



TELEFÓNICA EMISIONES, S.A.U.

(incorporated with limited liability under the laws of the Kingdom of Spain)

€40,000,000,000

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

unconditionally and irrevocably guaranteed by

TELEFÓNICA, S.A.

(incorporated with limited liability in the Kingdom of Spain)

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

This supplement (the "**Supplement**") to the base prospectus dated 29 June 2017 (the "**Base Prospectus**") constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and is prepared in connection with the programme for the issuance of debt instruments (the "**Programme**") established by Telefónica Emisiones, S.A.U. (the "**Issuer**"). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

The purpose of this Supplement is to update the Base Prospectus with the information made public by Telefónica, S.A. on 30 August 2017 regarding the resolutions adopted by the Shareholders' Meeting of the Colombian company Colombia Telecomunicaciones S.A. E.S.P (Coltel), 67.5% of which is owned, directly or indirectly, by Telefónica, S.A. to proceed to carry out two capital increases.

IMPORTANT NOTICES

This Supplement is supplemental to, and should be read in conjunction with the Base Prospectus, and any other supplements to the Base Prospectus issued by the Issuer. Each of the Issuer and Telefónica, S.A. ("**Telefónica**" or the "**Company**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of each of the Issuer and Telefónica (which have taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement and any supplement to the Base Prospectus previously issued, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus which is capable of affecting the assessment of Instruments issued under the Programme since the publication of the Base Prospectus.

If documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part

of this Supplement for the purposes of the prospectus directive except where such information or other documents are specifically incorporated by reference or attached to this Supplement.

Investors should be aware of their rights under Section 87Q (4) of FSMA 2000.

SUPPLEMENTARY INFORMATION

The Shareholders' Meeting of the Colombian company Colombia Telecomunicaciones S.A. E.S.P ("ColTel"), 67.5% of which is owned, directly or indirectly, by Telefónica and 32.5% of which is owned by the Colombian Government – the Ministry of Finance and Public Credit of Colombia (the "Government"), has approved today:

1. A capital increase for an aggregate amount of 4,800 billion Colombian pesos (capital and premium), approximately 1,370 million euros at the current exchange rate (the "PARAPAT-Capital Increase").

The proceeds from the PARAPAT-Capital Increase will be used to pre-pay the entire amount of ColTel's debt derived from the operating agreement dated 13 August 2003 (as amended, the "Operating Agreement") with Patrimonio Autónomo Receptor de Activos de la Empresa Nacional de Telecomunicaciones (the "PARAPAT").

The Telefónica Group and the Government will subscribe the PARAPAT-Capital Increase pro rata to their respective shareholding in ColTel. The Telefónica Group will disburse 3,240 billion Colombian pesos, approximately 925 million euros at the current exchange rate. The Government will assume 32.5% of ColTel's payment obligations with the PARAPAT.

The disbursement by the Telefónica Group is subject to the condition precedent of entering into an agreement to terminate the Operating Agreement with the PARAPAT.

Following the execution of the PARAPAT-Capital Increase, ColTel's payment obligations vis-à-vis the PARAPAT will be completely extinguished resulting in the termination of the Operating Agreement and the transfer to ColTel of the property, rights and assets earmarked for the provision of telecommunication services.

As a result of the investments from recent years and the strengthening of its financial condition derived from the capital increase, ColTel will reduce its indebtedness and obligations to make future financial payments, and will face a new phase of growth and consolidation.

2. A capital increase for an aggregate amount of 1,651 billion Colombian pesos (capital and premium), approximately 472 million euros at the current exchange rate (the "Arbitration Award-Capital Increase").

The proceeds from the Arbitration Award-Capital Increase will be used to pay the entire amount set forth in the arbitration award issued in the arbitration proceedings initiated by the Colombian Ministry of Information Technologies and Communications ("ITC") in connection with its intention to revert certain assets earmarked for the provisions of mobile voice services under former concessions. As indicated in the Significant Events 255099 and 255117 dated 27 July 2017, such arbitration award was not favorable to ColTel and other telecommunications operator in Colombia.

The Telefónica Group and the Government will subscribe the Arbitration Award-Capital Increase pro rata to their respective shareholding in ColTel. The Telefónica Group will disburse 1,114 billion Colombian pesos, approximately 318 million euros at the current exchange rate. The Government will assume, and consequently offset, a portion of ColTel's indebtedness.

Telefónica's decision to participate in the Arbitration Award-Capital Increase is a manifestation of its commitment to the company, to the continuity in the provision of services and to its customers and users, but it does not constitute, and should not be understood as, an acceptance of the sentence imposed by the arbitration award. Telefónica therefore reserves all of its legal rights and the exercise by Telefónica or ColTel of any applicable legal action, national or international.

The execution of these transactions will have no relevant financial impact on the Telefónica Group, resulting in an increase in the consolidated net financial debt of the Telefónica Group of approximately 40 million euros, because 100% of ColTel's payment obligations with the PARAPAT were already consolidated in the financial statements of the Telefónica Group.