5,896,033	28,069,596	7,370,058

The fair value of the debentures and bonds issued by the Company was 35,793,706 thousand euros at December 31, 2016 and 38,144,720 thousand euros at December 31, 2015.

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, 2016 and December 31, 2015 is as follows:

(Thousands of euros)	2016	2015
Between 1 and 2 years	3,897,418	5,266,396
Between 2 and 3 years	3,444,790	3,994,801
Between 3 and 4 years	4,796,883	3,412,836
Between 4 and 5 years	3,450,156	3,638,601
Over 5 years	11,784,805	11,756,962
TOTAL NON-CURRENT LIABILITIES	27,374,052	28,069,596

7.2 Long-term debt with Group companies and associates

This heading includes non-current amounts payable to Telefónica, S.A. as head of the tax group to which the Company belongs, for 96,061 thousand euros (2015: 0 thousand euros).

7.3 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 453 thousand euros (481 thousand euros in 2015).
- ii) Telefónica Europe, B.V, for re-invoicing of credit rating services, which amount to 0 thousand euros (698 thousand euros in 2015)

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 2016 and 2015 is as follows:

(Thousands of euros)	2016	2015
Accounting profit before tax	2,989	2,273
Permanent differences	-	-
Temporary differences	384,244	8,059
Taxable income for the year	387,233	10,332
Current amounts payable	747	2,893
Non-current amounts payable	96,061	-
Other impacts	242	-
Tax expense	989	636

The Company files consolidated income tax as part of Tax Group 24/90, whose parent is Telefónica, S.A. with tax identification number A28015865.

During the year, the Company made income tax payments on account (in favor of Telefónica, S.A.) in the amount of 294 thousand euros for 2016, and an income tax settlement in the amount of 2,879 thousand euros for 2015.

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 453 thousand euros.

Pursuant to article 16 of the income tax act (Act 27/2014), which establishes limits on the deductibility of financial expenses, the Company has recognized deferred tax assets of 96,061 thousand euros under "*Non-current deferred income tax receivable*". These deferred tax assets have been recognized on the basis that the tax group to which the Company belongs will earn future profits against which they can be utilized.

9. INCOME AND EXPENSES

9.1 External Services

(Thousands of euros)	2016	2015
Independent professional services	236	199
Other services	929	1,864
Banking and similar services	4	3
TOTAL EXTERNAL SERVICES	1,169	2,066

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:

2016 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Assets						
Loans to companies	582,512	8,718,097	3,617,818	47,622	82,662	13,048,711
Liabilities						
Debentures, bonds and other marketable debt securities	582,562	8,713,103	3,617,585	47,626	82,654	13,043,530

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

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

2016 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen	Total
Interest income	16,731	477,877	201,126	1,867	4,986	702,587
Interest expense	16,679	476,508	200,915	1,843	4,996	700,941

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

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

(Thousands of euros)	2016	2015
Loans to companies		
Transactions settled during the financial year	67,114	130,197
Transactions pending settlement at year end	303,039	1,418,755
	370,153	1,548,952
Accounts payable		
Transactions settled during the financial year	(67,145)	(130,200)
Transactions pending settlement at year end	(302,943)	(1,418,738)
	(370,088)	(1,548,938)

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 2016 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 2016	Other Group companies 2016	Parent Company 2015	Other Group companies 2015
Non-current loans (Note 5)	27,377,145	-	28,072,937	-
Current loans (Note 5)	5,898,022	-	7,371,068	-
Cash and cash equivalents	-	3,176	-	4,308
Long-term debt due to consolidated tax payments (Note 7)	96,061	-	-	-
Current borrowings (Note 7)	455	-	481	711

10.3 Transactions

Transactions entered into with related parties are as follows:

(Thousands of euros)	Parent Company 2016	Other Group companies 2016	Parent Company 2015	Other Group companies 2015
External services (Note 6)	-	10	-	(64)
Finance income - interest (Note 9.2)	1,336,928	1	1,588,946	-
Exchange gains (Note 9.4)	(370,082)	(6)	1,548,952	-

11. OTHER DISCLOSURES

11.1 Auditors' fees

The fees accrued in 2016 and 2015 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 98 thousand euros in 2016 and 126 thousand euros in 2015, 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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015.

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:

	2016	2015
	Days	Days
Average Supplier Payment Period	45	48
Ratio of paid transactions	48	48
Ratio of pending payment transactions	-	-
	Thousands of euros	Thousands of euros
Total payments in the year	742	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 2016 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,

11.6 Personnel

The Company had no employees at year-end 2016 and year-end 2015.

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 2016 and the date of authorization for issue of the accompanying financial statements:

- On 17 January 2017, two bond issues were made (under the EMTN programme) of: (i) 1,250 million euros, maturing on 17 January 2025 and paying an annual coupon of 1.528% and (ii) 500 million euros, maturing on 17 October 2028 with an annual coupon of 2.318%.
- On 25 January 2017, a bond issue was made (under the EMTN programme) for 150 million euros, maturing on 25 January 2019, with quarterly coupons of 3M Euribor + 0.40%.

These issues were carried out on the Debt Instruments Issue Programme in the amount of EUR 40,000 million by Telefónica Emisiones, S.A.U. with collateral by Telefónica, S.A., on 13 September 2016.

- On 7 February 2017, a bond issue of 1,420 million euros was repaid at maturity. These bonds, with a coupon of 4.75% payable annually on expiry, were issued under the EMTN programme, in three tranches of 1,200, 100 and 120 million euros on 7 February 2011, 21 March 2011 and 7 February 2012 respectively.

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 2016

Summary of 2016

In 2016, the Company continued to carry out the business that makes up its corporate purpose,

Highlights of the 2016 income statements include:

- Operating loss of 1,173 thousand euros (2,070 thousand euros in 2015), of which the most significant item arose from credit rating agencies,
- Net financial income of 4,162 thousand euros (4,343 thousand euros in 2015), from interest and commissions earned on loans granted to Telefónica, S,A,
- The combination of these two figures and the income tax expense of 989 thousand euros (636 thousand euros in 2015), gave rise to profit from ordinary activities of 2,000 thousand euros (1,636 thousand euros in 2015),

Financial transactions undertaken in 2016 comprise bonds issuance totaling 4,900 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,

2017 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 2017 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,



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

Company's management

In 2016, as in 2015, the Company had two joint and several Directors:

- (i) D, Eduardo J, Álvarez Gómez
- (ii) D, Juan Francisco Gallego Arrechea,

It should be mentioned that in June 2016 Mr. Juan Francisco Gallego Arrechea stepped down as Joint Director of the Company and, following a decision by the Sole Shareholder, he was simultaneously replaced by Mr. Francisco Javier Ariza Garrote.

Treasury shares

The Company, as in 2015, has no treasury shares.

R&D activities

The Company does not conduct R&D.

Average supplier payment period

In 2016, 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 2016 the Company did not enter into any agreements with commercial suppliers with average payment periods in excess of 60 days.

Financial instruments and risk management policy

See Note 5.2 to the Financial Statements.

Related party transactions

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

Shareholder remuneration

As in 2015, the Company did not pay any dividends in 2016.

The Company's joint and several Directors intend to propose to the Sole-Shareholder the appropriation of 2016 profit to voluntary reserves.



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

Annual corporate governance report

Despite the Company's notes are listed on regulated markets guaranteed by Telefónica, S,A, the Company is not considered as a listed Company and therefore 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 2016 and the date of authorization for issue of the accompanying financial statements:

- On 7 February 2017, a bond issue of 1,420 million euros was repaid at maturity. These bonds, with a coupon of 4.75% payable annually on arrears, were issued as part of the EMTN programme, in three tranches of 1,200, 100 and 120 million euros on 7 February 2011, 21 March 2011 and 7 February 2012 respectively.
- On 25 January 2017, a bond was issued (under the EMTN programme) for 150 million euros, maturing on 25 January 2019 and carrying a quarterly coupon of 3M Euribor + 0.40%.
- On 17 January 2017, following two bonds were issued under the EMTN programme: (i) 1,250 million euros, maturing on 17 January 2025 and carrying an annual coupon of 1.528% and (ii) 500 million euros, maturing on 17 October 2028 and carrying an annual coupon of 2.318%.



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

CERTIFICATION

At their meeting on February, 21 2017 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 statements and notes for 2016, 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

Francisco Javier Ariza Garrote