



Telefónica Europe B.V.

*(incorporated with limited liability under
the laws of the Netherlands)*

**EUR 500,000,000 Undated 7.25 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**unconditionally and irrevocably guaranteed on a subordinated basis by
Telefónica, S.A.**

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

The EUR 500,000,000 Undated 7.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") are issued by Telefónica Europe B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis by Telefónica, S.A. (the "**Guaranteee**", and the "**Guarantor**" or "**Telefónica**", respectively).

As described in the Terms and Conditions of the Securities (the "**Conditions**"), the Securities will bear interest on their principal amount (i) at a fixed rate of 2.502 per cent. per annum from (and including) the Issue Date to (but excluding) the First Reset Date (as defined in the Conditions) payable annually (except for a long first Interest Period) in arrear on 5 May in each year, with the first Interest Payment Date on 5 May 2021; and (ii) from (and including) the First Reset Date, at the applicable 7 Year Swap Rate in respect of the Reset Period, plus: (A) in respect of the period commencing on the First Reset Date to (but excluding) 5 February 2030, 2.663 per cent. per annum; (B) in respect of the period commencing on 5 February 2030 to (but excluding) 5 May 2047, 2.913 per cent. per annum; and (C) from and including 5 May 2047, 3.663 per cent. per annum, all as determined by the Agent Bank, payable annually (except for a long first Interest Period) in arrear on 5 May in each year (each, an Interest Payment Date as defined in the Conditions), commencing on 5 May 2021.

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in the "*Terms and Conditions of the Securities - Optional Interest Deferral*". Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding the foregoing, the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred, all as more particularly described in "*Terms and Conditions of the Securities - Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*".

The Securities will be undated securities in respect of which there is no specific maturity date and shall be redeemable (at the option of the Issuer) in whole, but not in part, (i) on any date during the Relevant Period (as defined in the Conditions) or (ii) upon any Interest Payment Date (as defined in the Conditions) thereafter, at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date (as defined in the Conditions) and any outstanding Arrears of Interest (including any Additional Amounts thereon). In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each such term as defined in the Conditions), the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the amount set out, and as more particularly described, in "*Terms and Conditions of the Securities - Redemption and Purchase*".

The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves, all as more particularly described in "*Terms and Conditions of the Securities - Status and Subordination of the Securities and Coupons*". The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves. In the event of the Guarantor being declared in insolvency under Spanish Insolvency Law (as defined below), the rights and claims of Holders (as defined in the Conditions) against the Guarantor in respect of or arising under the Guarantee will rank, as against the other obligations of the Guarantor, in the manner more particularly described in "*Terms and Conditions of the Securities - Guarantee, Status and Subordination of the Guarantee*".

Payments in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain customary exceptions as are more fully described in "*Terms and Conditions of the Securities - Taxation*".

This document comprises a prospectus ("**Prospectus**") for the purposes of Article 6 of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority for the purposes of the Prospectus Regulation. The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed under Irish and EU law pursuant to the Prospectus Regulation. Such approval by the Central Bank should not be considered as an endorsement of the Issuer or the Guarantor that are the subject of this Prospectus nor as an endorsement of the quality of the Securities. Investors should make their own assessment as to the suitability of investing in such Securities. Application has been made for the Securities to be admitted to listing on the official list (the "**Official List**") and to trading on the regulated market of The Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"). The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**").

The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (as amended, the "**Securities Act**") and are subject to United States tax law requirements. The Securities are being offered outside the United States by the Joint Bookrunners (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Securities will be in bearer form and in the denomination of EUR 100,000. The Securities will initially be represented by a temporary global security (the "**Temporary Global Security**"), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the "**Permanent Global Security**" and together with the Temporary Global Security, the "**Global Securities**") in the circumstances set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for definitive Securities (the "**Definitive Securities**") in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

The Securities are expected to be rated BB+ by S&P Global Ratings Europe Limited ("**S&P**"), Ba2 by Moody's Investors Service Limited ("**Moody's**") and BB+ by Fitch Ratings Limited ("**Fitch**").

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

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute and the 7 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited. As at the date of this Prospectus, each of ICE Benchmark Administration Limited and European Money Markets Institute is included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

Joint Bookrunners

**BBVA
CAIXABANK
NATWEST MARKETS**

**BNP PARIBAS
MIZUHO SECURITIES
SANTANDER**

28 January 2020

IMPORTANT NOTICES

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

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

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

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

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

Neither the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

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

The distribution of this Prospectus and the offering, sale and delivery of Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities and on distribution of this Prospectus and other offering material relating to the Securities, see "*Subscription and Sale*".

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

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

The Securities are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters, and may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

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

Use of Proceeds / Green Projects

As described in "*Use and Estimated Net Amount of Proceeds*" below, the Issuer's intention is to apply the net proceeds of the issue of the Securities specifically for investment in Green Projects (as defined below). Prospective investors should have regard to the information in "*Use and Estimated Net Amount of Proceeds*" below regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in the Securities together with any other investigation such investor deems necessary.

In particular no assurance is given by the Issuer, the Guarantor or the Joint Bookrunners that the use of such proceeds for any Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Green Projects).

The Joint Bookrunners have not undertaken, nor are responsible for, any assessment of the eligibility criteria for selecting investments in Green Projects, any verification of whether the Green Projects meet such eligibility criteria, or the monitoring of the use of proceeds. Investors should refer to the Issuer's website, the SDG Framework and the Second-Party Opinion (each as defined below) for information. Sustainability B.V., the provider of the Second-Party Opinion has been appointed by the Issuer. No assurance or representation is given by the Issuer, the Guarantor, any of the Joint Bookrunners or any other person as to the suitability or reliability for any purpose whatsoever of the Second-Party Opinion or any other opinion or certification of any third party (whether or not solicited by the Issuer or any affiliate).

Furthermore, there is no contractual obligation to allocate the proceeds of the issue of the Securities to investments in Green Projects. The Issuer's failure to allocate the proceeds of the issue of the Securities to invest in Green Projects will not constitute an Event of Default under the Securities.

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

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA") or in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

In connection with the issue of the Securities, BNP Paribas (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or person(s) acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

Certain terms and conventions

As used herein, "**Telefónica**", the "**Telefónica Group**" or the "**Group**" mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

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

"**5G**", is a technology under development, succeeding the mobile technology called 4G. The aim is to make the navigation experience and Internet downloads more agile.

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

"**Amazon Web Services**" or "**AWS**" is a service platform utilising Cloud computing offering data base storage, content delivery and other functionalities that can help your business to grow. It is also more secure than a physical server.

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

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

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

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

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

"**Data ARPU**" is the average data revenues per access per month. Data ARPU is calculated by dividing total data revenues (from sources such as SMS, MMS, other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and wireless application protocol ("**WAP**") connectivity from sales to customers) for a given period by the weighted average number of accesses for the same period, and then dividing by the relevant number of months in such period.

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

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

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

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

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

"**GHz**" means gigahertz.

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

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

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

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

"**ISDN**" or "**Integrated Services Digital Network**", is a common format for transmitting information through a digital high speed connection.

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

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

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

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

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

"**Mb**" means megabits.

"**MHz**" means megahertz.

"**MMS**" or "**Multimedia Messaging Service**" is a standard messaging system allowing mobile phones to send and receive multimedia contents, including sound, video and photos..

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

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

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

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

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

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

"**PSTN**" is Public Switched Telephone Network.

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

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

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

"**SMS**" means short messaging service.

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

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

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

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

In this Prospectus certain comparisons are made in local currency or on a "constant Euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of the Group's results of operations from year-to-year without the effects of currency fluctuations. To make comparisons

on a local currency basis, financial items in the relevant local currency are compared for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant Euro basis" or "excluding foreign exchange rate effects," the relevant financial item is converted into Euro using the prior year's average Euro to relevant local currency exchange rate. In addition, certain financial information is presented excluding the effects of Venezuela or Argentina as these are considered hyperinflationary economies.

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RISK FACTORS

Any investment in the Securities is subject to a number of risks. Prior to investing in the Securities, prospective investors should carefully consider risk factors associated with any investment in the Securities, the business of the Issuer and the Guarantor and the industries in which each of them operates, together with all other information contained in this Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this section.

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

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

Risks related to the business activities of the Telefónica Group.

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

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

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

The Telefónica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors, not meeting its growth plans and retaining its customers, thereby jeopardising its future revenues and profitability.

In addition, market concentration, including mergers, acquisitions, alliances and collaboration agreements with third parties (e.g. the possible integration of companies in the content/entertainment sector and the mergers of FOX and Disney, and ATT and Time Warner), could affect the competitive position of Telefónica, as well as the efficiency of its operations and its business continuity.

The reinforcement of competitors in some markets, the entry of new competitors into markets where Telefónica operates, or the merger of operators in certain markets, may affect Telefónica's competitive position, negatively affecting the evolution of revenues and the market share. These changes in market dynamics could lead to aggressive commercial offers, accelerated broadband deployments by competitors or the proliferation of unlimited data rates. These situations are of greater relevance in certain countries such as Chile and Peru.

If Telefónica was not able to face the challenges posed by its competitors, the Group's business, financial condition, operating results and/or cash flows could be adversely affected.

Data Privacy.

The use of personal data and privacy has turned into a strategic matter for Telefónica. Besides the media, social and political impact that this subject has, the fines arising from breaching the regulation in this field can be up to 4 per cent. of the total worldwide annual turnover for the preceding financial year. In addition, in Latin America, a new regulation on privacy is being adopted in Brazil, Argentina and Chile. Moreover,

in Europe, the Proposal of the European Commission for a Regulation concerning privacy and electronic communications (the "**e-Privacy Regulation**") is still under discussion. The e-Privacy Regulation would entail complying with additional and stricter rules than those established under Regulation (EU) No. 2016/679 (the General Data Protection Regulation, "**GDPR**") in respect of personal data from electronic communications. The e-Privacy Regulation would also establish fines similar to those included in GDPR. These regulations may affect the development of innovative services based on a Big Data environment, keeping the competitive disadvantage between undertakings only subject to the GDPR and undertakings subject to both, the GDPR and the e-Privacy Regulation.

Telefónica's reputation depends, to a large extent, on the digital trust it is able to build with its clients and other stakeholders. The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of customer data from both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation.

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

The Group requires government concessions and licences for the provision of a large part of its services and the use of spectrum, which are a scarce and costly resource.

The telecommunications sector is subject to laws and sector-specific regulations. The fact that the Group's business is highly regulated both affects its revenues, operating income before depreciation and amortisation ("**OIBDA**") and investments.

This regulation and the activity of national and supranational regulators is articulated in the recognition of rights under the applicable frameworks of licences, concessions and official approvals and, simultaneously, in the enforcement of obligations. For this reason, in the case of breaches of any of such obligations, its operating businesses responsible for that breach may suffer consequences such as economic fines or, in a worst-case scenario, measures that would affect the continuity of its business. Exceptionally, in certain jurisdictions, supervening modifications in the granted licences may take place before the expiration date of such licence, or new enforceable obligations at the time of the renewal of a licence could be imposed or the renewal of the licence could be refused. All of this could substantially adversely affect the Group's businesses, financial situation, operating results and/or cash flows.

Additionally, the Telefónica Group could be affected by the regulatory actions of antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or impose heavy fines. Any such measures implemented by the antitrust authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain of its businesses. For example, in Germany, on 22 February 2019, the European Commission started an investigation, of Telefónica Deutschland in respect of the Group's compliance with its commitments undertaken in the merger with E-Plus in 2014. The European Commission is investigating whether there has been breach of the commitment to offer wholesale 4G services to all interested players at best prices under benchmark conditions. The Statement of Objections received does not prejudice the final outcome of the investigation and Telefónica Deutschland has already submitted its response to the European Commission, arguing its correct compliance with such commitments.

Access to new concessions/ licences of spectrum.

It is expected that spectrum auctions will take place in the next few years, which will require possible cash outflows to obtain additional spectrum or to comply with the coverage requirements associated with some of these licences.

In Europe, two auction processes are expected: (i) in Spain, during the first half of 2020, the auction for the 700 MHz band related to the "second digital dividend" and it is probable that the spectrum, currently in use by the *Ministerio de Defensa* in the 3.4-3.6GHz band, could also be auctioned during 2020 (up to a maximum of 40MHz); and (ii) in the United Kingdom, an auction for the 700 MHz and the 3.6-3.8 GHz bands is expected to take place in the second quarter of 2020.

In Latin America: (i) in Brazil, although the conditions have not yet been defined, the regulator *Agencia Nacional de Telecomunicação* ("ANATEL") has announced a spectrum auction in 2020 or 2021 on 3.5 GHz, 2.3 GHz, 700 MHz and 26 GHz bands, (ii) in Colombia, the conditions of the auction for the 700 MHz, 2.5 MHz, and 1900 MHz bands have been defined and the auction is proposed to begin in October 2019; (iii) in Peru, Chile and Argentina, the different spectrum auctions have also been announced, with conditions to be defined.

Existing licences: renewal processes and modification of conditions for operating services.

In Spain, Telefónica is in the process of extending its administrative concessions in the 3.4-3.6 GHz band (2x20 MHz) and the 2.1 GHz band (2x5 MHz + 5 MHz). In both cases, the initial expected length of the concession expires in April 2020 with the possibility of an extension of 10 additional years (until 2030). Furthermore, on 31 December 2019, Telefónica finished the deployment of LTE nodes as required by its regulatory obligation imposed by the Ministerial Order of 29 October 2018 approving the plan to enable access to broadband services at 30 Mbps speed or higher. This obligation has to be implemented by operators holding licences in the 800 MHz band and administrative monitoring will be carried out over the next five years in respect of the loading conditions of the aforementioned nodes.

In Latin America, in Brazil:

- (a) on 4 October 2019, Law 13.879/2019 (resulting from PLC 79/2016) was published. The Law revises the telecommunications regulatory framework and has significant impact on this industry, allowing fixed-line concession operators to migrate from a grant regime (i.e. where the underlying assets revert to the government at the end of the concession) to an authorisation regime, deferring to ANATEL the determination of the balance of gains from regime change. This amount should be converted into broadband related projects yet to be defined by ANATEL. If an operator does not choose to migrate, an alternative scenario is the renewal of current contracts beyond 2025. Additionally, in December 2019, a public consultation was opened to hire a consultant agency to assist ANATEL in formulating the rules for operators who wish to migrate from a concession to the private (authorisation) regime;
- (b) on the other hand, regarding the 2.5 GHz and 450 MHz spectrum bands, licensed in certain cities, the regulator issued a decision in June 2019 allowing the use of a satellite solution to increase the connection speed and proposing the removal of the 451 MHz to 458 MHz / 461 MHz to 468 MHz frequencies in cases where the service was not activated within the deadline set in the auction notice; and
- (c) the renewal of spectrum in the 850 MHz band, in Rio de Janeiro (2020) and Brasilia (2021) is still pending.

In Peru, the renewal of concessions for the provision of fixed-line service, valid until 2027, were denied by the Ministry of Transportation and Communications after a request submitted in December 2013. In addition, the renewal of the 1900 MHz band in all Peru (except for Lima and Callao), which expired in 2018, and of other telecommunication services were requested. Regarding these renewal requests the Ministry of Transportation and Communication has not made a decision yet but the concessions are still valid while the procedures are in progress.

In Chile, the enforcement of the ruling issued by the Supreme Court ordering Telefónica Móviles Chile ("TMCH") to detach part of the acquired spectrum (20 MHz) in the 700 MHz band in 2014 is pending. However, the court decision allows Telefónica to choose the band from which the spectrum has to be relinquished to satisfy the decision and the affected mobile operators (including TMCH) have not yet relinquished the required spectrum. The Undersecretariat for Telecommunications ("Subtel") has submitted to the Court of Defence of Free Competition ("TDLC") a proposal for a schedule and procedure for carrying out the relinquishment within 24 months of the Supreme Court's ruling being enforced. TMCH filed an appeal with Subtel, objecting to the accounting for 24 months. Subtel welcomed the appeal, and established that the 24-month period will be counted from 17 October 2019. In November 2019, Telefónica presented to Subtel and the TDLC the bidding rules for 10 MHz in the 1900 MHz band. The remaining 10 MHz were returned to Subtel through the resignation of two concessions in the 3500 MHz band (in the southern part of the country) that were not in use.

In Mexico, a third party challenged the rules and the procedures of the auction of the 2.5-2.8 GHz band, where Telefónica was awarded 2x20 MHz of spectrum. The procedure was resolved in Telefónica's favour.

In Ecuador, the Contraloría General Del Estado ("**CGDE**") has recommended that the *Agencia de Regulación y Control de las Telecomunicaciones* (ARCOTEL) renegotiate the Concession Agreement of 2008.

In Colombia, Telefónica has the following spectrum use permits:

- (i) Resolution 597 of 2014, whereby the permit for the use of the spectrum in the bands 835.020 MHz to 844.980 MHz, 846.510 MHz to 848.970 MHz, 880.020 MHz to 889.980 MHz was renewed at 891.510 MHz to 893.970 MHz, 1870 MHz to 1877.5 MHz and 1950 MHz to 1957.5 MHz until 28 March 2024.
- (ii) Resolution 2105 of 2011, pursuant to which Telefónica was assigned permission to provide mobile services with 15 MHz of spectrum in the 1900 MHz band allocated in accordance with the conditions of the process provided for in Resolution 1157 of 2011. With this assignment, Telefónica has a total of 55 MHz of spectrum to provide mobile services distributed as follows: 30 MHz in the 1900 MHz band and 25 MHz in the 850 MHz band. The duration of the permit granted in 2011, for the use of 15 MHz in the 1900 MHz band is 10 years from 20 October 2011, extendable in accordance with the law.
- (iii) Similarly, in the 4G auction process, Telefónica obtained 30 MHz of spectrum in the 1710 MHz to 1755 MHz band paired with 2110 MHz to 2155 MHz, a resource that was assigned by Resolution 2625 of 2013, with a validity of 10 years, confirmed by Resolution 4121 of 25 October 2013. The duration of this licence is 10 years, extendable in accordance with the law.

In December 2019, the ICT Ministry advanced an auction process in the 700 MHz, 1900 MHz and 2500 MHz bands. Although Telefónica participated in this process, it decided not to acquire permits for the use of spectrum in these bands, due to the high cost of the spectrum and of the obligations associated with the licences.

During the first nine months of 2019, the Group's consolidated investment in spectrum acquisitions and renewals amounted to EUR 1,465 million, mainly in Germany (EUR 612 million in the same period of the previous year, EUR 588 million of which corresponded to spectrum acquisition in the United Kingdom). In the event that the licences described are renewed or new spectrum is acquired, it would involve additional investments by Telefónica.

Further information of the key regulatory aspects and concessions and licences of the Telefónica Group can be found in the Appendix VI of the 2018 Consolidated Financial Statements: "Key regulatory issues and concessions and licences held by the Telefónica Group".

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

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

The pace of innovation and Telefónica's ability to keep up with its competitors is a critical issue in a sector so affected by technology such as telecommunications. In this sense, additional investments will be needed to have new high-capacity network infrastructures, which will enable Telefónica to offer the features that new services will demand, through the development of technologies such as 5G or fiber optic.

New products and technologies are constantly emerging that can render products and services offered by the Telefónica Group, as well as its technology, obsolete. In addition, the explosion of the digital market and the entrance of new players in the communications market, such as MNVOs, internet companies, technology companies or device manufacturers, could result in a loss of value for certain of the Group's assets, affecting the generation of income, or otherwise cause Telefónica to have to update its business model. In this respect, revenues from traditional voice and access business are shrinking, while new sources of revenues are derived from connectivity and digital services. Examples of these services include video, IoT, security, Big Data and cloud.

All this forces Telefónica to invest in the development of new products, technology and services to continue to compete effectively with current or future competitors and, for this reason, the profits and the margins associated with the income of the business would be reduced or such investment could not lead to the development or commercialisation of new successful products or services. To contextualise the size of the Group's investments, total research and development expenditure in the first nine months of 2019 was EUR 603 million (EUR 703 million during the same period of 2018). These expenses represented 1.7 per cent. and 2.0 per cent. of the Group's consolidated revenues in the first nine months of 2019 and 2018, respectively. These figures have been calculated using the guidelines established in the Organisation for Economic Co-operation and Development ("OECD") manual.

One of the technologies currently being developed by telecommunications operators, including Telefónica (in Spain and Latin America), is the new FTTx type networks which allow the offering of broadband accesses over fiber optics with high performance. However, the deployment of such networks, in which the copper of the access loop is totally or partially replaced by optical fiber, necessitates high levels of investment. As of 30 September 2019, in Spain, fiber coverage reached 22.7 million premises. There is a growing demand for the services that these new networks can offer to the end customer. However, the high levels of investment required by these networks results in the need to continuously consider the expected return on investment, and no assurance can be given that these investments will be profitable.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to adequately support and evolve to respond to Telefónica's operating requirements is a key factor in the commercial development, customer satisfaction and business efficiency of the Telefónica Group. While automation and other digital processes may lead to significant cost savings and efficiency gains, there are also significant risks associated with such transformation processes. Any failure by the Telefónica Group to develop or implement IT systems that adequately support and respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

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

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

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

Facing the evolution in the needs of customers, Telefónica is adapting both its communication networks and its offer of digital services. The networks, which had historically focused on voice transmission, are evolving into increasingly flexible, dynamic and secure data networks, replacing, for example, old copper telecommunications networks with new technologies such as fiber optic, which facilitate the absorption of the exponential growth in the volume of data demanded by the Group's customers. In relation to digital services, customers require an increasingly digital and personalised experience, as well as a continuous evolution of the Group's product and service offering. In this sense, new services such as "Smart WiFi" or "Connected Car", which facilitate certain aspects of the Group's customers' digital lives are being developed. Furthermore, new solutions for greater automation in commercial services and in the provision of the Group's services are being developed through new apps and online platforms that facilitate access to services and content, such as new video platforms that offer both traditional pay TV, video on demand or multi-device access.

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

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

Telefónica depends on its suppliers.

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

As of 30 September 2019, the Telefónica Group depended on three handset suppliers and thirteen network infrastructure suppliers, which, together, accounted for 85 per cent. and 80 per cent., respectively, of the total contracted handsets as of such date. One of the handset suppliers represented 40 per cent. of all contracted handsets as of such date.

These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements or for other reasons. If suppliers cannot supply their products to the Telefónica Group within the agreed deadline or such products and services do not meet the Group's requirements, this could hinder the deployment and expansion plans of the network. This could in certain cases affect Telefónica's compliance with the terms and conditions of the licences under which it operates, or otherwise adversely affect the business and operating results of the Telefónica Group. In addition, the possible adoption of new protectionist measures in certain parts of the world, including as a result of trade tensions between the United States and China, may have an adverse impact on certain of Telefónica's suppliers and other players in the industry. The imposition of trade restrictions could result in higher costs and lower margins and could adversely affect the Group's business.

Operating Risks.

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

The risks derived from cybersecurity remain one of the Group's most relevant risks. Despite advances in the modernisation of the network and the replacement of legacy systems, the Group is in an environment increasingly prone to cyber-threats. Therefore, it is necessary to continue to identify the technical vulnerabilities and weaknesses in operating processes, as well as the capabilities to detect and react to incidents. This includes the need to strengthen security controls in the supply chain (for example, to focus on the security measures adopted by the Group's partners and other third parties), as well as guaranteeing the security of the services in the cloud.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses have become increasingly more digital, dependent on telecommunications and computer networks and the adoption of cloud computing technologies. Cybersecurity threats may include gaining unauthorised access to systems or computer viruses or malicious software propagation to misappropriate sensitive information like customer data, corrupt Telefónica's data or disrupt its operations. Unauthorised access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones. Further, the Group's employees or other persons may have unauthorised or authorised access to the Group's systems and leak data and/or take actions that affect the Group's networks or otherwise adversely affect the Group or its ability to adequately process internal information.

Telefónica attempts to mitigate these risks through a number of measures, defined in its digital security strategy, including access control measures, backup, log review of critical systems, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures cannot guarantee the mitigation of all risks. Therefore, the Telefónica Group has insurance policies in place, which could cover, subject to the policies terms, conditions, exclusions, limits and sublimits of indemnity, and applicable deductibles, certain losses arising out of these types of incidents. To date the insurance policies in place have covered some incidents of this nature, yet due to the potential severity and uncertainty of the aforementioned events, these policies may not be sufficient to cover all possible monetary losses arising out of an individual event.

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

Unforeseen network interruptions can be due to system failures, natural disasters caused by natural or meteorological events or phenomena, lack of electric supply, network failures, hardware or software failures, theft of network elements or cyber-attacks that affect the quality of, or cause interruption to, the provision of the services of the Telefónica Group.

Such events, like the one that occurred on the mobile data service in O2 UK at the end of 2018, could cause customer dissatisfaction, a reduction in revenues and traffic, the realisation of expensive repairs, the imposition of sanctions or other measures by regulatory bodies, damage to the image and reputation of the Telefónica Group or could otherwise have an adverse effect on the business, financial condition, results of operations and/or cash flows of the Group.

Financial Risks.

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

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

More specifically, the main risks are detailed below, by geography:

Europe: higher financing conditions for both private and public sectors with a negative impact on disposable income in a scenario of financial stress. The triggers for that scenario could be both global factors deriving from economic deterioration and/or domestic issues such as the fiscal sustainability worsening in some European countries, especially in the case of Italy.

- Spain: there are three sources of uncertainty. First, the outcome of the political situation in Catalonia and its impact on the financing conditions of the Spanish economy given the demanding maturity schedule the country is still facing and its remarkable dependence on the international macroeconomic scenario and investors. A second source of uncertainty stems from the economic policies to be implemented from 2020 onwards, given the high level of parliamentary fragmentation and the lack of agreements on key issues. Finally, being one of the most open countries in the world, from a commercial point of view, and being amongst the top 10 countries in respect of capital outflows and inflows in the world, any situation of protectionist backlash can have significant implications.
- United Kingdom: the exit process from the European Union following the favourable vote in the June 2016 referendum will entail an economic adjustment regardless of the new economic and commercial relationship between the United Kingdom and the rest of Europe in the future. Investment, economic activity and employment would be the main variables affected, as well as volatility in financial markets, which could limit or condition access to capital markets. The situation could worsen depending on the eventual outcome of Brexit, which could lead to an increase in regulatory and legal conflicts in fiscal, commercial, security and employment issues. These changes can be costly and disruptive to business relationships in the affected markets, including those of Telefónica with its suppliers and customers.

Latin America: exchange risk is particularly important. In addition to internal factors, certain external factors fuel this risk, such as the uncertainty derived from the path of monetary normalisation in the United States, the growing commercial tensions at the global level, the low prices of certain raw materials, and concerns about growth and financial imbalances in China.

- Brazil: fiscal sustainability remains the main risk, and the government is currently tackling this through its structural reforms including pension and tax system reforms - which could raise the potential for the country's growth. The fact that the country's rating is below the investment grade and that its internal financing needs are high, could create a greater financial risk in the event of global financial stress.
- Argentina: in the short term, macroeconomic and exchange rate risks remain high. The challenges the economy is facing, both internal (ongoing process of public deficit reduction in a context of economic

recession and high inflation) and external (with significant refinancing needs in the medium term), make it an economy vulnerable to bouts of volatility in the financial markets. In addition, it remains to be seen how the change in government affects economic policies, especially in a context of narrower room for manoeuvre.

- Chile, Colombia and Peru - are exposed not only to changes in the global economy, given their vulnerability and exposure to unexpected change in commodity prices, but also to an abrupt hardening of global financial conditions. On the domestic side, both the existing political instability and the possibility of new episodes of social unrest could have a negative impact in the short and medium term.

During the first nine months of 2019, Telefónica Spain represented 26.4 per cent. of the revenues (sales and services) of the Telefónica Group (26.4 per cent. in the same period of 2018 and 26.1 per cent. in 2018). During the first nine months of 2019, Telefónica UK represented 14.4 per cent. of the Telefónica Group's revenues (13.8 per cent. in the same period of 2018 and 13.9 per cent. in 2018). During the first nine months of 2019, Telefónica Brazil represented 20.9 per cent. of the Telefónica Group's revenues (sales and services) (21.2 per cent. during the same period in 2018, 20.8 per cent. in 2018). During the first nine months of 2019, Telefónica Hispam Norte and Telefónica Hispam Sur represented 8.0 per cent. and 13.3 per cent. of the Telefónica Group's revenues, respectively (8.5 per cent. and 13.1 per cent., respectively, during the same period in 2018 and 8.4 per cent. and 13.7 per cent., respectively, in 2018). During the first nine months of 2019, 4.37 per cent. of the Telefónica Group's revenues came from Argentina, 4.44 per cent. from Peru and 4.04 per cent. from Chile (4.00 per cent., 4.32 per cent. and 4.35 per cent., respectively, during the same period in 2018 and 4.8 per cent., 4.3 per cent. and 4.3 per cent., respectively, in 2018). Approximately 27.4 per cent. of the Group's revenues were generated in countries that do not have investment grade credit rating status (those being, in order of their contribution to the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, El Salvador and Venezuela) and other countries are only one notch away from losing this status.

Possible asset impairment (goodwill, deferred tax or other assets).

In accordance with current accounting regulations, the Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the need to introduce changes to the book value of its goodwill, intangible assets, property, plant and equipment or other assets. In the case of goodwill, the potential loss of value is determined by the analysis of the recoverable value of the cash-generating unit (or set of them) to which the goodwill is associated at the time it is originated. By way of example, in 2018 impairment losses in the goodwill allocated to Telefónica Móviles Mexico were recognised for a total of EUR 350 million (no impairments were recognised in the same period of 2017).

In addition, Telefónica may not be able to realise deferred tax assets on its statement of financial position to offset future taxable income. The recoverability of deferred tax assets depends on the Group's ability to generate taxable income over the period for which the deferred tax assets remain deductible. If Telefónica believes it is unable to utilise its deferred tax assets during the applicable period, it may be required to record an impairment against them resulting in a non-cash charge on the income statement. By way of example, in 2018, Telefónica Móviles México derecognised deferred tax assets amounting to EUR 327 million.

Levels of financial indebtedness, the Group's ability to finance, and ability to carry out its business plan.

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

The Telefónica Group is a relevant and frequent issuer of debt in the capital markets. As of 30 September 2019, the Group's net financial debt amounted to EUR 38,293 million (EUR 41,658 million as of 30 September 2018) and, as of 30 September 2019, the Group's gross financial debt amounted to EUR 56,900 million (EUR 55,988 million as of 30 September 2018). At such date, the average maturity of the debt was 10.69 years (9.16 years as of 30 September 2018) liquidity included.

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

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

As of 30 September 2019, the Group's gross financial debt scheduled to mature in 2019 amounted to EUR 3,069 million, and gross financial debt scheduled to mature in 2020 amounted to EUR 6,961 million.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next 12 months with cash and credit lines available as of 30 September 2019. As of 30 September 2019, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of EUR 13,084 million (EUR 12,741 million of which are due to expire in more than 12 months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of 30 September 2019, 2.6 per cent. of the aggregate undrawn amount under credit lines was scheduled to expire prior to 30 September 2020.

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

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

Interest rate risk arises primarily in connection with changes in interest rates affecting: (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates; and (ii) the value of long-term liabilities at fixed interest rates.

To illustrate the sensitivity of financial expenses to variations in short-term interest rates as of 30 September 2019: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica had a financial position at that date would have led to an increase in financial expenses of EUR 49 million, whereas (ii) a 100 basis points decrease in interest rates in all currencies (even if negative rates are reached), would have led to a reduction in financial expenses of EUR 43 million. For the preparation of these calculations, a constant position equivalent to the position at that date is assumed, which takes into account the financial derivatives contracted by the Group. In nominal terms, as of 30 September 2019, 80.4 per cent. of the Group's net financial debt plus commitments had its interest rate set at fixed interest rates for periods of more than one year. At the same time, 21.0 per cent. of the Group's net financial debt plus commitments was denominated in currencies other than the Euro.

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America, but also in the United Kingdom); (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt; and (iii) trade receivables or payables in a foreign currency to the currency of the company with which the transaction was registered. According to the Group's calculations, the impact on results, and specifically on net exchange differences, due to a 10 per cent. depreciation of Latin American currencies against the U.S. dollar and a 10 per cent. depreciation of the rest of the currencies against the euro would result in exchange profits of EUR 5 million as of 30 September 2019, primarily due to the weakening of the Venezuelan bolivar and, to a lesser extent, the Argentine peso. These calculations have been made assuming a constant currency position with an impact on profit or loss as of 30 September 2019, taking into account derivative instruments in place.

During the first nine months of 2019, Telefónica Brazil represented 27.3 per cent. (27.7 per cent. in the same period of 2018 and 27.7 per cent. in 2018), Telefónica United Kingdom represented 13.9 per cent. (11.2 per cent. in the same period of 2018 and 12.0 per cent. in 2018), Telefónica Hispam Norte represented 7.0 per cent. (6.2 per cent. in the same period of 2018 and 5.1 per cent. in 2018) and Telefónica Hispam Sur represented 11.1 per cent. (10.3 per cent. in the same period of 2018 and 11.0 per cent. in 2018) of the OIBDA of the Telefónica Group.

In the first nine months of 2019, the evolution of exchange rates and the hyperinflation in Argentina negatively impacted the Group's results, decreasing the year-on-year growth (September 2019 versus

September 2018) of the Group's consolidated revenues and OIBDA by an estimated 2.4 percentage points and 2.0 percentage points, respectively, mainly due to the depreciation of the Brazilian real and the Argentine peso (10.1 percentage points and 11.7 percentage points, respectively in the same period of 2018, also mainly due to the depreciation of the Brazilian real and Argentine peso). Furthermore, translation differences in the first nine months of 2019 had a negative impact on the Group's equity of EUR 79 million, whereas they had a negative impact on the Group's equity of EUR 2,446 million in the same period of 2018.

The Telefónica Group uses a variety of strategies to manage this risk including, among others the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. The Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and/or cash flows. If the Group does not effectively manage its exposure to foreign currency exchange rates or interest rates, it may adversely affect its business, financial position, results of operations and/or cash flows.

Legal and compliance risks.

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

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings in the ordinary course of their businesses, the financial outcome of which are unpredictable. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax and regulatory proceedings in Brazil, primarily relating to the ICMS (a Brazilian tax on telecommunication services) and the corporate tax. Further details on these matters are provided in Notes 22 and 26 to the 2018 Consolidated Financial Statements and in Note 19 and 20 of the Interim Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 21 to the 2018 Consolidated Financial Statements.

An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and/or cash flows.

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

The Telefónica Group is required to comply with the anti-corruption laws and regulations of the jurisdictions where it conducts operations around the world, and in certain circumstances, with laws and regulations having extraterritorial effect such as the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010. The anti-corruption laws generally prohibit, among other conduct, providing anything of value to government officials for the purposes of obtaining or retaining business, securing any improper business advantage or performing improper accounting treatment related to offers made to them. The Telefónica Group, due to the nature of its activity, is exposed to risks in the field of compliance with anti-corruption legislation, which contributes to an increase in the likelihood of occurrence of this risk. In particular, it is worth noting the continuous interaction with officials and public administrations on the institutional and regulatory fronts (the Telefónica Group carries out a regulated activity in different jurisdictions), operational (in the deployment of its network, the Telefónica Group is subject to obtaining multiple activity permits) and commercial (the Telefónica Group provides services directly and indirectly to public administrations). Moreover, Telefónica is a multinational company subject to the authority of different regulators and compliance with various regulations, national or extraterritorial, civil or criminal, sometimes with shared competences. Therefore, it is very difficult to quantify the possible impact, bearing in mind that such quantification must consider not only the economic amount of sanctions, but also the potential negative impact of them on the business, reputation and/or brand, or the ability to contract with public administrations.

Additionally, the Telefónica Group's operations may be subject to economic sanctions programmes and other forms of trade restrictions (hereinafter, referred to as "**sanctions**") including those administered by the United Nations, the European Union and the United States, covering the US Treasury Department's Office of Foreign Assets Control. The sanctions regulations restrict the Group's business dealings with certain sanctioned countries, individuals and entities. In this context, the provision of services by a multinational telecommunications company, directly and indirectly and in multiple countries, requires the

application of a high degree of diligence to prevent the application of sanctions which, in different contexts (economic sanctions programmes to countries, lists of entities and persons sanctioned or export sanctions) and in an increasingly recurrent way, could affect Telefónica and/or its subsidiaries, especially in the United States and the European Union, as the Telefónica Group's exposure to these sanctions is particularly noteworthy.

Although the Group has internal policies and procedures designed to ensure compliance with the abovementioned applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not occasionally take actions apart from such controls in violation of the Group's policies and procedures (or, otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group, its subsidiaries or they may be ultimately held responsible. In this regard, the Group currently cooperates with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information related, direct or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of those specific information requests would not materially affect the Group's financial condition.

Notwithstanding the above, violations of anti-corruption laws and sanctions regulations could lead not only to financial penalties, but also to exclusion from government contracts and could have a material adverse effect on the Group's reputation, business and results of operations.

Risks related to withholding.

Risks in relation to Spanish taxation

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

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

This information must be provided by the Fiscal Agent to the Issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal, or of any amounts in respect of the early redemption of the Securities (each a "**Payment Date**"), is due.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the Securities. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

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

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

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July, provides that any payment of interest made under securities originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant paying agent submits in a timely manner certain information about the Securities to the issuer (that is, the Guarantor with respect to any

payments of interest under the Guarantee). In the opinion of the Guarantor, any payment of interest under the Guarantee will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Securities is submitted in a timely manner by the Fiscal Agent to the Guarantor, notwithstanding the information obligations of the Guarantor under general provisions of Spanish tax legislation, by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities (see "*Taxation - Spanish Tax - Payments made by the Guarantor*").

Risks related to the structure of the Securities.

The Issuer's obligations under the Securities and the Coupons are subordinated

The Issuer's obligations under the Securities will be unsecured and subordinated obligations of the Issuer and will rank junior to the claims of unsubordinated and other subordinated creditors of the Issuer, except for subordinated creditors whose claims are expressed to rank *pari passu* with the Securities. See Condition 2 (*Status and Subordination of the Securities and Coupons*) of the Securities. By virtue of such subordination, payments to a Holder of Securities will, in the event of an Issuer Winding-up (as described in the Conditions) only be made after, and any set-off by a Holder of Securities shall be excluded until, all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder of Securities may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under, or in connection with, the Securities and each Holder shall, by virtue of being the Holder of any Security, be deemed to have waived all such rights of set-off. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

The Guarantee is a subordinated obligation

The Guarantor's obligations under the Guarantee will be unsecured and subordinated obligations of the Guarantor. In the event of the Guarantor being declared in insolvency (*concurso*) under Spanish Insolvency Law (as defined below), the Guarantor's obligations under the Guarantee will be subordinated in right of payment to the prior payment in full of all other liabilities of the Guarantor, except for obligations which rank equally with or junior to the Guarantee. See Condition 3 (*Guarantee, Status and Subordination of the Guarantee*) of the Securities.

Holders of the Securities are advised that unsubordinated liabilities of the Guarantor may also arise out of events that are not reflected on the balance sheet of the Guarantor including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become unsubordinated liabilities of the Guarantor that in the insolvency of the Guarantor will need to be paid in full before the obligations under the Guarantee may be satisfied.

There are no events of default under the Securities

The Conditions do not provide for events of default allowing acceleration of the Securities if certain events occur. Accordingly, if the Issuer or the Guarantor fails to meet any obligations under the Securities or the Guarantee, as the case may be, including the payment of any interest, Holders of the Securities will not have the right to require the early redemption of the Securities. Upon a payment default, the sole remedy available to the Holders for recovery of amounts owing in respect of any payment of principal or interest on the Securities will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

The Securities are undated securities

The Securities are undated securities, with no specified maturity date. The Issuer is under no obligation to redeem or repurchase the Securities at any time and the Holders have no right to require redemption of the Securities. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time and may not recover their investment in the foreseeable future.

The Issuer may redeem the Securities under certain circumstances

Holders should be aware that the Securities may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) on any date during the Relevant Period and on any Interest Payment Date thereafter (in each case, as defined in the Conditions).

The redemption at the option of the Issuer may affect the market value of the Securities. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed.

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

The Securities are also subject to redemption in whole, but not in part, at the Issuer's option upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each as defined in Condition 17 (*Definitions*) of the Securities). The relevant redemption amount may be less than the then current market value of the Securities.

The Issuer may redeem the Securities after a Tax Event relating to the intra-group loan

The net proceeds of the issue of the Securities will be on-lent by the Issuer to the Guarantor pursuant to a Subordinated Loan (as defined in the Conditions). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change (as defined in the Conditions), in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

The direct connection between a Tax Event and the Subordinated Loan may limit the Issuer's ability to prevent the occurrence of a Tax Event, and may increase the possibility of the Issuer exercising its option to redeem the Securities upon the occurrence thereof.

The current IFRS accounting classification of financial instruments such as the Securities as equity instruments may change which may result in the occurrence of an Accounting Event

In June 2018, the IASB (International Accounting Standards Board) published the discussion paper DP/2018/1 on "Financial Instruments with Characteristics of Equity" (the "**DP/2018/1 Paper**"). While the final timing and outcome are uncertain, if the proposals set out in the DP/2018/1 Paper are implemented in their current form, the IFRS equity classification of financial instruments such as the Securities may change. If such a change leads to an Accounting Event, the Issuer will have the option to redeem, in whole but not in part, the Securities pursuant to Condition 6(d) (*Redemption for Accounting Reasons*) of the Securities or substitute or vary the terms of the Securities pursuant to Condition 12(c) (*Substitution and Variation*) of the Securities.

The implementation of any of the proposals set out in the DP/2018/1 Paper or any other similar such proposals that may be made in the future, including the extent and timing of any such implementation, if at all, is uncertain. Accordingly, no assurance can be given as to the future classification of the Securities from an accounting perspective or whether any such change may result in the occurrence of an Accounting Event.

The Issuer has the right to defer interest payments on the Securities

The Issuer may, at its discretion, elect to defer (in whole or in part) any payment of interest on the Securities. Any such deferral of interest payment shall not constitute a default for any purpose. See Condition 5 (*Optional Interest Deferral*) of the Securities. Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest. Arrears of Interest will be payable as outlined in Conditions 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears*

of Interest) and 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*) of the Securities. While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities and in such event, the Holders are not entitled to claim immediate payment of interest so deferred.

As a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which interest payments are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's and/or the Guarantor's financial condition. Investors should be aware that any deferral of interest payments may have an adverse effect on the market price of the Securities.

Substitution or variation of the Securities

There is a risk that, after the issue of the Securities, a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event may occur which would entitle the Issuer, without any requirement for the consent or approval of the Holders, to substitute or vary the Securities (including the substitution of the Securities for securities issued by a wholly-owned finance subsidiary of the Guarantor resident in a taxing jurisdiction other than the Netherlands or Spain), subject to certain conditions intended to protect the interests of the Holders, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.

Furthermore, there is a risk that if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, without any requirement for the consent of the Holders, substitute or vary the Securities.

Any such substitution or variation may have an adverse impact on the price of, and/or the market for, the Securities.

Changes in rating methodologies may lead to the early redemption of the Securities

S&P, Moody's and Fitch (in each case as defined in the Conditions) may change, amend or clarify their rating methodology or change their interpretation thereof, and as a result the Securities may no longer be eligible for the same or a higher amount of "equity credit" attributable to the Securities at the date of their issue, in which case the Issuer may redeem all of the Securities (but not some only), as provided in Condition 6(e) (*Redemption and Purchase - Redemption for Rating Reasons*) of the Securities.

No limitation on issuing senior or pari passu securities or other liabilities

There is no restriction on the amount of securities or other liabilities which the Issuer or the Guarantor may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Securities or the Guarantee (as the case may be). The issue of any such securities, the granting of any such guarantees or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on the insolvency, winding-up, liquidation or dissolution of the Issuer or the Guarantor (as the case may be) and/or may increase the likelihood of a deferral of Interest Payments under the Securities.

If the Issuer's and/or the Guarantor's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including loss of interest and, if the Issuer and/or the Guarantor were liquidated (whether voluntarily or not), the Holders could suffer loss of their entire investment.

Interest rate reset may result in a decline of yield

The Securities pay interest at a fixed interest rate that will be reset during the term of the Securities and therefore the Holders are exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of the Securities in advance.

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

The Securities have been assigned a rating by S&P, Moody's and Fitch. The rating granted by each of S&P, Moody's and Fitch or any other rating assigned to the Securities may not reflect the potential impact of all

risks related to structure, market and other factors that may affect the value of the Securities. A credit rating is not a statement as to the likelihood of deferral of interest on the Securities. Holders have a greater risk of deferral of interest payments than persons holding other securities with similar credit ratings but no, or more limited, interest deferral provisions.

In addition, each of S&P, Moody's and Fitch, or any other rating agency may change its methodologies for rating securities with features similar to the Securities in the future. If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Securities.

Risks relating to EURIBOR

The determination of the Subsequent Fixed Interest Rate in respect of the Securities is dependent upon the relevant 6-month EURIBOR administered by the European Money Markets Institute at the relevant time (as specified in the Conditions) and the 7 Year Swap Rate appearing on the Reuters Screen Page "ICESWAP2" provided by the ICE Benchmark Administration Limited.

EURIBOR and other interest rate or other types of rates and indices which are deemed to be benchmarks ("benchmarks") are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. Any such consequence could affect the manner in which interest determinations are required to be made pursuant to the Conditions, and have a material adverse effect on the value of and return on the Securities.

If the Issuer (in consultation with the Agent Bank) determines that a Benchmark Event (as defined in the Conditions) has occurred, then the Issuer may elect to apply provisions in the Conditions that permit the rate of interest to alternatively be set by the Issuer and an Independent Adviser (without a requirement for the consent or approval of the Holders), by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required). The use of a successor rate or an alternative reference rate may, however, result in interest payments that are lower than, or otherwise do not correlate over time with, the payments that could have been made on the Securities if the relevant benchmark continued to be available in its current form. Furthermore, if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser and the Issuer fail to agree on a successor rate or an alternative reference rate or any adjustments thereto in accordance with the Conditions, the ultimate fallback of interest for a particular Reset Period may result in the rate of interest for the last preceding Reset Period being used (or, in the case of the Reset Period commencing on the First Reset Date, -0.176 per cent. per annum). Any such consequence could have a material adverse effect on the value of and return on the Securities.

No consent of the Holders shall be required in connection with effecting any relevant successor rate or alternative reference rate (as applicable) or any other related adjustments and/or amendments described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Holder, any such adjustment will be favourable to each Holder.

Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Securities or could have a material adverse effect on the value or liquidity of, and the amount payable under the Securities. Investors should consider these matters when making their investment decision with respect to the Securities.

Risks related to insolvency law.

Risks arising in connection with EU insolvency law

From 26 June 2017, Regulation 2015/848 on insolvency proceedings (recast) (the "**EU Insolvency Regulation**") is applicable to all the EU countries except for Denmark. This means that this regulation shall be applicable to all those insolvency proceedings that are initiated in an EU country (except for Denmark), when the centre of main interest of the debtor is located in such countries.

If the centre of main interests of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined as any place of operations where a debtor carries out or has carried out in the 3-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State and so may impact the ability of holders of the Securities to commence insolvency proceedings against the Issuer or the Guarantor outside the centre of main interest of such companies.

Risks arising in connection with the Dutch insolvency law

Where a company (incorporated in the Netherlands or elsewhere) has its "centre of main interest" or an "establishment" in the Netherlands, it may be subjected to insolvency proceedings in this jurisdiction. This is particularly relevant for the Issuer, which has its corporate seat (*statutaire zetel*) in Amsterdam, the Netherlands, and is therefore presumed (subject to proof to the contrary) to have its "centre of main interests" in the Netherlands.

Under Dutch law secured creditors (and in case of suspension of payment also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were no insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the Issuer. Consequently, a holder's potential recovery could be reduced in Dutch insolvency proceedings.

Any pending executions of judgments against the Issuer would be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, any attachment by a holder of the Securities on the Issuer's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination.

In a suspension of payments or a bankruptcy, a composition (*akkoord*) may be offered to creditors (including the holders of the Securities). A composition will be binding on all unsecured and non-preferential creditors (including the holders of the Securities) if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent. of the amount of the claims that are admitted for voting purposes; and (ii) subsequently ratified (*gehomologeerd*) by the competent Dutch court. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Securities to effect a restructuring and could reduce the recovery of a holder of Securities.

The existence, value and ranking of any claims submitted by the holders of the Securities may be challenged in the Dutch insolvency proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver in bankruptcy, the administrator in suspension of payments proceedings, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooiprocedure*) in bankruptcy, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These situations could cause holders of Securities to recover less than the principal amount of their Securities. *Renvooi* procedures could also cause payments to the holders of Securities to be delayed compared to holders of undisputed claims.

The Dutch Bankruptcy Act does not in itself recognise the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a *pro rata* basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings, with the actual effect largely depending on the way such subordination is construed.

As a result of the above risks, payments to holders of the Securities if the Issuer entered Dutch insolvency proceedings could be subject to delay and the recovery by holders in respect of the Securities could be impacted.

Risks arising in connection with the Spanish insolvency law

The Law 22/2003 of 9 July, on Insolvency, as amended (the "**Spanish Insolvency Law**") regulates pre-insolvency and court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

A debtor (and in the case of a company, its directors) is required to apply for insolvency proceedings when it is not able to meet its current obligations (*insolencia actual*) within the term of two months as from the moment that it knows that it is insolvent or as from the moment it should have known it is insolvent. The debtor is also entitled to apply for such insolvency proceedings when it expects that it will shortly be unable to do so (*insolencia inminente*). Insolvency proceedings are available as a type of legal protection that the debtor may request in order to avoid the attachment of its assets by its creditors.

The court resolution declaring the insolvency proceedings (*auto de declaración de concurso*) contains an express request for the creditors to declare debts owed to them, within a one-month period as from the day after the publication of the insolvency proceeding in the Spanish Official Gazette (*Boletín Oficial del Estado*), providing documentation to justify such credits. Based on the documentation provided by the creditors and that is held by the debtor, the court receivers draw up an inventory and a list of acknowledged creditors and classify them according to the categories established under law: (i) debts against the insolvency estate; (ii) debt benefiting from special privileges; (iii) debt benefiting from general privileges; (iv) ordinary debt; and (v) subordinated debt.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the law extends the jurisdiction of the court dealing with insolvency proceedings, which is, then, legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

Holders should be aware (i) of the effects of a declaration of insolvency (*declaración de concurso*) of the Guarantor set out above; (ii) that their claims against the Guarantor would therefore be subordinated behind other classes of creditor set out above; and (iii) subordinated creditors may not vote on an arrangement and have very limited chances of collection, according to the ranking established by the Spanish Insolvency Law.

Risks related to the Securities generally

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

Majority decisions bind all Holders

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

There is no active trading market for the Securities

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although applications have been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities.

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

The Securities will be represented by the Global Securities except in certain limited circumstances described in the Permanent Global Security. While the Securities are represented by the Global Securities,

investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Securities by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Securities. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Securities and Holders may be adversely affected should such records be incorrect or such payments not be made or be paid incorrectly.

Holders of beneficial interests in the Global Securities will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies and such holders may be adversely affected should it not be possible for them to vote in respect of the Securities as a result.

Exchange rate fluctuations may affect the value of the Securities

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

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

OVERVIEW OF THE SECURITIES

This overview must be read as an introduction to this Prospectus and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference.

Words and expressions defined in the "Terms and Conditions of the Securities" below or elsewhere in this Prospectus, have the same meanings in this overview.

Issuer:	Telefónica Europe B.V.
Guarantor:	Telefónica, S.A.
Description of Securities:	EUR 500,000,000 Undated 7.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the " Securities ").
Joint Bookrunners:	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., BNP Paribas, CaixaBank, S.A., Mizuho Securities Europe GmbH and NatWest Markets N.V.
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Listing Agent:	The Bank of New York Mellon SA/NV, Dublin Branch.
Issue Price:	100 per cent. of the principal amount.
Issue Date:	5 February 2020.
Maturity Date:	Undated.
Interest:	<p>The Securities will bear interest on their principal amount:</p> <ul style="list-style-type: none">(i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 2.502 per cent. per annum, payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date, commencing on 5 May 2021; and(ii) from (and including) the First Reset Date, at the applicable 7 Year Swap Rate in respect of the relevant Reset Period plus:<ul style="list-style-type: none">(A) in respect of the period commencing on the First Reset Date to (but excluding) 5 February 2030, 2.663 per cent. per annum;(B) in respect of the period commencing on 5 February 2030 to (but excluding) 5 May 2047, 2.913 per cent. per annum; and(C) from and including 5 May 2047, 3.663 per cent. per annum,(iii) all as determined by the Agent Bank, payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date, commencing on 5 May 2021, subject to Condition 5 (<i>Optional Interest Deferral</i>), all as more particularly described in Condition 4 (<i>Interest Payments</i>) of the Conditions.
Interest Payment Dates:	Interest payments in respect of the Securities will be payable annually (except for a long first Interest Period) in arrear on 5 May in each year, commencing on 5 May 2021.
Status of the Securities:	The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and will at all times rank <i>pari passu</i> and without any preference among themselves.

Subordination of the Securities:	<p>In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) <i>pari passu</i> with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.</p> <p>Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. Condition 2(b) (<i>Status and Subordination of the Securities and Coupons - Subordination of the Securities</i>) of the Securities is an irrevocable stipulation (<i>derdenbeding</i>) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce Condition 2(b) (<i>Status and Subordination of the Securities and Coupons - Subordination of the Securities</i>) of the Securities under Section 6:253 of the Dutch Civil Code.</p>
Guarantee and Status of Guarantee:	<p>Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons will be unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis.</p> <p>The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and will at all times rank <i>pari passu</i> and without preference among themselves.</p>
Subordination of the Guarantee:	<p>Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (<i>concurso</i>) under Spanish Insolvency Law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) <i>pari passu</i> with the claims of the holders of all Parity Obligations of the Guarantor, and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.</p>
Optional Interest Deferral:	<p>The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, as more particularly described in "<i>Terms and Conditions of the Securities - Optional Interest Deferral</i>". Non-payment of interest so deferred shall not constitute a default by the Issuer or Guarantor under the Securities or the Guarantee or for any other purpose. Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest.</p>
Optional Settlement of Arrears of Interest:	<p>Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time upon giving not more than 14 and no less than seven Business Days' notice to the Holders, the Fiscal Agent and the Paying Agents prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date. See Condition 5(b) (<i>Optional Interest Deferral - Optional Settlement of Arrears of Interest</i>) of the Securities.</p>
Mandatory Settlement of Arrears of Interest:	<p>The Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.</p>

"Mandatory Settlement Date" means the earliest of:

- (i) as soon as reasonably practicable (but no later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the Interest Period;
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchase*) of the Securities or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Default*) of the Securities; and
- (iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c) (*Substitution and Variation*) of the Securities.

Subject to certain exceptions, as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities, a "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or
- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

all as more particularly described in Condition 5 (*Optional Interest Deferral*) of the Securities.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.

Optional Redemption:

The Issuer may redeem the Securities in whole, but not in part, on (i) any date during the Relevant Period under the Conditions and (ii) on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event, the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in Condition 6 (*Redemption and Purchase*) of the Securities.

Events of Default:

There are no events of default in respect of the Securities. However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish Insolvency Law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene an Extraordinary Resolution (if any) may, by written notice to the Issuer and the Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any

amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish Insolvency Law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Additional Amounts: Payments in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, taxes of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 8(a) (*Taxation - Additional Amounts*) of the Securities.

Form: The Securities will be in bearer form and will initially be represented by the Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in the Permanent Global Security as set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for Definitive Securities in the circumstances set out in the Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

Substitution or Variation: If at any time after the Issue Date, the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, then the Issuer may, subject to Condition 12(c) (*Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation*) of the Securities (without any requirement for the consent or approval of the Holders) and having given not less than 10 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 14 (*Notices*) of the Securities, the Holders (which notice shall be irrevocable), on any applicable Interest Payment Date either (i) exchange the Securities for new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor or (ii) vary the terms of the Securities, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.

If at any time after the Issue Date, the Issuer is required to withhold on account of Taxes levied in the Netherlands on any payment under the Securities, the Issuer may, subject to Condition 12(c) (*Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation*) of the Securities (without any requirement for the consent of the Holders), on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.

Denominations: The Securities will be issued in the denomination of EUR 100,000.

Governing Law: The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons - Subordination of the Securities*) of the Securities relating to the subordination of the Securities which are governed by and construed in accordance with the laws of the Netherlands, and the provisions

of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*) of the Securities and Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*) of the Securities relating to the subordination of the Guarantee and the corresponding provisions of the Guarantee which are governed by and construed in accordance with the laws of the Kingdom of Spain. See Condition 16 (*Governing Law*) of the Securities.

**Replacement
Intention:**

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is the same as or higher than the long-term corporate credit rating assigned to the Guarantor on the date when the most recent additional hybrid security was issued (excluding refinancings) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 10 consecutive years; or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase); or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology; or
- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, a Substantial Purchase Event, an Accounting Event or a Withholding Tax Event; or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 5 May 2047.

Rating:

The Securities are expected to be rated BB+ by S&P, Ba2 by Moody's and BB+ by Fitch. Each of S&P, Moody's and Fitch is established in the European Union and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Listing and Admission to Trading:	This Prospectus has been approved by the Central Bank, which is the competent authority for the purposes of the Prospectus Regulation as a prospectus issued for the purpose of giving information with regard to the issue of the Securities. Application has been made for the Securities to be admitted to listing on the Official List and to trading on the regulated market of Euronext Dublin. The regulated market is a regulated market for the purposes of MiFID II.
Selling Restrictions:	<p>The United States, the United Kingdom and the EEA (including the Kingdom of Spain and the Republic of Italy). See "<i>Subscription and Sale</i>".</p> <p>Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.</p>
Use and Estimated Net Amount of Proceeds:	The aggregate net proceeds of the issue of the Securities, expected to amount to EUR 497,250,000, will be allocated towards Green Projects (as described in " <i>Use and Estimated Net Amount of Proceeds</i> " below).
Risk Factors:	Prospective investors should carefully consider the information set out in " <i>Risk Factors</i> " in conjunction with the other information contained or incorporated by reference in this Prospectus.
ISIN:	XS2109819859.
Common Code:	210981985.

INFORMATION INCORPORATED BY REFERENCE

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

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent, unless such documents have been modified or superseded. In addition the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2018 are available on https://www.rns-pdf.londonstockexchange.com/rns/8900Q_1-2019-2-22.pdf; the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2017 are available on https://www.rns-pdf.londonstockexchange.com/rns/2781G_-2018-2-28.pdf; the unaudited and unreviewed interim unconsolidated financial statements of Telefónica Europe B.V. for the six months ended 30 June 2019 are available on http://www.rns-pdf.londonstockexchange.com/rns/7055G_1-2019-7-25.pdf; the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2018 (the "**2018 Consolidated Financial Statements**") are available on https://www.rns-pdf.londonstockexchange.com/rns/7202Q_2-2019-2-21.pdf; the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2017 are available on https://www.rns-pdf.londonstockexchange.com/rns/6302F_2-2018-2-22.pdf; the unaudited condensed consolidated interim financial statements of Telefónica, S.A. for the six months ended 30 June 2019 (the "**Interim Financial Statements**") subject to limited review are available on <https://www.telefonica.com/documents/162467/145168336/rdos19t2-ipp-cuentas-resumidas-eng.pdf/aa523ad0-6c63-9e46-60c8-e11911631155>; and the unaudited consolidated interim management statement of Telefónica, S.A. for the nine months ended 30 September 2019 are available on <https://www.telefonica.com/documents/162467/145168336/rdos19t3-interim-management-statement.pdf/dc620542-d4fe-9037-cfdb-6721ac323cdc>.

For ease of reference, the tables below set out:

- (i) the relevant page references for the financial statements, the notes to the financial statements and the Auditors' reports for the years ended 31 December 2018 and 2017 and the unaudited and unreviewed interim unconsolidated financial statements for the six months ended 30 June 2019, for the Issuer; and
- (ii) the relevant page references for the consolidated financial statements and, as applicable, the notes to the consolidated financial statements and the Auditors' reports for the years ended 31 December 2018 and 2017, the unaudited condensed consolidated interim financial statements, the limited review report and the notes to the financial statements for the six months ended 30 June 2019 and the unaudited consolidated interim management statement for the nine months ended 30 September 2019, for the Guarantor.

Telefónica Europe B.V.

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Telefónica, S.A.

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

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

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

For the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on any website does not form part of this Prospectus.

TERMS AND CONDITIONS OF THE SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the EUR 500,000,000 Undated 7.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**") was authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 January 2020 and the guarantee of the Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 17 January 2020, acting upon a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017 and a resolution of the Board of Directors of the Guarantor dated 9 June 2017. A fiscal agency agreement dated 5 February 2020 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent, The Bank of New York Mellon, London Branch as agent bank and the paying agents named therein. The fiscal agent, the agent bank and the paying agents for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Agent Bank**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Securities and the coupons relating to them (the "**Coupons**", which expression includes, where the context so permits, talons for further coupons (the "**Talons**")). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The Holders of the Securities and the Holders of the Coupons (each as defined in Condition 1(b) (*Form Denomination and Title - Title*) below) (whether or not attached to the Securities) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. **Form, Denomination and Title**

- (a) **Form and denomination:** The Securities are serially numbered and in bearer form in the denomination of EUR 100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon (a "**Holder**") will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person shall be liable for so treating the Holder.

2. **Status and Subordination of the Securities and Coupons**

- (a) **Status of the Securities and Coupons:** The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and shall at all times rank *pari passu* and without any preference among themselves.
- (b) **Subordination of the Securities:** In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. This Condition 2(b) is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce this Condition 2(b) under Section 6:253 of the Dutch Civil Code.

3. **Guarantee, Status and Subordination of the Guarantee**

- (a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons on a subordinated basis. Its obligations in that respect (the "**Guarantee**") are set

out in the deed of guarantee dated the Issue Date and made by the Guarantor for the benefit of the Holders.

- (b) **Status of the Guarantee:** The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and shall at all times rank *pari passu* and without any preference among themselves.
- (c) **Subordination of the Guarantee:** Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (*concurso*) under Spanish insolvency law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) *pari passu* with the claims of the holders of all Parity Obligations of the Guarantor and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.

4. Interest Payments

- (a) **General**

The Securities bear interest at the Prevailing Interest Rate from (and including) 5 February 2020 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5 (*Optional Interest Deferral*), interest shall be payable on the Securities with respect to any Interest Period annually (except for a long first Interest Period) in arrear on each Interest Payment Date in each case as provided in this Condition 4.

- (b) **Interest Accrual**

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 (*Redemption and Purchase*) or the date of any substitution thereof pursuant to Condition 12(c) (*Meetings of Holders of Securities and Modification, Substitution and Variation - Substitution and Variation*) unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Interest in respect of any Security shall be calculated per EUR 100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the Calculation Amount and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest in respect of any Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, shall be calculated on the basis of the actual number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next succeeding Interest Payment Date. Notwithstanding the above, the interest in respect of any Security for the long first Interest Period shall be EUR 3,112.73 per Calculation Amount, calculated on the basis of the actual number of days in the period from (and including) the Issue Date to (but excluding) 5 May 2021 divided by 365 days or 366 days in the case of a leap year.

(c) ***Prevailing Interest Rate***

Unless previously redeemed or repurchased and cancelled in accordance with these Conditions and subject to the further provisions of this Condition 4, the Securities will bear interest on their principal amount as follows:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 2.502 per cent. per annum, payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date commencing on 5 May 2021; and
- (ii) from (and including) the First Reset Date, at the applicable 7 Year Swap Rate in respect of the relevant Reset Period plus:
 - (A) in respect of the period commencing on the First Reset Date to (but excluding) 5 February 2030, 2.663 per cent. per annum;
 - (B) in respect of the period commencing on 5 February 2030 to (but excluding) 5 May 2047, 2.913 per cent. per annum; and
 - (C) from and including 5 May 2047, 3.663 per cent. per annum,

all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually (except for a long first Interest Period) in arrear on each Interest Payment Date, commencing on 5 May 2021, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"7 Year Swap Rate" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ICESWAP2" or, if such rate is not displayed on such screen as at the relevant time, the mid-swap rate as displayed on a successor page (in each case, the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

Subject to the operation of Condition 4(d) (*Interest Payments - Benchmark Replacement*), in the event that the relevant 7 Year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 7 Year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate calculated by the Agent Bank on the basis of the 7 Year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Issuer and the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If (a) at least three quotations are provided, the 7 Year Swap Rate will be calculated by the Agent Bank on the basis of the arithmetic mean (or, if only three quotations are provided, the median) of the quotations provided, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); (b) only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided; (c) only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided; and (d) no quotations are provided, the Reset Reference Bank Rate for the relevant period will be: (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the 7 Year Swap Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, -0.176 per cent. per annum.

The "**7 Year Swap Rate Quotations**" means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 Day Count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 7 Years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on the basis of the actual number of days elapsed and a year of 360 days).

(d) **Benchmark Replacement**

Notwithstanding the provisions above in this Condition 4, if the Issuer (in consultation with the Agent Bank) determines that a Benchmark Event has occurred in relation to the Original Reference Rate when a component part of the 7 Year Swap Rate remains to be determined by reference to the Original Reference Rate, then the Issuer may elect to apply the following provisions:

- (i) The Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer and the Independent Adviser determining, no later than three Business Days prior to the relevant Reset Interest Determination Date, a Successor Rate, failing which an Alternative Rate (in accordance with paragraph (ii) below) and, in either case, an Adjustment Spread if any (in accordance with paragraph (iii) below) and any Benchmark Amendments (in accordance with paragraph (iv) below).
- (ii) If the Issuer and the Independent Adviser:
 - (A) agree that there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 7 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
 - (B) agree that there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in paragraph (iii) below) subsequently be used in place of the Original Reference Rate as a component part of determining the 7 Year Swap Rate for all future payments of interest on the Securities (subject to the subsequent operation of this Condition 4(d)); or
 - (C) the Issuer and the Independent Adviser do not agree on the selection of a Successor Rate or an Alternative Rate, the fallback provisions set out in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) continue to apply.
- (iii) If the Issuer and the Independent Adviser agree (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).
- (iv) If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4(d) and the Issuer and the Independent Adviser agree: (i) that amendments to these Conditions and/or the Fiscal Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with paragraph (v) below, without any requirement for the consent or approval of the Holders, vary these Conditions and/or the Fiscal Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice. In connection with any such variation in accordance with this paragraph, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.
- (v) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 4(d) will be notified promptly by the Issuer to the Fiscal Agent, the Agent Bank, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders. Such notice

shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any and will be binding on the Issuer, the Guarantor, the Fiscal Agent, the Agent Bank, the Paying Agents and the Holders.

- (vi) Without prejudice to the obligations of the Issuer under paragraphs (i) to (v) above, the Original Reference Rate and the fallback provisions provided for in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*) will continue to apply unless and until the Agent Bank has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with this Condition 4(d).
- (vii) Notwithstanding any other provision of this Condition 4(d), no Successor Rate or Alternative Rate will be adopted, nor will the applicable Adjustment Spread be applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to cause a Capital Event to occur.

(e) ***Publication of Subsequent Fixed Interest Rates***

The Issuer shall cause notice of each Subsequent Fixed Interest Rate and the corresponding amount payable per Calculation Amount determined in accordance with this Condition 4 and the relevant dates scheduled for payment to be given to the Fiscal Agent, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 14 (*Notices*), the Holders of the Securities and the Coupons, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The relevant Subsequent Fixed Interest Rate and the dates scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(f) ***Agent Bank and Reset Reference Banks***

With effect from the first Reset Interest Determination Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided above where the Prevailing Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank is The Bank of New York Mellon, London Branch and its initial specified office is One Canada Square, London E14 5AL, United Kingdom.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Prevailing Interest Rate in respect of any Reset Period as provided in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*), the Issuer shall forthwith appoint another leading financial institution to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(g) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Fiscal Agent, the Paying Agents and all Holders and (in the absence of negligence, wilful default or fraud) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

5. **Optional Interest Deferral**

- (a) ***Deferral of Interest Payments:*** The Issuer may, subject as provided in Conditions 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) and 5(c) (*Optional*

Interest Deferral - Mandatory Settlement of Arrears of Interest) below, elect in its sole discretion to defer (in whole or in part) any Interest Payment that is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "**Deferral Notice**") of such election to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and not less than 7 Business Days prior to the relevant Interest Payment Date. Any Interest Payment that the Issuer has elected to defer pursuant to this Condition 5(a) and that has not been satisfied is referred to as a "**Deferred Interest Payment**".

If any Interest Payment is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being "**Arrears of Interest**"), at the relevant Prevailing Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the date on which such Deferred Interest Payment is paid in accordance with Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) or Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*) (as applicable), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred pursuant to this Condition 5(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

- (b) **Optional Settlement of Arrears of Interest:** Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time (the "**Optional Deferred Interest Settlement Date**") following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.
- (c) **Mandatory Settlement of Arrears of Interest:** Notwithstanding the provisions of Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*), the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14 (*Notices*), the Fiscal Agent and the Paying Agents not more than 14 and no less than 7 Business Days prior to the relevant Mandatory Settlement Date.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment was first deferred, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole but not in part) on the next following Interest Payment Date.

"**Mandatory Settlement Date**" means the earliest of:

- (i) as soon as reasonably practicable (but not later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;
- (ii) following any Deferred Interest Payment, on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the relevant Interest Period;

- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchases*) or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Defaults*); and
- (iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c).

A "**Compulsory Arrears of Interest Settlement Event**" shall have occurred if:

- (i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any such dividend, distribution or payment paid or made exclusively in Ordinary Shares of the Guarantor); or
- (ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

save, in the case of (a) any such Dividend Declaration or such redemption, repurchase or acquisition that is mandatory under the terms of any such Parity Obligations; (b) any Dividend Declaration in respect of any such dividend, distribution or payment by the Issuer to the Guarantor, (c) any Dividend Declaration or repurchase which is required to be validly resolved on, declared, paid or made in respect of, share option, or free share allocation plan in each case reserved for directors, officers and/or employees of the Guarantor or any of its Affiliates or any associated liquidity agreements or any associated hedging transactions; (d) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor as part of an intra-day transaction that does not result in an increase in the aggregate number of Ordinary Shares of the Guarantor held by or on behalf of the Guarantor as treasury shares at 8:30 a.m. Madrid time on the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred; (e) any repurchase or acquisition of Parity Obligations that is made for a consideration less than the aggregate nominal or par value of such Parity Obligations that are purchased or acquired; (f) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from mandatory obligations or hedging of any convertible securities issued by the Issuer or the Guarantor; or (g) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from the settlement of existing equity derivatives after the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

"**Dividend Declaration**" means the authorisation by resolution of the general meeting of shareholders or the board of directors or other competent corporate body (as the case may be) of the Issuer or the Guarantor (as applicable) of the payment, or the making of, a dividend or other distribution or payment (or, if no such authorisation is required, the payment, or the making of, a dividend or other distribution or payment).

6. **Redemption and Purchase**

- (a) **Final redemption:** Subject to any early redemption described below, the Securities are undated securities with no specified maturity date. The Securities may not be redeemed at the option of the Issuer other than in accordance with Conditions 6(b) (*Redemption and Purchase - Issuer's Call Option*), 6(c) (*Redemption and Purchase - Redemption for Taxation Reasons*), 6(d) (*Redemption and Purchase - Redemption for Accounting Reasons*), 6(e) (*Redemption and Purchase - Redemption for Rating Reasons*), or 6(f) (*Redemption and Purchase - Redemption following a Substantial Purchase Event*).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, (i) on any date during the Relevant Period, or (ii) on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

- (c) **Redemption for Taxation Reasons:** If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at (i) their Early Redemption Amount (in the case of a Tax Event if the Redemption Date falls prior to the start of the Relevant Period) or (ii) their principal amount (in the case of (a) a Withholding Tax Event or (b) a Tax Event if the Redemption Date falls on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (d) **Redemption for Accounting Reasons:** If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Reset Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (e) **Redemption for Rating Reasons:** If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the start of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the First Reset Date, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.
- (f) **Redemption following a Substantial Purchase Event:** If, immediately prior to the giving of the notice referred to below, a Substantial Purchase Event has occurred, then the Issuer may, subject to having given not less than 10 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14 (*Notices*), the Holders (which notice shall be irrevocable) and subject to Condition 6(g) (*Redemption and Purchase - Preconditions to Redemption*), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon expiry of such notice, the Issuer shall redeem the Securities.
- (g) **Preconditions to Redemption:** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b) (*Redemption and Purchase - Issuer's Call Option*)), the Guarantor shall:
- (i) deliver to the Fiscal Agent a certificate signed by two directors of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied;
 - (ii) in the case of a Tax Event or Withholding Tax Event deliver to the Fiscal Agent an opinion of independent legal or other tax advisers to the effect set out in paragraph (i) above;

- (iii) in the case of an Accounting Event, deliver to the Fiscal Agent the relevant opinion from the relevant accountancy firm; and
 - (iv) in the case of a Capital Event, deliver to the Fiscal Agent the relevant confirmation from the relevant Rating Agency.
- (h) **Purchase:** Each of the Issuer, the Guarantor and their respective subsidiaries may at any time purchase Securities in the open market or otherwise at any price (provided that, if they should be cancelled pursuant to this Condition 6(h), they are purchased together with all unmatured Coupons and all unexchanged Talons relating to them). The Securities so purchased may be held, re-issued or re-sold or, at the option of the relevant purchaser, surrendered to the Fiscal Agent for cancellation, but while held by or on behalf of the Issuer, the Guarantor or any such subsidiary, shall not entitle the holder to vote at any meetings of the Holders of Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of Securities or for the purposes of Condition 12 (*Meetings of Holders of Securities and Modification*).
- (i) **Cancellation:** All Securities so redeemed and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or re-sold.

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the aggregate principal amount of the Securities to be redeemed or repurchased does not exceed such part of the net proceeds received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by S&P, at the time of sale or issuance, an aggregate "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

- (i) the rating assigned by S&P to the Guarantor is the same as or higher than the long-term corporate credit rating assigned to the Guarantor on the date when the most recent additional hybrid security was issued (excluding refinancings) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
- (ii) in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the outstanding hybrid securities of the Group in any period of 10 consecutive years; or
- (iii) if the Securities are not assigned an "equity credit" by S&P (or such similar nomenclature then used by S&P at the time of such redemption or repurchase); or
- (iv) in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology; or
- (v) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event, a Substantial Purchase Event or a Withholding Tax Event; or
- (vi) such redemption or repurchase occurs on or after the Reset Date falling on 5 May 2047.

7. **Payments**

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Securities or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a euro account maintained by the payee with a bank in city in which banks have access to the TARGET System. Payments of interest due in respect of any Security other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Security.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.
- (c) **Unmatured Coupons:** Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer and the Guarantor may require.
- (d) **Exchange of Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).
- (e) **Payments on business days:** A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day that is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this Condition 7 falling after the due date. In this Condition "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open in the relevant city.
- (f) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent and (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London or an alternative European city (as the Issuer may select). Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14 (*Notices*).

8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges (collectively, "**Taxes**") of whatever nature imposed or levied by or on behalf of the Netherlands or the Kingdom of Spain or, in each case, any authority therein or thereof having power to tax (each a "**Taxing Authority**"), unless the withholding or deduction of such Taxes is required by law.

In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction of Taxes shall equal the respective amounts of principal and interest which would have been received in respect of the Securities or (as the case may be) Coupons, in the absence of such withholding or deduction of Taxes; except that no Additional Amounts shall be payable with respect to any payment in respect of any Security or Coupon or (as the case may be) under the Guarantee:

- (i) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon who is liable for Taxes in respect of such Security or Coupon by reason of his having some connection with the Netherlands or the Kingdom of Spain other than the mere holding of the Security or Coupon;
- (ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder or the beneficial owner thereof would have been entitled to such Additional Amounts on presenting the same for payment on the thirtieth such day;
- (iii) in relation to any estate, inheritance, gift, sales, transfer or similar Taxes;
- (iv) to, or to a third party on behalf of, a Holder or to the beneficial owner of any Security or Coupon if the Issuer or the Guarantor does not receive in a timely manner a duly executed and completed certificate from the Fiscal Agent, pursuant to the First Additional Provision of Law 10/2014, and Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July, and any implementing legislation or regulation;
- (v) where such withholding or deduction of Taxes is imposed, withheld or deducted by reason of the failure of the Holder or the beneficial owner of any Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such Holder or beneficial owner if such claim or compliance is required by the applicable tax laws and regulations of the relevant Taxing Authority as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by such relevant Taxing Authority;
- (vi) presented for payment in the Kingdom of Spain;
- (vii) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union (if any); or
- (viii) any taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 (FATCA) (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof.

In addition, Additional Amounts will not be payable with respect to (i) any Taxes that are imposed in respect of any combination of the items set forth above and to (ii) any Holder of any Security who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of the relevant Taxing Authority to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had it been the Holder.

- (b) ***Tax Credit Payment:*** If any Additional Amounts are paid by the Issuer or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder, in its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remissions for, or repayment of, any tax, then, if and to the extent that such Holder, in its sole opinion, determines that (i) such credit, relief, remission or repayment is in respect of or calculated with reference to the Additional Amounts paid pursuant to this Condition; and (ii) its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled, such Holder shall, to the extent that it can do so without prejudice to the retention of the

amount of such credit, relief, remission or repayment, pay to the Issuer or, as the case may be, the Guarantor such amount as such Holder shall in its sole opinion, determine to be the amount which will leave such Holder (after such payment) in no worse after tax position than it would have been in had the additional payment in question not been required to be made by the Issuer or, as the case may be, the Guarantor.

- (c) **Tax Credit Clawback:** If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this Condition and such Holder subsequently determines in its sole opinion, that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such Holder such amount as such Holder determines, in its sole opinion, is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.
- (d) **Tax Affairs:** Nothing in Conditions 8(b) (*Taxation - Tax Credit Payment*) and 8(c) (*Taxation - Tax Credit Clawback*) above shall interfere with the right of any Holder to arrange its tax or any other affairs in whatever manner it thinks fit, oblige any Holder to claim any credit, relief, remission or repayment in respect of any payment made under this Condition in priority to any credit, relief, remission or repayment available to it nor oblige any Holder to disclose any information relating to its tax or other affairs or any computations in respect thereof.
- (e) **Definitions:** References in these Conditions to (i) "Principal" shall be deemed to include all amounts in the nature of principal payable pursuant to Condition 7 (*Payments*) or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Arrears of Interest and all other amounts payable pursuant to Condition 4 (*Interest Payments*) or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any Additional Amounts.
- (f) **Applicable law for Spanish tax purposes:** The Guarantor will apply the First Additional Provision of Law 10/2014 to the Securities for Spanish tax purposes.

Payments in respect of the Securities and the Coupons by the Guarantor under the Guarantee will be exempt from Spanish Non-Resident Income Tax to the extent that the Holder or beneficial owner is not acting through a permanent establishment in Spain.

The Guarantor will comply with the reporting obligations set out in Section 4 of the First Additional Provision of Law 10/2014 in respect of Holders or beneficial owners who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax who hold the Securities through a permanent establishment located in Spanish territory.
- (g) **Substitute taxing jurisdiction:** If, pursuant to the Issuer's option under Condition 12(c) (*Substitution and Variation*), the Securities are exchanged for new securities of any wholly-owned direct or indirect finance subsidiary of the Guarantor that is subject to any taxing jurisdiction other than the Netherlands or Spain, respectively, references in these Conditions to the Netherlands or Spain shall be construed as references to the Netherlands or (as the case may be) Spain and/or such other jurisdiction.

9. **Enforcement Events and No Events of Default**

There are no events of default in respect of the Securities.

However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, or the Guarantor becomes insolvent (*en estado de insolvencia*) pursuant to article 2 of the Spanish insolvency law, any Holder of a Security, in respect of such Security and provided that such Holder does not contravene a previously adopted Extraordinary Resolution (if any) may, by written notice to the Issuer and the

Guarantor, declare that such Security and all interest then accrued but unpaid on such Security shall be forthwith due and payable, whereupon the same shall become immediately due and payable, together with all interest accrued thereon.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including the institution of proceedings for the declaration of insolvency (*declaración de concurso*) under Spanish insolvency law of the Guarantor and/or proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Each Holder may, at its discretion and without further notice, institute such proceedings as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor under the Securities or the Guarantee but in no event shall the Issuer or the Guarantor by the virtue of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9 shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or in respect of any other breach by the Issuer or the Guarantor of any of their respective other obligations under or in respect of the Securities or the Guarantee.

10. **Prescription**

Claims in respect of principal and interest or any other amount will become void unless presentation for payment is made as required by Condition 7 (*Payments*) within a period of 10 years in the case of principal (or any other amount in the nature of principal) and five years in the case of interest (or any other amount in the nature of interest, including Arrears of Interest) from the appropriate Relevant Date.

11. **Replacement of Securities and Coupons**

If any Security or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Guarantor and the Fiscal Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued. In case any such lost, stolen, mutilated, defaced or destroyed Coupon has become or is about to become due and payable, the Issuer in its discretion may, instead of delivering replacements therefore, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification, Substitution and Variation**

- (a) ***Meetings of Holders of Securities:*** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Securities to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Holders of Securities holding not less than one twentieth in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing at least two thirds of the aggregate principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders of Securities whatever the principal amount of the Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of Securities (whether or not they were present at the meeting at which such resolution was passed) and on all Holders of Coupons.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a

meeting of Holders of Securities duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders of Securities.

- (b) **Modification:** The Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of Securities to correct a manifest error or in accordance with Condition 4(d) (*Interest Payments - Benchmark Replacement*). No other modification may be made to the Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the Securities.

In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Holders of Securities, to any such modification unless, in the opinion of the Issuer and the Guarantor, (i) it is of a formal, minor or technical nature; (ii) it is made to correct a manifest error; or (iii) it is not materially prejudicial to the interests of the Holders of Securities.

- (c) **Substitution and Variation:** If at any time after the Issue Date the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, the Issuer may, as an alternative to an early redemption of the Securities, on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities (the "**Exchanged Securities**") into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor (a "**Substitute Issuer**") with a guarantee of the Guarantor, or (ii) vary the terms of the Securities (the "**Varied Securities**"), so that in either case (A) in the case of a Tax Event, in respect of (I) the Issuer's (or Substitute Issuer's) obligation to make any payment of interest under the Exchanged Securities or Varied Securities; or (II) the obligation of the Guarantor to make any payment of interest in favour of the Issuer (or Substitute Issuer) under the Subordinated Loan (or any replacement thereof between the Guarantor and Substitute Issuer), the Issuer, the Guarantor or the Substitute Issuer (as the case may be) is entitled to claim a deduction or a higher deduction (as the case may be) in respect of interest paid when computing its tax liabilities in the Netherlands, in Spain or in the taxing jurisdiction of the Substitute Issuer (as the case may be), as compared with the entitlement after the occurrence of the relevant Tax Event, (B) in the case of a Withholding Tax Event, in making any payments in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee (as defined below) the Issuer, the Guarantor or the Substitute Issuer are not required to pay a greater amount of Additional Amounts in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee, (C) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor, or (D) in the case of a Capital Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities on the Issue Date.

Any such exchange or variation shall be subject to the following conditions:

- (i) the Issuer giving not less than 10 nor more than 60 days' notice to the Fiscal Agent and the Holders in accordance with Condition 14 (*Notices*);
- (ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;

- (iii) the Issuer paying any outstanding Arrears of Interest in full prior to such exchange or variation;
 - (iv) the Exchanged Securities or Varied Securities shall: (A) rank at least *pari passu* with the ranking of the Securities prior to the exchange or variation, (B) have the benefit of a guarantee (the "**Exchanged or Varied Guarantee**") from the Guarantor on terms not less favourable to Holders than the terms of the Guarantee (as reasonably determined by the Issuer or Substitute Issuer and the Guarantor) and (C) benefit from the same or more favourable interest rates and the same Interest Payment Dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest or Arrears of Interest and any other amounts payable under the Securities which, in each case, has accrued to the Holders and has not been paid, the same rights to principal and interest, and, if publicly rated by S&P, Moody's and/or Fitch immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by each of S&P, Moody's and/or Fitch (as the case may be), as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer or Substitute Issuer and the Guarantor using reasonable measures available to it including discussions with S&P, Moody's and/or Fitch to the extent practicable) (D) shall not contain terms providing for the mandatory deferral of interest and (E) not contain terms providing for loss absorption through principal write-down or conversion to shares;
 - (v) the preconditions to redemption set out in Condition 6(g) having been satisfied and the terms of the exchange or variation (in the sole opinion of the Issuer or Substitute Issuer or the Guarantor, as the case may be) not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by two directors of the Guarantor, having consulted with an independent investment bank of international standing, and any such certificate shall, absent fraud or manifest error, be final and binding on all parties. However, a change in the governing law of the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons - Subordination of the Securities*) to the laws of the jurisdiction of incorporation of the Substitute Issuer, in connection with any substitution pursuant to Condition 12(c) (*Substitution and Variation*), shall be deemed not to be prejudicial to the interests of the Holders; and
 - (vi) the issue of legal opinions addressed to the Fiscal Agent (and which shall be made available to the Holders at the specified offices of the Fiscal Agent during usual office hours) from one or more international law firms of good reputation selected by the Issuer or the Guarantor and confirming (x) that each of the Issuer and the Guarantor has capacity to assume all rights, duties and obligations under the Exchanged Securities or Varied Securities and the Exchanged or Varied Guarantee (as the case may be) and has obtained all necessary corporate or governmental authorisation to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.
- (d) Notwithstanding Condition 8(a) (*Taxation - Additional Amounts*), if at any time after the Issue Date, the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on any payment under the Securities, the Issuer may on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor, or (ii) vary the terms of the Securities.
- (e) Any such exchange or variation set out in paragraph (d) above shall be subject to the fulfilment of the same conditions as described under Condition 12(c) (*Substitution and Variation*) in relation to Exchanged Securities or Varied Securities if a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred, except that the fulfilment of the preconditions to redemption set out in Condition 6(g) (*Pre-Conditions*

to Redemption) as required by Condition 12(c)(v) above shall be replaced by the delivery by the Guarantor to the Fiscal Agent of a certificate signed by two directors of the Guarantor and an opinion of independent tax advisers, in each case stating the Issuer is required to withhold on account of Taxes imposed or levied in the Netherlands on a payment under the Securities.

13. **Further Issues**

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Securities.

14. **Notices**

Notices to Holders of Securities will be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been validly given on the date of the first such publication or, if published more than once on the first date on which publication is made.

Notwithstanding the above, while all the Securities are represented by a Security in global form and such global form Security is deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Holders of Securities may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg in accordance with their respective rules and operating procedures, and such notices shall be deemed to have been given to Holders on the date of delivery to Euroclear and/or Clearstream, Luxembourg. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to the Holders of Securities in accordance with this Condition.

15. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

- (a) **Governing Law:** The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) (*Status and Subordination of the Securities and Coupons - Subordination of the Securities*) which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*), and the corresponding provisions of the Guarantee, which are governed by and construed in accordance with the laws of the Kingdom of Spain.
- (b) **Jurisdiction:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Securities or the Coupons (including a dispute relating to the existence, validity or termination of the Securities or any non-contractual obligations arising out of or in connection with the Securities or the consequences of their nullity). The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. This Condition is for the benefit of the Holders only. As a result,

nothing in this Condition 16 prevents any Holder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Holders may take concurrent Proceedings in any number of jurisdictions.

- (c) **Agent for Service of Process:** The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom, or, if different, its registered office for the time being or at any address of the Issuer in England at which process may be served on it. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Fiscal Agent and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England.

17. Definitions

In these Conditions:

"2013 Non-Call Securities" means the September 2013 8 Year Non-Call Securities and the November 2013 7 Year Non-Call Securities;

"2014 Non-Call Securities" means the March 2014 6 Year Non-Call Securities and the March 2014 10 Year Non-Call Securities;

"2016 Non-Call Securities" means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1490960942) issued by the Issuer on 15 September 2016 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"2017 Non-Call Securities" means the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1731823255) issued by the Issuer on 7 December 2017 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"2018 Non-Call Securities" means the EUR 1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406575) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor and the EUR 1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406658) issued by the Issuer on 22 March 2018 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"2019 Non-Call Securities" means the March 2019 Non-Call Securities and the September 2019 Non-Call Securities;

"30/360 Day Count" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period (such number of days being calculated on the basis of a 360 day year consisting of 12 months of 30 days each), divided by 360;

"7 Year Swap Rate" has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

"7 Year Swap Rate Quotations" has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

an **"Accounting Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, an opinion of a recognised accountancy firm of international standing, stating that, as a result of a change in

the accounting rules or methodology effective after the Issue Date, the Securities must not or must no longer be recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor;

"Additional Amounts" has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*);

"Adjustment Spread" means either a spread (which may be positive, negative or zero), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions or is in customary market usage in the debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or if the Issuer determines that no such industry standard is recognised or acknowledged); or
- (iii) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be);

"Alternative Rate" means an alternative benchmark or screen rate which the Issuer determines, following consultation with the Independent Adviser, has replaced the Original Reference Rate in customary market usage in the international swap markets for the purposes of determining rates of interest (or the relevant component part thereof) for the same interest period and in euros;

"Affiliates" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Guarantor;

"Arrears of Interest" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

"Benchmark Amendments" has the meaning given to it in Condition 4(d)(iv) (*Interest Payments - Benchmark Replacement*);

"Benchmark Event" means:

- (i) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (ii) a public statement by the administrator of the Original Reference Rate that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or

- (v) a public statement by the supervisor of the administrator of the Original Reference Rate that, in the view of such supervisor, such Original Reference Rate is no longer representative of an underlying market; or
- (vi) it has or will become unlawful for any Paying Agent, Fiscal Agent, Agent Bank, the Issuer, the Guarantor or other party to calculate any payments due to be made to any Holder using the Original Reference Rate.

"**business day**" has the meaning given to it in Condition 7(e) (*Payments - Payments on business days*);

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which the Target System is operating;

"**Calculation Amount**" has the meaning given to it in Condition 4(b) (*Interest Payments - Interest Accrual*);

a "**Capital Event**" shall be deemed to occur if the Issuer or the Guarantor has received (directly or via publication by such Rating Agency), and notified the Holders in accordance with Condition 14 (*Notices*) that it has so received, confirmation from any Rating Agency that, due to any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date; the Securities will no longer be eligible (or if the Securities have been partially re-financed since the Issue Date and are no longer eligible for equity credit in part or in full as a result, the Securities would no longer have been eligible as a result of such amendment, clarification, change in methodology or change in the interpretation had they not been re-financed), in whole or in part, for the same or a higher amount of "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date (or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time);

"**Compulsory Arrears of Interest Settlement Event**" has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

"**Condition**" means the terms and conditions of the Securities;

"**Deferral Notice**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

"**Deferred Interest Payment**" has the meaning given to it in Condition 5(a) (*Optional Interest Deferral - Deferral of Interest Payments*);

"**Dividend Declaration**" has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

"**Early Redemption Amount**" means in respect of a redemption of the Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such Securities;

"**First Reset Date**" means 5 May 2027;

"**Fitch**" means Fitch Ratings Limited;

"**Further Securities**" means any Securities issued pursuant to Condition 13 (*Further Issues*) and forming a single series with the outstanding Securities;

"**Group**" mean the Guarantor and its consolidated subsidiaries;

"**Guarantor**" means Telefónica, S.A.;

"**Holder**" has the meaning given to it in Condition 1(b) (*Form, Denomination and Title - Title*);

"IFRS-EU" means International Financial Reporting Standards, as adopted by the European Union;

"Independent Adviser" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer (at its own expense) under Condition 4(d) (*Interest Payments - Benchmark Replacement*);

"Interest Payment" means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the relevant Coupon for the relevant Interest Period in accordance with Condition 4 (*Interest Payments*);

"Interest Payment Date" means 5 May in each year;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Issue Date" means 5 February 2020;

"Issuer" means Telefónica Europe B.V.;

"Issuer Winding-up" means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer, except for the purposes of a solvent merger, reconstruction or amalgamation, or (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days;

"Junior Obligations" means the Junior Obligations of the Guarantor and the Junior Obligations of the Issuer;

"Junior Obligations of the Guarantor" means all obligations of the Guarantor issued or incurred directly or indirectly by it which rank or are expressed to rank junior to the Guarantee, including Ordinary Shares of the Guarantor and any other shares (*acciones*) in the capital of the Guarantor (and, if divided into classes, each class thereof);

"Junior Obligations of the Issuer" means all obligations of the Issuer, issued or incurred directly or indirectly by it, which rank or are expressed to rank junior to the Securities, including (i) Ordinary Shares of the Issuer and (ii) Preferred Shares of the Issuer, if any;

"Law 10/2014" means Law 10/2014 of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervisión y solvencia de entidades de crédito*);

"March 2014 6 Year Non-Call Securities" means the EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1050460739) issued by the Issuer on 31 March 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"March 2014 10 Year Non-Call Securities" means the EUR 1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1050461034) issued by the Issuer on 31 March 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"March 2019 Non-Call Securities" means the EUR 1,300,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1933828433) issued by the Issuer on 14 March 2019 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c) (*Optional Interest Deferral - Mandatory Settlement of Arrears of Interest*);

"**Moody's**" means Moody's Investors Service Limited;

"**November 2013 7 Year Non-Call Securities**" means the £600,000,000 Undated 7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0997326441) issued by the Issuer on 26 November 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor, as amended by an Extraordinary Resolution of the holders adopted at a meeting held on 10 July 2014;

"**Optional Deferred Interest Settlement Date**" has the meaning given to it in Condition 5(b) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*);

"**Ordinary Shares of the Guarantor**" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of EUR 1.00 each;

"**Ordinary Shares of the Issuer**" means ordinary shares in the capital of the Issuer, having on the Issue Date a nominal amount of EUR 460.00 each;

"**Original Reference Rate**" means EURIBOR;

"**Parity Obligations**" means the Parity Obligations of the Guarantor and the Parity Obligations of the Issuer;

"**Parity Obligations of the Guarantor**" means any and all present or future series of preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor in accordance with the First Additional Provision of Law 10/2014, obligations equivalent to preferred securities (*participaciones preferentes*) issued directly by the Guarantor or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor (whether issued under the First Additional Provision of Law 10/2014 or any other law or regulation of Spain or of any other jurisdiction) and obligations of the Guarantor, issued directly by it or indirectly through a wholly-owned subsidiary with the guarantee of the Guarantor, which rank or are expressed to rank *pari passu* with the Guarantee (which include the guarantees granted by the Guarantor in connection with the 2019 Non-Call Securities, the 2018 Non-Call Securities, the 2017 Non-Call Securities, the 2016 Non-Call Securities, the 2014 Non-Call Securities and the 2013 Non-Call Securities);

"**Parity Obligations of the Issuer**" means any obligations of the Issuer, issued or incurred directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities including (i) the 2019 Non-Call Securities, (ii) the 2018 Non-Call Securities, (iii) the 2017 Non-Call Securities, (iv) the 2016 Non-Call Securities, (v) the 2014 Non-Call Securities and (vi) the 2013 Non-Call Securities;

"**Preferred Shares of the Issuer**" means any preference shares in the capital of the Issuer (and, if divided into classes, each class thereof);

"**Prevailing Interest Rate**" means the rate of interest payable on the Securities applicable from time to time pursuant to Condition 4 (*Interest Payments*);

"**Proceedings**" has the meaning given to it in Condition 16(b) (*Governing Law - Jurisdiction*);

"**Rating Agency**" means S&P, Moody's or Fitch or, in each case, any successor to the rating agency business thereof;

"**Redemption Date**" means the date fixed for redemption of the Securities pursuant to Condition 6 (*Redemption and Purchase*);

"**Relevant Date**" means (i) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or Guarantor, as the case may be, the date on which such payment first becomes due and payable, but if the full amount of moneys payable on such date has not been received by the Fiscal Agent on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders of Securities in accordance with Condition 14 (*Notices*) and (ii) in respect of a sum to be paid by the Issuer or the Guarantor in a winding-up or

administration of the Issuer or the Guarantor, as the case may be, the date that is one day prior to the date on which an order is made or a resolution is passed for the winding-up, or in the case of an administration, one day prior to the date on which any dividend is distributed;

"Relevant Nominating Body" means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof;

"Relevant Period" means the period commencing on (and including) 5 February 2027 and ending on (and including) the First Reset Date;

"Reset Date" means the First Reset Date and each date falling on the seventh anniversary thereafter;

"Reset Interest Determination Date" means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period;

"Reset Period" means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date;

"Reset Reference Banks" has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

"Reset Screen Page" has the meaning given to it in Condition 4(c) (*Interest Payments - Prevailing Interest Rate*);

"S&P" means S&P Global Ratings Europe Limited;

"Senior Obligations of the Guarantor" means all obligations of the Guarantor, including subordinated obligations of the Guarantor according to Spanish insolvency law, other than Parity Obligations of the Guarantor and Junior Obligations of the Guarantor;

"Senior Obligations of the Issuer" means all obligations of the Issuer, including subordinated obligations of the Issuer according to Dutch insolvency law, other than Parity Obligations of the Issuer and Junior Obligations of the Issuer;

"September 2013 8 Year Non-Call Securities" means the EUR 625,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972588643) issued by the Issuer on 18 September 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor, as amended by an Extraordinary Resolution of the holders adopted at a meeting held on 10 July 2014;

"September 2019 Non-Call Securities" means the EUR 500,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS2056371334) issued by the Issuer on 24 September 2019 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 5 February 2020, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

"Subsequent Fixed Interest Rate" has the meaning given to it in Condition 4(c)(ii) (*Interest Payments - Prevailing Interest Rate*);

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 75 per cent. of the aggregate principal amount of the Securities originally issued (which for these purposes shall include any Further Securities) is purchased by the Issuer, the Guarantor or any subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(i) (*Redemption and Purchase - Cancellation*));

"Successor Rate" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body;

"Target System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

a **"Tax Event"** shall be deemed to have occurred if, as a result of a Tax Law Change, in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of the Guarantor to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or the Guarantor (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

For the avoidance of doubt, a Tax Event shall not occur if payments of interest under the Subordinated Loan by the Guarantor are not deductible in whole or in part for Spanish corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 16 of Law 27/2014 dated 27 November 2014, on Corporate Income Tax, as at 28 January 2020;

"Tax Law Change" means a change in or proposed change in, or amendment to, or proposed amendment to, the laws or regulations of the Netherlands or Spain or, in either case, any political subdivision or any authority thereof or therein having power to tax, including, without limitation, any treaty to which the Netherlands or Spain is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretations thereof that differs from the previously generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes or would become, effective after 28 January 2020;

"Taxes" has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*);

"Taxing Authority" has the meaning given to it in Condition 8(a) (*Taxation - Additional Amounts*); and

a **"Withholding Tax Event"** shall be deemed to occur if as a result of a Tax Law Change, in making any payments in respect of the Securities or the Guarantee the Issuer or the Guarantor has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts in respect of the Securities or the Guarantee that cannot be avoided by the Issuer or the Guarantor, as the case may be, taking measures reasonably available to it.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES IN GLOBAL FORM

The Securities will initially be in the form of the Temporary Global Security which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg.

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

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

The Permanent Global Security will become exchangeable in whole, but not in part, for Securities in definitive form ("**Definitive Securities**") in the denomination of EUR 100,000 each at the request of the bearer of the Permanent Global Security if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) if principal in respect of any of the Securities is not paid when due and payable.

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

If:

- (a) the Temporary Global Security is not duly exchanged, whether in whole or in part, for the Permanent Global Security by 5.00 p.m. (London time) on the thirtieth day after the time at which the preconditions to such exchange are first satisfied; or
- (b) Definitive Securities have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Security for Definitive Securities; or
- (c) the Temporary or Permanent Global Security (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Securities has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary or Permanent Global Security on the due date for payment,

then the relevant Global Security (including the obligation to deliver Definitive Securities) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) and (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above), and the bearer of such Global Security will have no further rights thereunder (but without prejudice to the rights which the bearer of the Global Security or others may have under a deed of covenant dated 5 February 2020 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the relevant Global Security will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Global Security becomes void, they had been the holders of Definitive Securities in an aggregate principal amount equal to the principal amount of Securities they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Security and the Permanent Global Security will contain provisions which modify the Conditions as they apply to such Temporary Global Security and Permanent Global Security. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Security and the Permanent Global Security will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Security or (as the case may be) the Permanent Global Security

to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Securities. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Security or (as the case may be) the Permanent Global Security, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Security or the Permanent Global Security "**business day**" means any day on which the TARGET System is open.

Notices: While all the Securities are represented by the Permanent Global Security (or by the Temporary Global Security) and the Permanent Global Security (or the Temporary Global Security) is deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Holders of the Securities: (i) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 14 (*Notices*) of the Securities on the date of delivery to Euroclear and Clearstream, Luxembourg, and (ii) shall also be published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are listed/and or admitted to trading.

FORM OF GUARANTEE

The text of the Deed of Guarantee is as follows:

This Deed of Guarantee is made on 5 February 2020

BY

- (1) TELEFÓNICA, S.A. (the "**Guarantor**")

IN FAVOUR OF

- (2) THE HOLDERS of any Security or Securities (as defined below) or the coupons relating to them; and
- (3) THE RELEVANT ACCOUNT HOLDERS (as defined in the Deed of Covenant described below).

WHEREAS

- (A) Telefónica Europe B.V. (the "**Issuer**") proposes to issue EUR 500,000,000 Undated 7.25 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**Securities**", which expression shall, if the context so admits, include the Global Securities (whether in temporary or permanent form)) in connection with which, the Issuer and Guarantor have become parties to a fiscal agency agreement (the "**Fiscal Agency Agreement**") dated 5 February 2020 between, inter alios, the Issuer, the Guarantor and The Bank of New York Mellon, London Branch in its various capacities as set out therein relating to the Securities, and the Issuer has executed and delivered a deed of covenant (the "**Deed of Covenant**") dated 5 February 2020.
- (B) The Guarantor has duly authorised the giving of a guarantee on a subordinated basis in respect of the Securities and the Deed of Covenant.

THIS DEED WITNESSES as follows:

1. Interpretation

- 1.1 All terms and expressions which have defined meanings in the Conditions (as defined in the Deed of Covenant), the Fiscal Agency Agreement or the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.
- 1.2 Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.
- 1.3 All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Fiscal Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.
- 1.4 Any reference in this Deed of Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.
- 1.5 Clause headings are for ease of reference only.

2. Guarantee and Indemnity

- 2.1 The Guarantor hereby unconditionally and irrevocably guarantees on a subordinated basis:
- 2.1.1 to each Holder the due and punctual payment of all sums expressed to be payable from time to time by the Issuer in respect of any Security as and when the same become due and payable and accordingly undertakes to pay to such Holder, forthwith in the manner and currency prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay in respect of such

Security in accordance with the Conditions of the Securities and which the Issuer has failed to pay; and

2.1.2 to each Relevant Account Holder the due and punctual payment of all sums which become payable from time to time by the Issuer to such Relevant Account Holder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Relevant Account Holder, forthwith in the manner and currency prescribed by the Conditions of the Securities for payments by the Issuer thereunder, any and every sum or sums which the Issuer is at any time liable to pay to such Relevant Account Holder in respect of the Direct Rights in accordance with the Deed of Covenant and which the Issuer has failed to pay.

2.2 The Guarantor undertakes to each Holder and each Relevant Account Holder that, should any amount referred to in Clause 2.1 not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Security, any provision of any Security, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, forthwith upon demand by such Holder or Relevant Account Holder, pay such sum by way of a full indemnity in the manner and currency prescribed by the Securities or (as the case may be) the Deed of Covenant. This indemnity constitutes a separate and independent obligation from the other obligations under this Guarantee and shall give rise to a separate and independent cause of action.

3. **Taxes**

The Guarantor covenants in favour of each Holder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken by it in Condition 8 (*Taxation*).

4. **Preservation of Rights**

4.1 The obligations of the Guarantor herein contained shall be deemed to be undertaken as principal debtor.

4.2 The obligations of the Guarantor herein contained shall be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under any Security or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Securities and under the Deed of Covenant have been paid, and all other obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

4.3 Neither the obligations expressed to be assumed by the Guarantor herein contained nor the rights, powers and remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 the winding up, bankruptcy, moratorium or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

4.3.2 any of the obligations of the Issuer under any of the Securities or the Deed of Covenant being or becoming illegal, invalid or unenforceable; or

4.3.3 time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under any of the Securities or the Deed of Covenant; or

4.3.4 any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Securities or the Deed of Covenant; or any other act, event or omission which, but for this Clause 4.3, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.

- 4.4 Any settlement or discharge between the Guarantor and the Holders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.
- 4.5 No Holder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:
- 4.5.1 to make any demand of the Issuer, other than (in the case of a Holder) the presentation of the relevant Security; or
- 4.5.2 to take any action or obtain judgment in any court against the Issuer; or
- 4.5.3 to make or file any claim or proof in a winding-up or dissolution of the Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Security, presentment, demand and protest and notice of dishonour.
- 4.6 The Guarantor agrees that so long as any amounts are or may be owed by the Issuer under any of the Securities or the Deed of Covenant or the Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:
- 4.6.1 to claim any contribution from any other guarantor of the Issuer's obligations under the Securities or the Deed of Covenant; and/or
- 4.6.2 to take the benefit, in whole or in part, of any security enjoyed in connection with, any of the Securities or the Deed of Covenant issued by the Issuer, by any Holder or Relevant Account Holder; and/or
- 4.6.3 to be subrogated to the rights of any Holder or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor under this Deed of Guarantee.
5. **Conditions, Status and Subordination**
- 5.1 The Guarantor undertakes to comply with and be bound by those provisions of the Conditions which relate to it and which are expressed to relate to it.
- 5.2 The Guarantor undertakes that its obligations hereunder rank, and will at all times rank, as described in Condition 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*).
- 5.3 In the event of the Guarantor being declared in insolvency ("*concurso*") under Spanish insolvency law, the provisions of Condition 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*) shall apply.

6. **Delivery of Deed of Guarantee**

A duly executed original of this Guarantee shall be delivered promptly after execution to the Fiscal Agent and such original shall be held to the exclusion of the Guarantor until the date on which complete performance by the Guarantor of the obligations contained in this Guarantee and in the Securities occurs. A certified copy of this Guarantee may be obtained by any Holder or any Relevant Account Holder from the Fiscal Agent at its specified office at the expense of such Holder or Relevant Account Holder. Any Holder or Relevant Account Holder may protect and enforce his rights under this Guarantee (in the courts specified in Clause 11 below) upon the basis described in the Deed of Covenant (in the case of a Relevant Account Holder) and a copy of this Guarantee certified as being a true copy by a duly authorised officer of the Issuer and Paying Agent without the need for production in any court of the actual records described in the Deed of Covenant or this Guarantee. Any such certification shall be binding, except in the case of manifest error or as may

be ordered by any court of competent jurisdiction, upon the Guarantor and all Holders and Relevant Account Holders. This Clause shall not limit any right of any Holder or Relevant Account Holder to the production of the originals of such records or documents or this Guarantee in evidence.

7. **Deed Poll; Benefit of Guarantee**

7.1 This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Holders and the Relevant Account Holders from time to time.

7.2 The obligations expressed to be assumed by the Guarantor herein shall enure for the benefit of each Holder and Relevant Account Holder, and each Holder and each Relevant Account Holder shall be entitled severally to enforce such obligations against the Guarantor.

7.3 The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Holders.

8. **Provisions Severable**

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby

9. **Notices**

9.1 All communications to the Guarantor hereunder shall be made in writing (by letter, telex or fax) and shall be sent to the Guarantor at:

Address: Distrito Telefónica
Edificio Central
c/ Ronda de la Comunicación, s/n
28050 Madrid
Spain

Fax: + 34 91 727 1397
Attention: Carlos David Maroto Sobrado

or to such other address or fax number or for the attention of such other person or department as the Guarantor has notified to the Holders in the manner prescribed for the giving of notices in connection with the Securities.

9.2 Every communication sent in accordance with Clause 9.1 shall be effective upon receipt by the Guarantor; and **provided, however, that** any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

10. **Law and Jurisdiction**

10.1 **Governing Law:** This Deed of Guarantee and all non-contractual obligations arising from or connected with it, are governed by and shall be construed in accordance with English law, except for the provisions of Conditions 3(b) (*Guarantee, Status and Subordination of the Guarantee - Status of the Guarantee*) and 3(c) (*Guarantee, Status and Subordination of the Guarantee - Subordination of the Guarantee*) referred to in Clauses 5.2 and 5.3, respectively, which shall be governed by and construed in accordance with Spanish law.

10.2 **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.

10.3 **Appropriate forum:** The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

- 10.4 ***Rights of the Holders and Relevant Account Holders:*** Clause 10.2 (*English courts*) is for the benefit of the Holders and the Relevant Account Holders only. As a result, nothing in this Clause 10 (*Law and jurisdiction*) prevents the Holders and Relevant Account Holders from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Holders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.
- 10.5 ***Process agent:*** The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to, Telefónica Digital Limited, 20 Air Street, London W1B 5AN, United Kingdom or, if different, its registered office for the time being or at any address of the Guarantor in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Holder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Holder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England.

IN WITNESS whereof this Deed has been signed as a deed by the Guarantor and is hereby delivered on the date first above written.

SIGNED as a **DEED** and **DELIVERED**)
on behalf of Telefónica, S.A.)
a company incorporated in the Kingdom of Spain)
by:)
.....)
being a person who, in accordance with)
the laws of that territory are acting under)
the authority of the company)

USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The net proceeds of the issue of the Securities, expected to amount to EUR 497,250,000, will be allocated towards eligible green investments ("**Green Projects**"), mainly energy efficiency in the network transformation from copper to fiber optic in Spain and also self-generation of renewable energy. Investments consist of shutting down legacy units, upgrading the network infrastructure and placement optimisation.

Eligible green investments refer to new investments made after issuance as well as the refinancing of any investments made in the period of 3 years prior to issuance of the Securities.

Telefónica's SDG Framework dated November 2018 (the "**SDG Framework**") is available at:

<https://www.telefonica.com/documents/162467/144347968/Telefonica-Framework-Green-Social-Bonds.pdf/2dd6c081-c50b-a840-975d-31647fd2a2b6>.

The Second-Party Opinion from Sustainalytics B.V. dated 27 November 2018 (the "**Second-Party Opinion**") is available at:

<https://www.telefonica.com/documents/162467/144347968/Telefonica-SDG-Framework-Second-Party-Opinion.pdf/2854658e-7af0-a0cd-8ff1-11c2f3d3a36d>.

For the avoidance of doubt, neither the SDG Framework nor the Second-Party Opinion are, nor shall either of them be deemed to be, incorporated in, and/or form part of, this Prospectus.

DESCRIPTION OF THE ISSUER

Introduction

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

Business

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

Directors

The Directors of the Issuer are as follows:

Name	Principal occupation	Principal External Activities
Carlos David Maroto Sobrado.....	Director	Head of Financing at the Guarantor Director of Telefónica Participaciones, S.A.U. Director of Telefónica Emisiones, S.A.U.
Javier Campillo Diaz.....	Director	Head of International Securities Markets at the Guarantor
Maria Christina van der Sluijs-Plantz.....	Director	Director of Soualiga B.V. Industry Adviser at JZ International Member of the Council of State of the Kingdom of the Netherlands
Jose Miguel Hernández Rabbat.....	Director	Managing Director of Telfisa Global B.V.

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

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

Auditors

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

DESCRIPTION OF THE GUARANTOR

Introduction

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

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

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

Recent Developments

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

- On 23 January 2019, Telefónica announced that Telefónica UK Limited had agreed non-binding heads of terms with Vodafone Limited to strengthen their existing network sharing partnership in the United Kingdom. The parties plan to extend the term of their existing network sharing partnership and include 5G capacity at joint radio network sites, and to upgrade transmission networks to support 5G technology. They also intend to devolve more activities to their joint venture company, Cornerstone Telecommunications Infrastructure Limited, which manages passive tower infrastructure.
- On 23 January 2019, Telefónica announced that it was notified of a resolution issued by the Spanish Central Economic-Administrative Tax Court (*Tribunal Económico-Administrativo Central*) partially upholding the claims filed against the assessments relating to the 2008-2011 Corporate Income Tax Audit. Final execution on this resolution will most likely lead to a tax refund related to overpayments made by Telefónica in those tax years. This resolution is not final. At this point in time, it is not possible to quantify the exact amount of the expected refunds since, as pointed out by the Central Economic-Administrative Court's resolution, the final amount shall only be settled once the resolution is duly executed by the Spanish Tax Authorities. For further information see "*Tax Proceedings - Inspections in the tax group in Spain*" below.
- On 24 January 2019, Telefónica Centroamérica Inversiones, S.L. (60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. of which is owned by Corporación Multi Inversiones), reached an agreement with América Móvil, S.A.B. de C.V. for the sale of the entire share capital of Telefónica Móviles Guatemala, S.A. and 99.3 per cent. of Telefónica Móviles El Salvador, S.A. de C.V. The closing of the Telefónica Móviles El Salvador sale is subject to applicable regulatory conditions while the sale of Telefónica Móviles Guatemala was completed on such date.

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

- On 5 February 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its Guaranteed Euro Programme for the Issuance of Debt Instruments (the

"**EMTN Programme**"). These notes are due on 5 February 2024, pay an annual coupon of 1.069 per cent. and were issued at par (100 per cent.). The net proceeds of the notes are to be allocated towards projects aiming to improve energy efficiency in the network transformation from copper to fiber optic in Spain.

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

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

- On 21 February 2019, Telefónica filed with the United States Securities and Exchange Commission its annual report on 20-F for the year ended 31 December 2018.
- On 1 March 2019, Telefónica Emisiones S.A.U. issued U.S.\$1,250 million notes guaranteed by the Guarantor under its US Debt Registered Program (filed with the United States Securities and Exchange Commission on 20 April 2018). These notes are due on 1 March 2049, with a coupon of 5.520 per cent., payable semi-annually, issued at par (100 per cent.).
- On 12 March 2019, Telefónica Emisiones, S.A.U. issued EUR 1,000 million notes guaranteed by the Guarantor under its EMTN Programme. These notes are due 12 March 2029, pay an annual coupon of 1.788 per cent. and were issued at par (100 per cent.).
- In March 2019, the Issuer executed an operation to proactively manage its hybrid capital composed of: (a) a new issue amounting to EUR 1,300 million; and (b) a tender offer on two hybrid instruments with first call dates in December 2019 and March 2020, respectively. The issuer accepted the purchase in cash of any and all of the bonds involved in the tender offer and immediately thereafter these were repurchased and cancelled. The new issue closed on 14 March 2019 and the tender offer settled thereafter on 15 March 2019. Following this, the Issuer, according with the terms of the instrument, exercised the clean up call for the total redemption of the hybrid with first call date in December 2019.
- On 15 March 2019, Telefónica announced that it was notified an Execution Notice issued by the *Agencia Estatal de Administración Tributaria* in connection with the *Tribunal Económico-Administrativo Central* Resolution partially upholding the claims filed against the assessments pertaining 2008-2011 Corporate Income Tax Audit. Said Execution Notice orders a EUR 702 million refund to Telefónica pertaining to overpayments made by it in those tax years. Telefónica filed an appeal with the Central Economic-Administrative Court against the execution notice based, among other reasons, on the lack of inclusion of delayed interest. For further information see "*- Tax Proceedings - Inspections in the tax group in Spain*" below.
- On 8 May 2019, Telefónica reached an agreement for the sale of a portfolio of 11 data centres located in seven jurisdictions (Spain, Brazil, USA, Mexico, Peru, Chile and Argentina) with a

company controlled by Asterion Industrial Partners SGEIC ("**Asterion**") for a total amount of EUR 550 million. The sale agreement includes the signing of a contract for the provision of housing services to the Telefónica Group, which guarantees that Telefónica will continue to provide services to its clients in those data centres with the same quality and the same conditions. The closing of the transaction will take place in a period of approximately two months, except for four data centres where the effective transfer is subject to several authorisations and administrative procedures.

- On 16 May 2019, Telefónica announced that, after obtaining the relevant regulatory approvals, Telefónica Centroamérica Inversiones, S.L., 60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. by Corporación Multi Inversiones, transferred the entire share capital of Telefonía Celular de Nicaragua, S.A. to Millicom International Cellular, S.A. for an amount of U.S.\$437 million (approximately EUR 390 million at the exchange rate on 16 May 2019).
- On 7 June 2019, the Annual General Shareholders' Meeting of Telefónica was held at second call with the attendance, present or represented, of shareholders holding shares representing 54.65 per cent. of the share capital of Telefónica. All the resolutions submitted were approved at the meeting.

Furthermore, Telefónica announced that the Annual General Shareholders' Meeting had agreed a dividend distribution in cash charged to unrestricted reserves, by means of a payment of a fixed gross amount of EUR 0.40 during 2019, payable in two tranches, for each existing Telefónica share and carrying entitlement to this distribution on the following dates: the first payment in cash of a gross amount of EUR 0.20 per share on 20 June 2019; the second payment in cash of a gross amount of EUR 0.20 per share on 19 December 2019.

- On 12 June 2019, as part of the 5G frequency auction which concluded in Germany, Telefónica Germany GmbH & Co. OHG acquired a total of 90 MHz spectrum at a total cost of EUR 1,425 million. The acquired spectrum is as follows: (i) 2 paired blocks in the 2.1 GHz band, and (ii) 7 unpaired blocks in the 3.6 GHz band.

The Federal Network Agency will formally allocate the spectrum with effect on 1 January 2021 for 1 block of the 2.1 GHz spectrum and on 1 January 2026 for the other block. The 3.6 GHz spectrum will be made available gradually over the next few years and fully from 2022 onwards. All of the acquired spectrum will mature in 2040.

- On 25 July 2019, Telefónica announced the transfer of nine data centres located in six jurisdictions (Spain, Brazil, Mexico, Peru, Chile and Argentina) to a company controlled by Asterion for a total amount of EUR 472 million. According to the agreement reached with Asterion on 8 May 2019 (as described above), one further data centre remains to be transferred as this is subject to several authorisations and administrative procedures.
- On 29 August 2019, Telefónica announced that, after obtaining the relevant regulatory approvals, Telefónica Centroamérica Inversiones, S.L., 60 per cent. of which is owned, directly and indirectly, by Telefónica and 40 per cent. by Corporación Multi Inversiones, transferred the entire share capital of Telefónica Móviles Panamá, S.A. to Cable Onda S.A., a subsidiary of Millicom International Cellular, S.A., for an amount of U.S.\$594 million (approximately EUR 536 million at the exchange rate on 29 August 2019).
- On 10 September 2019, Telefónica announced that its Board of Directors acknowledged the work carried out in relation to the project concerning the different options to monetise its current portfolio of telecommunications towers and agreed to continue with the study and analysis of said project.
- On 10 September 2019, Telefónica announced that its Board of Directors was informed of the proposal that Telefónica España was going to submit to its largest trade unions in relation to the negotiation of the II Collective Agreement of Related Companies, from the perspective of adapting the staff towards a more digital company and to be prepared for future challenges.

The proposal contains an overall resources plan based on:

- (i) evolution of the Collective Agreement of Related Companies, in order to have a framework of employment stability with greater flexibility and continue advancing on work-life balance and diversity, including, among other proposals, an "Individual Suspension Plan" (the "**Plan**") which is entirely voluntary for 2019 (with the same conditions as the previous one). The cost of the Plan was estimated to be approximately EUR 1,600 million before taxes, and the run rate of savings in direct expenses approximately EUR 220 million from 2021. In any case, the impact on cash generation would be positive from the first year, although it will depend on the final negotiated conditions and the degree of adherence to the Plan; and
- (ii) training, reskilling and upskilling plan which enables to improve the current staff capabilities and take advantage of their potential, focusing on new business needs (digitisation, robotisation and processes automation) which will enable generation of additional efficiencies.

On 27 November 2019, Telefónica España signed said II Collective Agreement of Related Companies, wholly backed by the largest trade unions.

- On 18 September 2019, Telefónica announced that it reached an agreement with Prosegur Compañía de Seguridad, S.A. for the acquisition of a 50 per cent. stake in Prosegur's alarm business in Spain, with the objective of developing said business through the combination of the complementary capabilities of both companies. The transaction, which must be submitted for approval by the appropriate authorities, represents a valuation of 50 per cent. of Prosegur's alarm business in Spain of EUR 300 million, subject to the standard adjustments in this type of transaction on debt, working capital and existing customers at the time of the closing of the transaction. In accordance with the provisions of the abovementioned agreement, Telefónica has the option to pay the price, in whole or in part, in treasury shares.
- On 24 September 2019, the Issuer issued EUR 500,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of the Guarantor.
- On 21 November 2019, Telefónica announced that Telefónica's Mexico subsidiary, Pegaso PCS S.A. de C.V. ("Telefónica Mexico") had signed an agreement with AT&T Comunicaciones Digitales, S. de R.L. de C.V. ("AT&T Mexico") for a minimum period of 8 years, under which AT&T Mexico will provide wholesale last-mile wireless access to Telefónica Mexico. Telefónica Mexico will gradually migrate its traffic to AT&T Mexico's access network and will continue to operate as an independent operator by maintaining substantial elements of its own network infrastructure and platforms.
- On 27 November 2019, Telefónica announced that its Board of Directors had approved, at the proposal of its Chairman and CEO Mr. José María Álvarez Pallete, a new action plan that will serve as catalyst for the transformation of Telefónica. The plan seeks to prioritise markets where Telefónica can be relevant and grow sustainably in the long term, boost its growth potential while leveraging the value of its infrastructure, increase agility and improve efficiency.

The new action plan will be implemented around five strategic decisions: (i) focus investment and growth in the most important markets of Telefónica: Spain, Brazil, the UK and Germany; (ii) the creation of Telefónica Tech; (iii) the creation of Telefónica Infra; (iv) an operational spin-off of Hispanoamérica in a single unit; and (v) redefinition of Telefónica's corporate centre.

- On 18 December 2019, Telefónica resolved to adopt the following resolutions:
 - To take note of the voluntary resignation presented to the position of Directors of Telefónica, S.A. by Mr. Wang Xiaochu and by Mr. Luiz Fernando Furlán, appreciating the services rendered to Telefónica during their tenure.
 - To appoint by co-optation Ms. Claudia Sender Ramírez and Ms. Verónica Pascual Boé, as Independent Directors of Telefónica, S.A. upon the proposal of the Nominating, Compensation and Corporate Governance Committee.

- The Independent Director Mr. José Javier Echenique Landiribar will hold one of the three vice-chairmanships of the Board of Directors.
- With the abstention of the Executive Directors and upon proposal of the Nominating, Compensation and Corporate Governance Committee, to appoint Mr. José Javier Echenique Landiribar as Lead Independent Director, in replacement of the Director Mr. Francisco Javier de Paz Mancho (who changes into the category of "Other External").
- To amend the Regulation of the Board of Directors of Telefónica, S.A. as follows: (i) matters related to Reputation, Corporate Responsibility and Sustainability, until now the competence of the Regulation and Institutional Affairs Committee, become the responsibility of the Service Quality and Customer Service Committee; and (ii) to change the name of the Service Quality and Customer Service Committee, which will be renamed Sustainability and Quality Committee.
- To amend the composition of the Committees, adopting the following resolutions:
 - To appoint the Independent Director Mr. Peter Löscher as Member and Chairman of the Audit and Control Committee, (his appointment as Chairman will be effective as of 19 February 2020, following the formulation of the 2019 annual information, with Mr. Echenique remaining as Chairman of that Committee until that date).
 - Mr. Francisco Javier de Paz Mancho ceases to be a Member of the Audit and Control Committee.
 - To appoint the Independent Director Mr. José Javier Echenique Landiribar as Chairman of the Nominating, Compensation and Corporate Governance Committee, replacing Mr. Francisco Javier de Paz Mancho, who remains as Member of this Committee.
 - To appoint the Independent Director Ms. María Luisa García Blanco as Member of the Nominating, Compensation and Corporate Governance Committee, replacing Mr. Luiz Fernando Furlán.
 - To appoint the Other External Director Mr. Francisco Javier de Paz Mancho as Member and Chairman of the Sustainability and Quality Committee, replacing Mr. Peter Löscher, who ceases to be a Member and Chairman of this Committee.
 - To appoint the Independent Director Ms. Claudia Sender Ramírez as Member of the Sustainability and Quality Committee, replacing Ms. María Luisa García Blanco.
 - To appoint the Independent Director Ms. Verónica Pascual Boé as Member of the Strategy and Innovation Committee.
- On 23 December 2019, Telefónica announced that it had agreed with Phoenix Tower International the sale of 2,029 mobile telecommunications towers of Telefónica Ecuador and Telefónica Colombia for a total amount of approximately EUR 290 million. The transaction includes the sale of 1,408 towers of Telefónica Ecuador for EUR 202 million and 621 towers of Telefónica Colombia for EUR 87 million.

Business Overview

Highlights

Telefónica's **total accesses** amounted to 345.8 million as of 30 September 2019, decreasing by 3.0 per cent. year-on-year, mainly as a result of the completion of the sales of Telefónica Panamá in August 2019, Telefónica Nicaragua in April 2019 and Telefónica Guatemala in December 2018. Without this effect, accesses would have decreased 0.6 per cent. due to the worse evolution of prepaid base in Telefónica Brazil (affected by the slow macroeconomic recovery) and to Telefónica Hispam Sur. During the first nine months of 2019 higher-value services continued increasing their weight, in this way LTE customers totalled 130

million customers (+16.4 per cent. year-on-year), with net additions of 12.4 million and a penetration of 54.1 per cent. (+9.9 percentage points year-on-year).

The below table shows the evolution of Group accesses in the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019 ⁽¹⁾	Reported Change Year- on-Year ⁽¹⁾	Organic Change Year- on-Year ⁽²⁾
	(thousands)		(percentage points)	
Fixed telephony accesses ⁽³⁾	35,733.5	32,338.2	(9.5)	(8.7)
Internet and data accesses ⁽⁴⁾	22,087.7	21,596.2	(2.2)	(2.2)
Broadband ⁽⁵⁾	21,638.0	21,262.9	(1.7)	(1.7)
FTTx/Cable.....	12,766.4	14,191.8	11.2	11.2
Mobile accesses.....	270,730.3	262,439.1	(3.1)	(0.0)
Prepay.....	149,131.7	134,228.9	(10.0)	(5.2)
Contract.....	121,598.5	128,210.1	5.4	6.0
M2M.....	18,397.9	22,390.1	21.7	22.0
Pay TV.....	8,845.3	8,601.7	(2.8)	(2.6)
Final Clients Accesses.....	337,396.8	324,975.2	(3.7)	(1.2)
Wholesale Accesses.....	19,207.0	20,845.4	8.5	8.5
Fixed wholesale accesses.....	3,987.7	3,851.1	(3.4)	(3.4)
Mobile wholesale accesses.....	15,219.3	16,994.3	11.7	11.7
Total Accesses.....	356,603.8	345,820.6	(3.0)	(0.6)

(1) Telefónica Guatemala accesses are excluded from 1 January 2019, Telefónica Nicaragua accesses are excluded from 1 May 2019 and Telefónica Panamá accesses are excluded from 1 August 2019.

(2) Excluding Telefónica Guatemala, Telefónica Nicaragua and Telefónica Panamá accesses.

(3) Includes "fixed wireless" and VoIP accesses. Includes fixed wireless and VoIP accesses. In Spain, since Q1 2019, 18 business accesses were restated.

(4) Also referred to as fixed broadband accesses.

(5) Includes digital subscriber line, satellite, optic fiber, cable modem and broadband circuits.

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained below. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

Contribution to reported growth	Reported Change Year-on- Year ⁽¹⁾	Organic Change Year-on- Year ⁽²⁾	Telefónica Guatemala	Telefónica Nicaragua	Telefónica Panamá
			(percentage points)		
Fixed telephony accesses.....	(9.5)	(8.7)	(0.6)	(0.2)	(0.1)
Internet and data accesses.....	(2.2)	(2.2)	0.0	0.0	0.0
Broadband.....	(1.7)	(1.7)	0.0	0.0	0.0
FTTx/Cable.....	11.2	11.2	0.0	0.0	0.0
Mobile accesses.....	(3.1)	(0.0)	(1.0)	(1.5)	(0.6)
Prepay.....	(10.0)	(5.2)	(1.7)	(2.5)	(0.9)
Contract.....	5.4	6.0	(0.1)	(0.3)	(0.1)
M2M.....	21.7	22.0	0.0	(0.1)	(0.1)
Pay TV.....	(2.8)	(2.6)	(0.1)	(0.1)	0.0
Final Clients Accesses.....	(3.7)	(1.2)	(0.9)	(1.2)	(0.5)
Wholesale Accesses.....	8.5	8.5	0.0	0.0	0.0
Fixed wholesale accesses.....	(3.4)	(3.4)	0.0	0.0	0.0
Mobile wholesale accesses.....	11.7	11.7	0.0	0.0	0.0
Total Accesses.....	(3.0)	(0.6)	(0.8)	(1.1)	(0.5)

(1) Telefónica Guatemala accesses are excluded from 1 January 2019, Telefónica Nicaragua accesses are excluded from 1 May 2019 and Telefónica Panamá accesses are excluded from 1 August 2019.

(2) Excluding Telefónica Guatemala, Telefónica Nicaragua and Telefónica Panamá accesses.

The Group's strategy is based on capturing growth in its markets, especially on attracting high-value customers.

Mobile accesses totalled 262.4 million as of 30 September 2019, down 3.1 per cent. compared to same period 2018 (excluding the effect of the completion of the sales of Telefónica Panamá, Telefónica Nicaragua and Telefónica Guatemala mobile accesses would stay stable year-on-year), where the decrease

in prepaid accesses (explained by the high competitive intensity not followed by Movistar in the markets to avoid damaging the quality levels of the network avoiding unlimited voice and data offers) is compensated by the postpaid segment accesses growth, up by 5.4 per cent. year-on-year (+6.0 per cent. excluding the effect of Telefónica Panamá, Telefónica Nicaragua and Telefónica Guatemala) and continues to increase the total mobile accesses up to 48.9 per cent. (+3.9 percentage points year-on-year).

Smartphone accesses continue growing (+0.9 per cent. year-on-year), totalling 168.3 million accesses as of 30 September 2019 and reaching a penetration rate over total accesses of 70.8 per cent. (+3.9 percentage points year-on-year), reflecting the Group's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 21.3 million at 30 September 2019, down 1.7 per cent. year-on-year. Fiber accesses stood at 14.2 million at 30 September 2019, growing 11.2 per cent. compared to 30 September 2018.

TV accesses totalled 8.6 million as of 30 September 2019, down 2.8 per cent. year-on-year.

Segment results

Telefónica Spain

The below table shows the evolution of accesses in Telefónica Spain of the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses ⁽¹⁾	9,405.2	9,092.5	(3.3)
Internet and data accesses ⁽²⁾	6,129.4	6,091.2	(0.6)
Broadband ⁽³⁾	6,110.5	6,078.3	(0.5)
FTTx/Cable.....	3,822.2	4,246.9	11.1
Mobile accesses.....	18,189.8	18,748.5	3.1
Prepay.....	1,527.3	1,200.4	(21.4)
Contract.....	16,662.5	17,548.1	5.3
M2M.....	2,227.4	2,556.2	14.8
Pay TV.....	4,036.4	4,088.5	1.3
Final Clients Accesses	37,760.8	38,020.7	0.7
Wholesale Accesses.....	3,948.0	3,816.1	(3.3)
Total Accesses	41,708.8	41,836.9	0.3

⁽¹⁾ Includes "fixed wireless" and VoIP accesses. Includes fixed wireless and VoIP accesses. In Spain, since Q1 18 business accesses were restated.

⁽²⁾ Also referred to as fixed broadband accesses.

During the first nine months of 2019, commercial activity continued to rely on the differentiated assets of the Group, with a multi brand strategy (Movistar, O2, Tuenti) to serve different segments of customers. Through the convergent offer "Movistar Fusión+" and through the "Más por Más" strategy, the Group continued to evolve the abovementioned offer and adapt it to the incremental customer demand, highlighting the increase in data in all mobile lines included in high value Fusión packages, as well as the inclusion of the Multiplus service that allows the user to watch all of the Movistar+ portfolio on an additional TV at home (this service currently has a price of EUR 7.8 per month).

During the first nine months of 2019, Telefónica launched innovations in its portfolio to increase the relationship with its clients and reach new segments. As a result, from June 2019, 1.5 million convergent clients (clients from higher value packages) and, from July 2019, Telefónica's shareholders, received the **Movistar Priority** service that offers a series of advantages and benefits, such as personalised and prioritised service performed by specialised agents, differential experience in stores, the help of a technology expert to fix any problems related to any device connected to Telefónica's network, exclusive experiences (for example, access to football exclusive experiences, basketball, cycling, winter sports, opera, music, expositions and eSports) and discounts and news related to Movistar equipment.

In June 2019, **Internet Second Residence** was launched as a new Fixed Broadband Offer intended to cover the access to the internet in second residences of Fusión clients. As a result, clients who have a Fusión Total Plus package were able to access the internet in their second residences for only EUR 15 per month. The price will be EUR 20 per month for Fusión Total clients and EUR 30 per month for other clients.

Furthermore, in June 2019, **Movistar+ Lite** was launched. This is a new OTT offer open to Movistar clients for a price of EUR 8 per month, which provides access to original content (including sports events) from Movistar+, channel #0, channel #Vamos, Movistar Series and Movistar Seriesmanía and a catalogue of 300 series and documentaries, 270 films and 60 programmes on demand with a combination of Movistar's own and third party content.

Lastly, the offer diversifies into new financial services for consumers with **Movistar Money**. In April 2019, this was kicked off when it entered into the world of financing family consumer costs with loans of up to EUR 3,000. In May 2019, **Movistar Car** was launched, which is a service that connects to vehicles to make them safer and more intelligent and it is available to all users of mobile telephone services, independent of whether they are, or are not, Movistar clients.

Telefónica Spain had 41.8 million accesses as of 30 September 2019 (+0.3 per cent. compared to 30 September 2018), changing the downward trend of previous year as a result of the increase of higher value accesses: mobile contract accesses, fiber accesses and TV accesses.

Consumer Convergent Offer with a customer base of 4.7 million and 5.0 million additional mobile lines associated to those customers, as of 30 September 2019, increasing 2.4 per cent. and 12.5 per cent. year-on-year respectively, contributing 88.7 per cent. of the retail fixed broadband customer base (+2.1 percentage points year-on-year) and 84.6 per cent. of the retail mobile contract customer base (+1.8 percentage points year-on-year). Penetration of high value services of the Customer Convergent Offer continued to increase during the first nine months of 2019 with 46.0 per cent. of the customer base already using 600 Mb per second ultra-fast broadband (+7.1 percentage points year-on-year) and 81.3 per cent. of the customer base using Pay-TV as of 30 September 2019 (+1.8 percentage points year-on-year), as well as the increase of mobile lines (each main package of the convergent offer has 2.1 average mobile lines compared to 2.0 lines in September 2018) as of 30 September 2019.

Fixed accesses decreased 3.3 per cent. year-on-year, with a net loss of 269 thousand accesses in the first nine months of 2019.

Retail broadband accesses totalled 6.1 million (-0.5 per cent. year-on-year), with net loss of 35 thousand accesses during first nine months of the year 2019.

Fiber accesses reached 4.2 million customers (+11.1 per cent. compared to 30 September 2018), representing 69.9 per cent. of total broadband customers (+7.3 percentage points year-on-year) with net adds of 306 thousand accesses in the first nine months of 2019. Ultra-fast fiber accesses of 600 Mb per second (with higher ARPU) reached 2.7 million accesses (63.4 per cent. of total fiber accesses). At 30 September 2019, fiber deployment reached 22.7 million premises, 1.9 million more than at 30 September 2018, and continues to be the largest in Europe.

Total mobile accesses stood at 18.7 million as of 30 September 2019, increasing by 3.1 per cent. compared to 30 September 2018 as a result of the increase of mobile contract accesses, which compensates for the decrease in prepay accesses (-21.4 per cent. year-on-year), reflecting the success of the convergent strategy and the good performance of the migration from prepaid to postpaid. The contract access base accelerated its growth during the first nine months of 2019, growing by 5.3 per cent. year-on-year. Smartphone penetration, as of 30 September 2019, stood at 81.6 per cent. of the mobile voice base (+1.6 percentage points year-on-year) and significantly boosted data traffic growth to 48.2 per cent. year-on-year due to a higher number of customers with renewed portfolios containing superior data packages.

The LTE network rollout continued to progress well, and coverage reached approximately 97.9 per cent. of the population at 30 September 2019 (comparable with competitors' criteria - sum of residents with Movistar LTE signal over total population with LTE signal), up 0.3 percentage points compared to 30 September 2018. As a result, the LTE customer base reached 9.4 million customers as of 30 September 2019, +8.9 per cent. compared to 30 September 2018 with penetration of 57.8 per cent. (+4.0 percentage points year-on-year).

Pay-TV accesses reached 4.1 million as of 30 September 2019, growing 1.3 per cent. year-on-year.

Telefónica United Kingdom

The table below shows the evolution of accesses in Telefónica United Kingdom of the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses ⁽¹⁾	301.3	312.2	3.6
Internet and data accesses ⁽²⁾	27.7	28.7	3.8
Broadband.....	27.7	28.7	3.8
Mobile accesses.....	24,821.4	26,034.6	4.9
Prepay.....	8,804.0	8,625.1	(2.0)
Contract.....	16,017.4	17,409.4	8.7
M2M.....	3,408.3	4,601.3	35.0
Final Clients Accesses	25,150.3	26,375.5	4.9
Wholesale Accesses	7,457.2	8,053.2	8.0
Mobile wholesale accesses.....	7,457.2	8,053.2	8.0
Total Accesses	32,607.6	34,428.7	5.6

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

⁽²⁾ Also referred to as fixed broadband accesses.

During the first nine months of 2019, despite the competitive environment, Telefónica United Kingdom remained as a major telecommunications operator in United Kingdom, a position underpinned by the strength of the O2 brand, customer loyalty and successful commercial initiatives, such as "Custom Plans" and its updates, which provides customers with flexibility and choice by allowing them to customise their plans by choosing the contract terms (up to 36 months), the amount of payment upfront and the data plan. Telefónica United Kingdom successfully introduced its first offer for customers seeking unlimited mobile data while providing upselling opportunities. Such initiatives have allowed Telefónica United Kingdom to achieve continuous customer growth in a competitive market.

Total accesses grew by 5.6 per cent. year-on-year amounting to 34.4 million by the end of September 2019.

Mobile net additions in the first nine months of 2019 reached 990 thousand accesses, driven by **contract mobile accesses**, which grew by 8.7 per cent. year-on-year to 17.4 million by the end of September 2019, increasing their proportion over the total mobile accesses to 66.9 per cent.

Prepay accesses decreased by 2.0 per cent. year-on-year to 8.6 million customers, by the end of 30 September 2019, due to disconnections of inactive customers' accesses and market dynamics, including prepay to postpay migration. Smartphone penetration over the total mobile base rose 4.6 percentage points year-on-year up to 81.4 per cent. The base of LTE customers reached 15.1 million by 30 September 2019 with a 12.9 per cent. year-on-year growth and 70.4 per cent. penetration over the mobile base.

Telefónica Germany

The below table shows the evolution of accesses in Telefónica Germany for the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses ⁽¹⁾	1,966.4	2,113.7	7.5
Internet and data accesses ⁽²⁾	2,252.8	2,289.9	1.6
Broadband.....	2,054.4	2,193.4	6.8
VDSL.....	1,388.9	1,619.1	16.6
Mobile accesses.....	43,048.9	43,607.3	1.3
Prepay.....	21,052.4	20,332.5	(3.4)
Contract.....	21,996.5	23,274.9	5.8
M2M.....	1,134.9	1,179.0	3.9
Final Clients Accesses	47,268.1	48,010.9	1.6
Wholesale Accesses	0.2	0.0	n.s.
Total Accesses	47,268.3	48,010.9	1.6

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

⁽²⁾ Also referred to as fixed broadband accesses.

For the first nine months of 2019, Telefónica Germany launched further value-added initiatives to enhance its ARPU-up and churn-down strategy. These include O2 TV (from 2 May 2019), O2 Cloud (from 8 April 2019) and O2 VDSL new offer at higher speed (from 7 March 2019). The O2 Free portfolio continues to

drive usage and ARPU growth leveraging the improved network of Telefónica Germany. Telefónica Germany also announced a significant enhancement of its infrastructure portfolio with the addition of cable wholesale access through a long term agreement with Vodafone.

The **total access** base grew 1.6 per cent. year-on-year and stood at 48.0 million at 30 September 2019, mainly driven by a 1.3 per cent. increase in the mobile base (which reached 43.6 million).

The **contract mobile customer** base grew 5.8 per cent. year-on-year and reached 23.3 million accesses, increasing the share over the total mobile base to amount to 53.4 per cent. Net adds reached 999 thousand accesses due to sustained traction from O2 Free customers and continued strong contribution from partners, driven by 4G offers. Smartphone penetration reached 69.3 per cent. of the total mobile access base, up 4 percentage points year-on-year driven by the continued growth of LTE customers (+22 per cent. year-on-year reaching 20.9 million at the end of September 2019). LTE penetration reached 49.3 per cent. of the total mobile access base.

The **prepay mobile customer** base decreased 3.4 per cent. year-on-year to 20.3 million due to lower demand still impacted by regulatory changes and the general market trend towards contract. Prepay posted a net loss of 210 thousand customers in the first nine months of 2019.

The **retail broadband accesses** were extended in 114 thousand accesses in the first nine months of 2019, highlighting the strong demand of VDSL, with net adds of 178 thousand accesses in the first nine months of 2019 (+16.6 per cent. year-on-year).

Telefónica Brazil

The below table shows the evolution of accesses in Telefónica Brazil of the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses ⁽¹⁾	13,209.6	11,384.9	(13.8)
Internet and data accesses.....	7,583.4	7,222.9	(4.8)
Broadband.....	7,502.6	7,150.8	(4.7)
FTTx/Cable.....	4,917.3	5,055.4	2.8
Mobile accesses.....	74,423.6	73,824.4	(0.8)
Prepay.....	35,017.0	31,533.9	(9.9)
Contract.....	39,406.7	42,290.5	7.3
M2M.....	7,628.7	9,469.8	24.1
Pay TV.....	1,600.5	1,382.7	(13.6)
Final Clients Accesses.....	96,817.2	93,815.0	(3.1)
Wholesale Accesses.....	14.8	13.8	(6.8)
Total Accesses.....	96,832.0	93,828.7	(3.1)

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

Telefónica Brazil closed the first nine months of 2019 maintaining its leadership in higher value segments, which permitted the operator to capture mobile revenue growth. In the fixed business, the transformation towards fiber and Pay-TV continues, in order to capture valued customers and compensate for the downturn in its fixed traditional business.

Revenues and OIBDA evolution were supported by the expansion of profitability mainly due to the mobile data adoption acceleration and the good evolution of fiber and Pay-TV for IPTV customers. Additionally, Telefónica Brazil has continued carrying out cost control measures and continues generating profits associated with digitalization that allow to compensate partially negative effects associated to higher handset costs (along with higher handset revenues), the complex foreign exchange situation, aggressive competition and the deterioration of its fixed traditional business.

Telefónica Brazil reached 93.8 million **accesses** as of 30 September 2019, down 3.1 per cent. compared to 30 September 2018 impacted by the fall of the prepaid customer base (affected by a macro economic situation that was below expectations), the fall of fixed telephony accesses (migration to mobile helped by unlimited voice offers in the market), DTH discontinuity and price adjustments affecting specially pure

postpaid accesses. Moreover, improvement of the high value mix, supported by the higher participation of postpaid, UBB and IPTV products.

In the **mobile business**, the strategic focus remained on gaining and retaining high value customers, reaching a market share of 39.8 per cent. in the contract market, as of 30 September 2019, (Source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 32.4 per cent. as of 30 September 2019 (Source: ANATEL). The contract customer growth (+7.3 per cent. year-on-year) does not compensate for the decrease in prepaid customers (-9.9 per cent. year-on-year) due to the more aggressive offers and customer base impacts explained before. The commercial offers focused on data plans and value-added services instead of voice, offering unlimited off-net minutes and international roaming plans. The offer for higher value customers focused on family plans that contain OTT services (such as Netflix, VIVO music) supported by interaction with the customer through the virtual assistant AURA in the promotion of the Meu VIVO application.

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 20.7 million premises fitted with FTTx, as of 30 September 2019. Telefónica Brazil is building alternative models to accelerate fiber expansion with softer capex intensity and reducing time to market through a partnership with American Tower and launching a franchise model, under the Terra brand. Telefónica Brazil reaches 5.0 million homes, growing 2.8 per cent. year-on-year. This growth does not compensate for other broadband services' falling numbers, for example ADSL. As a consequence, retail broadband customers totalled 7.2 million customers in the first nine months of 2019, down 4.7 per cent. year-on-year. Fixed telephony accesses decreased by 13.8 per cent. year-on-year due to the fixed-mobile substitution (a market phenomenon). Pay TV customers stood at 1.4 million as of 30 September 2019, decreasing 13.6 per cent. year-on-year due to a DTH discontinuity as a part of a more selective commercial activity directed to high value customers. These measures are reflected in a 27.0 per cent. increase in IPTV accesses, representing 49.2 per cent. of total Pay-TV accesses.

Telefónica Hispam Norte

The below table shows the evolution of accesses in Telefónica Hispam Norte of the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019 ⁽¹⁾	Reported Change Year-on- Year ⁽¹⁾	Organic Change Year- on-Year ⁽²⁾
	(thousands)		(per cent.)	
Fixed telephony accesses ⁽³⁾	3,301.0	2,602.8	(21.2)	(12.9)
Internet and data accesses ⁽⁴⁾	1,332.3	1,297.5	(2.6)	(2.2)
Broadband.....	1,301.4	1,269.9	(2.4)	(2.4)
FTTx/Cable.....	302.7	311.7	3.0	3.0
Mobile accesses.....	67,233.7	60,141.1	(10.5)	2.0
Prepay.....	57,226.8	50,578.5	(11.6)	1.9
Contract.....	10,006.9	9,562.7	(4.4)	2.4
M2M.....	1,914.3	1,896.2	(0.9)	1.8
Pay TV.....	1,034.9	881.6	(14.8)	(13.6)
Final Clients Accesses	72,902.0	64,923.0	(10.9)	1.0
Total Accesses	72,902.5	64,923.0	(10.9)	1.0

⁽¹⁾ Telefónica Guatemala accesses are excluded from 1 January 2019, Telefónica Nicaragua accesses are excluded from 1 May 2019 and Telefónica Panamá accesses are excluded from 1 August 2019.

⁽²⁾ Excluding Telefónica Guatemala, Telefónica Nicaragua and Telefónica Panamá accesses.

⁽³⁾ Includes "fixed wireless" and VoIP accesses.

⁽⁴⁾ Also referred to as fixed broadband accesses.

The table below shows the contribution to reported growth of each item considered to calculate the organic variations, as explained below. For each line item, the contribution to reported growth, expressed in percentage points, is the result of dividing the amount of each impact (on a net basis when the impact affects both years) by the consolidated reported figure for the previous year.

Contribution to reported growth	Reported Change Year- on-Year ⁽¹⁾	Organic Change Year-on- Year ⁽²⁾	Telefónica Guatemala	Telefónica Nicaragua	Telefónica Panamá
		(percentage points)			
Fixed telephony accesses ⁽¹⁾	(21.2)	(12.9)	(7.0)	(1.8)	(0.6)
Internet and data accesses ⁽²⁾	(2.6)	(2.2)	(0.3)	(0.1)	(0.1)
Broadband.....	(2.4)	(2.4)	0.0	0.0	0.0
FTTx/Cable.....	3.0	3.0	0.0	0.0	0.0
Mobile accesses.....	(10.5)	2.0	(4.0)	(6.0)	(2.4)
Prepay	(11.6)	1.9	(4.3)	(6.4)	(2.5)
Contract.....	(4.4)	2.4	(1.7)	(3.2)	(1.8)
M2M	(0.9)	1.8	(0.4)	(0.8)	(1.4)
Pay TV	(14.8)	(13.6)	(0.5)	(0.9)	0.0
Final Clients Accesses	(10.9)	1.0	(4.0)	(5.6)	(2.2)
Total Accesses	(10.9)	1.0	(4.0)	(5.6)	(2.2)

⁽¹⁾ Telefónica Guatemala accesses are excluded from 1 January 2019, Telefónica Nicaragua accesses are excluded from 1 May 2019 and Telefónica Panamá accesses are excluded from 1 August 2019.

⁽²⁾ Excluding Telefónica Guatemala, Telefónica Nicaragua and Telefónica Panamá accesses .

⁽³⁾ Includes "fixed wireless" and VoIP accesses.

⁽⁴⁾ Also referred to as fixed broadband accesses.

Total accesses reached 64.9 million as at 30 September 2019 (-10.9 per cent. year-on-year; +1.0 per cent. in organic terms).

Mobile accesses decreased by 10.5 per cent. year-on-year to 60.1 million customers, affected by the completion of the sales of Telefónica Nicaragua, Telefónica Guatemala and Telefónica Panama, which decreased year-on-year growth by 6.0 percentage points, 4.0 percentage points and 2.4 percentage points, respectively. In organic terms, mobile accesses increased by 2.0 per cent., year-on-year mainly due to a higher prepaid customer base in Mexico.

- **Contract** accesses decreased by 4.4 per cent. year-on-year, affected by the completion of the sales of Telefónica Nicaragua, Telefónica Guatemala and Telefónica Panama, which decreased year-on-year growth by 3.2 percentage points, 1.7 percentage points and 1.8 percentage points, respectively. In organic terms, contract accesses increased by 2.4 per cent. due to good results in Costa Rica (+45.9 per cent.), Colombia (+4.6 per cent.), and Mexico (+4.1 per cent.), as a result of its focus on attracting high-value customers.
- **Prepaid** accesses decreased by 11.6 per cent. year-on-year affected by the completion of the sales of Telefónica Nicaragua, Telefónica Guatemala and Telefónica Panama, which decreased year-on-year growth by 6.4 percentage points, 4.3 percentage points and 2.5 percentage points, respectively. In organic terms, prepaid accesses increased by 1.9 per cent. year-on-year with positive net adds of 2.3 million accesses as at 30 September 2019, mainly due to corrections on Mexico's prepaid disconnections.
- **The smartphone** customer base decreased by 8.0 per cent. year-on-year as at 30 September 2019 affected by the completion of the sales of Telefónica Nicaragua, Telefónica Guatemala and Telefónica Panama, which decreased year-on-year growth by 5.3 percentage points, 3.0 percentage points and 3.4 percentage points, respectively. Excluding this impact, the smartphone customer base increased by 4.1 per cent., reaching 28.9 million accesses (-2.5 million compared to September 2018; +1.1 million in comparable terms). Mobile access penetration reached 49.8 per cent. (+1.4 percentage points year-on-year; +0.8 percentage points in comparable terms), with increases in Colombia (+0.1 per cent.), Venezuela (+8.8 per cent.), Ecuador (+3.1 per cent.) and Central America (+18.9 per cent.) meanwhile Mexico decreased (-2.1 per cent.). 4G handset accesses reach 21.1 million accesses (+21 per cent. compared to September 2018; +37 per cent. in comparable terms).

Fixed accesses stood at 2.6 million at 30 September 2019 (-21.2 per cent. year-on-year; -12.9 per cent. in organic terms) with a net loss of 0.6 million customers, due to the erosion of the traditional fixed business.

Fixed broadband accesses stood at 1.3 million at 30 September 2019, (-2.4 per cent. year-on-year). The penetration of FBB accesses over fixed accesses stood at 49 per cent. (+9.4 percentage points year-on-year; +5.3 percentage points in organic terms), focusing on UBB deployment in the region, reaching 1.5 million

real estate units and 0.3 million connected accesses (+3.0 year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 25 per cent. (+1.3 percentage points year-on-year).

Pay TV reached 0.9 million accesses at 30 September 2019, decreasing 14.8 per cent. year-on-year. In organic terms, Pay TV accesses decreased by 13.6 per cent. as a result of negative net adds in Venezuela (-111 thousand accesses) and Colombia (-41 thousand accesses) which offset Central America (+13.1 thousand accesses).

Telefónica Hispam Sur

The below table shows the evolution of accesses in Telefónica Hispam Sur of the first nine months of 2019 compared to the first nine months of 2018:

Thousands of accesses	January- September 2018	January- September 2019	Change Year-on- Year
	(thousands)		(per cent.)
Fixed telephony accesses ⁽¹⁾	7,549.9	6,832.0	(9.5)
Internet and data accesses ⁽²⁾	4,675.4	4,591.3	(1.8)
Broadband.....	4,554.9	4,467.2	(1.9)
FTTx/Cable.....	2,285.8	2,924.1	27.9
Mobile accesses.....	42,324.7	39,054.1	(7.7)
Prepay.....	25,504.3	21,958.5	(13.9)
Contract ⁽³⁾	16,820.4	17,095.6	1.6
M2M.....	1,396.2	1,658.6	18.8
Pay TV.....	2,173.5	2,249.0	3.5
Final Clients Accesses	56,723.6	52,726.4	(7.0)
Total Accesses	56,747.9	52,747.6	(7.0)

⁽¹⁾ Includes "fixed wireless" and VoIP accesses. Also referred to as fixed broadband accesses.

⁽²⁾ Also referred to as fixed broadband accesses.

⁽³⁾ Includes the disconnection of 273 thousand inactive contract accesses in Peru in the first quarter 2019.

Total accesses reaches 52.7 million at 30 September 2019 (-7.0 per cent. year-on-year).

Mobile accesses fell by 7.7 per cent. year-on-year to 39.1 million customers, mainly due to a lower prepaid customer base.

- **Contract** accesses increased 1.6 per cent. year-on-year with positive growth in all operations, mainly due to a good performance in Telefónica Chile (+5.8 per cent.) and, with a lower impact, Telefónica Argentina (+0.5 per cent.).
- **Prepaid** accesses decreased 13.9 per cent. year-on-year, with a net loss of 3.6 million accesses at 30 September 2019, with decreases in all operations: Telefónica Argentina (-1.4 million accesses), Telefónica Peru (-1.0 million accesses), Telefónica Chile (-1.1 million accesses) and with Telefónica Uruguay also reducing its customer base although with a lower impact. This evolution is mainly due to the result of intense market competition and the Group's continued focus on attracting high value customers.
- The **smartphone** customer base decreased by 0.3 per cent. year-on-year at 30 September 2019, reaching 21 million accesses with a mobile access penetration of 56.8 per cent. (+4.7 percentage points year-on-year), growing in all operations. In addition, accesses with 4G handsets increased 13 per cent., reaching 16.5 million accesses by 30 September 2019.

Fixed accesses stood at 6.8 million at 30 September 2019 (-9.5 per cent. year-on-year) with a net loss of 0.7 million customers, due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 4.6 million at 30 September 2019 (-1.9 per cent. year-on-year), mainly due to Telefónica Argentina (-10.4 per cent. year-on-year) and Telefónica Chile (-5.3 per cent. year-on-year) which offsets Telefónica Peru (+6.9 per cent. year-on-year), as all operators focused on fiber (high-value customers), which negatively affected the growth in the copper business. The penetration of FBB accesses over fixed accesses stood at 65 per cent. (+5.1 percentage points year-on-year), focusing on UBB deployment in the region, reaching 9.6 million real estate units and 2.9 million connected accesses (+28 per cent. year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 65 per cent. (+15 percentage points year-on-year).

Pay TV accesses stood at 2.2 million (+3.5 per cent. year-on-year) with net adds of 39 thousand accesses mainly due to positive results in Telefónica Argentina (net adds of 100 thousand accesses).

Telefónica's services and products

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

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

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

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

Mobile business

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

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

Fixed-line telephony business

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

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

Digital services

The main highlights in services developed by Telefónica Digital are:

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

- **Security services:** Telefónica Global Security portfolio includes:
 - **Electronic Security:** services designed to guard the security and integrity of a customer's physical assets, mostly corporate assets (such as nodes and communications networks in malls, corporate and representative buildings, etc.).
 - **Information Security:** tools protecting information in end-user devices and communications, fixed and mobile, networks, as well as protecting customers' digital identity. These services include the in-house services developed by 11Paths.
- **Cloud computing services:** Telefónica offers private, public and hybrid cloud services designed to allow any size of business to manage its IT infrastructure more effectively, supporting it at every stage of the IT life cycle. In particular, the Group has a complete value proposition which comprises its: (i) Virtual Data Center service, based on VMware, which facilitates the migration to cloud of existing applications; (ii) Open Cloud service, based on Open Stack, which enables the development of cloud applications with low latency; and (iii) hyperscalers (AWS and Azure) which offer Public Cloud services in a reselling model. With regards to cloud-based applications, the Group's solutions are designed to enable businesses to improve their digital presence, create marketing campaigns, enhance customer relationships and to boost the efficiency and productivity of their employees (in conjunction with products such as Office 365, Cloud Drive and Unified Comms). The Group's cloud computing services are integrated with Telefónica's corporate secure communication services.
- **Advertising:** A portfolio of marketing channels that third party brands can use to acquire and engage with customers. Traditional channels such as SMS/MMS messaging may be used alongside with new channels like programmatic display and sponsored connectivity. All of which leverage on the Group's customer data in order to send messages to the correct target as well as to generate post-campaign brand analysis.
- **Big Data:** Includes products and services designed to enable companies and governments to make AI-powered data-driven decisions. The Group's Big Data offer comprises of three main categories: (i) "business insights", which provides information for decision-making based on analysis from advanced analytical products developed on top of data generated in the Group's network and systems; (ii) "consulting and analytics", which includes specialist professional services focused on data strategy, data science, data architecture and data engineering; and (iii) "tools and infrastructure", which provides advanced technology for data management, storage and data exploitation.
- **Digital Telco Experience:** Includes "Novum app", the global solution that aims to provide an end to end digital experience to the Group's customers. Its main features include account management, e-Care, Explore (monetization), Cloudphone and Aura interaction.
- **Aura:** Aura is Telefónica's new cognitive intelligence-based customer relationship model designed to build trust and enable new forms of engagement and interactivity with the Group's customers in real time through a simple voice interface, the aim of which is to: (i) make the Group's customers' lives easier; (ii) enrich the Group's customers' experience with the use of personalisation, contextual information and cognitive intelligence for predictive use cases, (iii) empower the Group's customers through increasing transparency and control over their data; and (iv) to enable the Group's customers to discover relevant Group or third-party services. Aura may be used to resolve billing queries, consult and manage balances, top ups, and data usage, provides information to the customer on "understanding my bundle" and "make the most of my TV", enables issue management, and facilitates other services in relation to communications, home connectivity and smart home. Aura resolves queries from telco domains and is in the process of being expanded to non-telco domains. Aura is currently available in Argentina, Brazil, Chile, Germany, Spain, United Kingdom and in Ecuador.
- **Movistar Home:** Telefónica launched Movistar Home in Spain on 18 October 2018, a new device designed around the functionality of Aura and targeted at the Group's Movistar and Pay TV customers. Movistar Home is designed to strengthen Telefónica's position by enabling highly-converged services and experiences that differentiate us from the Group's competitors. Movistar Home aims to provide the Group's customers with an enhanced TV experience on IPTV, increased

landline functionality (which enables videoconferences), the Group's smart home package and games in addition to third-party services.

Sales and Marketing

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

Competition

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

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

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

Strategic Partnerships

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

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

On 23 January 2011, the Group entered into an agreement to enhance the strategic alliance with China Unicom, under which the Group agreed to strengthen and deepen its strategic alliance in certain business areas, and committed to investing the equivalent of U.S.\$500 million in ordinary shares of the other party. Such investments took place along 2011. In recognition of China Unicom's stake in the Group's share capital, the Group committed to propose, in accordance with the prevailing legislation and its by-laws, the appointment of a member of its Board of Directors nominated by China Unicom.

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

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

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

On 21 July 2012, such agreement was complemented by a supplemental agreement. The transaction was completed on 30 July 2012.

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

As of 31 December 2019 the Group held a 0.59 per cent. stake in the share capital of China Unicom and China Unicom held a 1.24 per cent. stake in the Group share capital.

Telefónica maintains its commitment to the strategic partnership with China Unicom, strengthened through cooperation in digital areas such as the big data joint venture between both companies, namely Smart Steps Digital Technology Co. Ltd., which is a demographic big data service provider in urban planning in China. In April 2019, JD Digits made a strategic investment through a capital increase in the joint venture, with an investment of 100 million yuan (around EUR 13.2 million) which grants JD Digits a 16.7 per cent. stake of the joint venture. China Unicom and Telefónica hold a 45.8 per cent. and 37.5 per cent. stake respectively after the transaction.

Legal Proceedings

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

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

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

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

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

At the same time, Telefônica Brasil and Telefónica Empresas, S.A., together with other wireline operators through ABRAFIX (Associação Brasileira de Concessionárias de Serviço Telefônico Fixo Comutado) appealed ANATEL's decision of 16 December 2005, also obtaining the precautionary measures requested. On 21 June 2007, Federal Regional Court no. 1 ruled that it was not appropriate to include the interconnection and network usage revenues in the FUST's taxable income and rejected the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this ruling on 29 April 2008, before Brasília Regional Federal Court No. 1, which was dismissed on 10 May 2016. ANATEL filed an appeal against this dismissal.

The fixed operators filed an appeal to clarify that revenues obtained through interconnection and dedicated line operation should not be included in the calculation of the amounts payable to the FUST. In addition, the court was also requested to rule on two grounds which had not been analysed in the initial decision: (i)

that the FUST has become obsolete, among other reasons, by the advance of mobile telephony; and (ii) that amounts collected are not applied to the purpose for which the FUST was created, since only a very low percentage of the revenues collected by the FUST is used to finance fixed telephony. Although the petition for clarification was dismissed on 23 August 2016, the court noted that the FUST should not be funded with revenues from interconnection and dedicated line operation. ABRAFIX appealed to the higher courts on these two elements that had not been analysed. ANATEL appealed all the holdings of the ruling to the higher courts.

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

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

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

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

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

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

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

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

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

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

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

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

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

On 5 August 2016, the hearing before the High Court in Prague took place in order to decide the appeal against the second decision of the Municipal Court, which had been favourable to Telefónica's position (as

was also the case with the first decision of the Municipal Court). At the end of the hearing, the High Court announced the Second Appellate Decision by which it reversed the second decision of the Municipal Court and ordered Telefónica to pay 644 million Czech koruna (approximately EUR 23 million) to Venten and 227 million Czech koruna (approximately EUR 8 million) to Lexburg, in each case plus interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

The resolution of the Court of Appeals exhausted the ordinary remedies available. TASA filed an extraordinary appeal, which was rejected in November 2017. TASA has submitted an exceptional appeal

before the Argentine Supreme Court, although this appeal does not suspend the potential execution by Entel of prior rulings against TASA.

On 26 March 2019, the Court of First Instance finally ruled to approve the liquidation that ENTEL had submitted for an amount of 1,689 million Argentine pesos (approximately EUR 35 million). TASA appealed that ruling before the Court of Appeals.

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

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

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

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

The fine imposed by ANATEL and appealed by Telefônica Brasil is approximately 211 million Brazilian reais (approximately EUR 48 million), which amounted to approximately 505 million Brazilian reais after currency value updates and accrued interest as of 31 December 2019 (approximately EUR 112 million).

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

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

The conciliation hearing was held and the procedure follows its normal course.

ICSID Arbitration Telefónica, S.A. v. Republic of Colombia

In the local arbitration brought by the Republic of Colombia against Colombia Telecomunicaciones ("**ColTel**"), on 25 July 2017, the local arbitration tribunal forced ColTel to pay EUR 470 million as economic compensation for the reversion of assets related to voice services for the concession granted between 1994 and 2013.

On 29 August 2017, ColTel's capital was increased in order to pay the local arbitral award. Telefónica, S.A. contributed and disbursed 67.5 per cent. of the award's amount (equivalent to EUR 317 million) and the Colombian Government contributed the remaining 32.5 per cent. (equivalent to EUR 153 million), through assumption of debt and compensation of the same.

On 1 February 2018, Telefónica, S.A. filed a Request for Arbitration against Colombia at the International Centre for Settlement of Investment Disputes ("**ICSID**"), which was formally registered on 20 February 2018.

The ICSID Tribunal was constituted on 26 February 2019, with José Emilio Nunes Pinto as President, Horacio A. Grigera Naón appointed by Telefónica, S.A., and Yves Derains appointed by Colombia.

Colombia filed Preliminary Objections on Jurisdiction on 5 August 2019. Telefónica, S.A. responded to Colombia's objections in its Claimant's Memorial on 23 September 2019, in which it also requested that Colombia pay compensation for damages caused to Telefónica, S.A.

On 23 October 2019, Colombia submitted its Complementary Objections on Jurisdiction as well as a request for Bifurcation, to which Telefónica, S.A. responded on 29 November 2019.

At this time, the Tribunal is analysing Colombia's request for Bifurcation and Telefónica, S.A.'s claim is pending as to its merits.

Other Proceedings

As of the date of this Prospectus, the Group co-operates with governmental authorities (and, where appropriate, conducting the relevant internal investigations) regarding requests for information related, direct or indirectly to possible violations of applicable anti-corruption laws. Telefónica believes that, considering the size of the Group, any potential penalty as a result of those information requests would not materially affect the Group's financial condition.

Tax Proceedings

Inspections in the tax group in Spain

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

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

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

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

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

On 15 March 2019, Telefónica announced that it was notified of an execution notice issued by the Spanish tax authorities in connection with the Central Economic-Administrative Court Resolution partially upholding the claims filed against the assessments pertaining 2008-2011 Corporate Income Tax Audit. The execution notice ordered a EUR 702 million refund to Telefónica pertaining to overpayments made by it in those tax years. Telefónica filed an appeal with the Central Economic-Administrative Court against the execution notice based, among other reasons, on the lack of inclusion of delayed interest. On 13 June 2019 the Central Economic-Administrative Court issued a resolution which upheld the claim made by Telefónica and ordered the Spanish tax authorities to pay delayed interest amounting to EUR 201 million. The payment of this amount was received in July 2019 and it was accounted as financial income.

Telefónica Brazil

State taxes

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

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

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

Federal taxes

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

Telefónica del Perú

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

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

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

In parallel to the aforementioned court proceedings, the tax authorities proceeded to collect corporate income tax due for the years 2000 to 2001 and payments on account of corporate income tax in respect of the year 2000. There were successive reductions to the sums claimed in the two cases following appeals filed by Telefónica del Perú against the settlements and due to the precautionary measures imposed. Telefónica del Perú paid out 286 million Peruvian soles (approximately, EUR 80 million) in 2012 and 2013 pending the final rulings.

In the context of these execution processes, in June 2015 the tax authorities issued Compliance Resolutions demanding payment of 1,521 million Peruvian soles (approximately EUR 431 million). An appeal was filed against this with the Tax Court, and the adoption of precautionary suspension measures duly requested from

the legal authorities (as a definitive court ruling on these cases is currently pending). No ruling was made in relation to these appeals in 2018, whilst in January 2018 the Tax Court suspended payment until the final ruling of the Supreme Court.

In July 2019, Telefónica del Perú was notified that the Supreme Court had handed down two rulings in connection with the appeals relating to corporate income tax for 2000 to 2001. These rulings have resolved the main matters of dispute by annulling the rulings of the court of second instance and returning the case to the court for it to pass judgment on the matters again and they have made a final ruling in favour of Telefónica del Perú in relation to the deductibility of the rental of public spaces and against the deductibility of certain financial charges.

Given the sentences and rulings handed down, the Group recognised a provision in its consolidated financial statements, that at 31 December 2018 amounted to 1,697 million Peruvian soles (approximately EUR 439 million). See Note 21 to the 2018 Consolidated Financial Statements. Furthermore, an additional provision has been recognised by the Group in the Interim Financial Statements amounting to 580 million Peruvian soles (approximately EUR 154 million). Therefore, at 30 September 2019, the total provision (including interest) recognised in the Group's consolidated financial statements amounts to 2,338 million Peruvian soles (approximately EUR 633 million).

In connection with these proceedings in Peru, the Group and its legal advisors consider that the Group's position continues to be based on robust legal arguments.

Tax deductibility of financial goodwill in Spain

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

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

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

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

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

Whilst the three decisions are still pending, a final ruling by the Court of Justice of the European Union, *Dependencia de Control Tributario y Aduanero de la Agencia Tributaria* (the Large Taxpayers Central Office) implemented its obligations as set out in the Decision of the European Commission (EU) 2015/314

and, in March 2019, recovered the goodwill amortised for the indirect acquisition of shares in non-resident companies. This recovery remains provisional pending the final results of the appeals brought against the three decisions. The result of this settlement, once offset by available tax credits (negative tax bases and deductions) has resulted in a payment of EUR 1.4 million.

The Group has continued provisioning the amount of the goodwill amortised for tax purposes, corresponding mainly to the purchase of Vivo, for a total amount of EUR 334 million at 30 September 2019 (EUR 283 million at 31 December 2018).

Years open for inspection

Years open for inspection in the Group companies

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

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

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

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

Major Shareholders

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

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

Name of Beneficial Owner	Percentage of shares carrying voting rights		Percentage of voting rights through financial instruments		Percentage of voting rights
	Direct	Indirect	Direct	Indirect	
	(per cent.)		(per cent.)		(per cent.)
Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	5.26	0.01	0.00	0.00	5.28
CaixaBank, S.A. ⁽²⁾	5.00	0.01	0.00	0.00	5.01
BlackRock, Inc. ⁽³⁾	0.00	5.032	0.00	0.179	5.211

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

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

⁽³⁾ On 24 December 2019, BlackRock, Inc. notified the CNMV that its shareholding in Telefónica's share capital was 5.211 per cent.

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

Directors and Senior Management of Telefónica

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

Name	Date of Birth	Age	First Appointed	Current Term Ends
Chairman				
Mr. José María Álvarez - Pallete López ⁽¹⁾	12/12/1963	56	2006	2021
Vice-Chairmen				
Mr. Isidro Fainé Casas ⁽¹⁾⁽²⁾	10/07/1942	77	1994	2020
Mr. José María Abril Pérez ⁽¹⁾⁽³⁾⁽⁶⁾	19/03/1952	67	2007	2022
Mr. José Javier Echenique Landiribar ⁽¹⁾⁽⁴⁾⁽⁷⁾	20/11/1951	68	2016	2020
Members				
Mr. Ángel Vilá Boix ⁽¹⁾	29/07/1964	55	2017	2022
Mr. Juan Ignacio Cirac Sasurain ⁽⁶⁾	11/10/1965	54	2016	2020
Mr. Peter Erskine ⁽¹⁾⁽⁶⁾⁽⁷⁾	10/11/1951	68	2006	2020
Ms. Sabina Fluxà Thienemann ⁽⁷⁾	26/04/1980	39	2016	2020
Ms. Carmen García de Andrés ⁽⁴⁾⁽⁸⁾	15/12/1962	57	2017	2021
Ms. María Luisa García Blanco ⁽⁵⁾⁽⁷⁾	25/10/1965	54	2018	2022
Mr. Jordi Gual Solé ⁽²⁾⁽⁵⁾⁽⁶⁾	12/06/1957	62	2018	2022
Mr. Peter Löscher ⁽⁴⁾⁽⁶⁾	17/09/1957	62	2016	2020
Mr. Ignacio Moreno Martínez ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁸⁾	30/07/1957	62	2011	2021
Ms. Verónica Pascual Boé ⁽⁶⁾	17/01/1979	41	2019	2023
Mr. Francisco Javier de Paz Mancho ⁽¹⁾⁽⁵⁾⁽⁷⁾⁽⁸⁾	24/07/1958	61	2007	2022
Mr. Francisco José Riberas Mera	01/06/1964	55	2017	2021
Ms. Claudia Sender Ramírez ⁽⁸⁾	30/10/1974	45	2019	2023

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

(2) Name or company name of the shareholder represented or that has proposed their appointment: CaixaBank, S.A.

(3) Name or company name of the shareholder represented or that has proposed their appointment: Banco Bilbao Vizcaya Argentaria, S.A. (BBVA).

(4) Member of the Audit and Control Committee.

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

(6) Member of the Strategy and Innovation Committee.

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

(8) Member of the Sustainability and Quality Committee.

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

Name	Principal activities inside the Group	Principal Activities outside the Group
José María Álvarez-Pallete López.....	Executive Chairman of Telefónica, S.A.	
Isidro Fainé Casas	Vice Chairman of Telefónica, S.A.	Chairman of Fundación Bancaria Caixa d' Estalvis i Pensions de Barcelona (la "Caixa") Chairman of Criteria Caixa, S.A.U. Honorary Chairman of Naturgy Energy Group, S.A. Chairman of the Spanish Confederation of Savings Banks (<i>Confederación Española de Cajas de Ahorros</i> , CECA) Vice Chairman of European Savings Bank Group (ESGB) Chairman of the World Savings Banks Institute (WSBI)

Name	Principal activities inside the Group	Principal Activities outside the Group
		Director of the Bank of East Asia (BEA)
		Director of Suez Environnement Company
		Chairman of the Spanish Confederation of Directors and Executives (<i>Confederación Española de Directivos y Ejecutivos</i> , CEDE)
		Chairman of the Spanish Chapter of the Club of Rome Chairman of the Circulo Financiero
		Member of the Trust of Museo Nacional del Prado
José María Abril Pérez	Vice Chairman of Telefónica, S.A.	
José Javier Echenique Landiribar	Vice Chairman of Telefónica, S.A.	Vice Chairman of Banco Sabadell, S.A.
	Director of Telefónica Móviles México, S.A. de C.V.	Director of ACS Actividades de Construcción y Servicios, S.A
	Director of Telefónica Audiovisual Digital, S.L.U.	Director of ACS Servicios, Comunicaciones y Energía S.L.
		Director of Ence Energía y Celusosa, S.A.
		Trustee of Novia Salcedo Foundation
		Member of the Board of Deusto Business School
		Member of the Basque Businessmen Circle
		Member of the McKinsey Advisory Council
Ángel Vilá Boix	Chief Operating Officer and Executive Director of Telefónica, S.A.	
Juan Ignacio Cirac Sasurain	Director of Telefónica, S.A.	Director of International of Max-Planck Research School Quantum Science and Technology
		Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University
		Director of the Theory Division of Max-Planck Institut for Quantenoptik and member of the Max-Planck Society.
		Member of the Advisory Board of the Russian Quantum Center.
		Member of the Advisory Board of Annalen der Physik
		Member of the Scientific Committee, Fundación BBVA
		Member of the Advisory Board of Science Center of Benasque

Name	Principal activities inside the Group	Principal Activities outside the Group
		Member of the Advisory Council of Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona
		Member of the Scientific Advisory Board, Centre of Quantum Technology, NUS, Singapore
		Founding and managing Editor, Quantum Information and Computation
Peter Erskine	Director of Telefónica, S.A.	Chairman of the Henley Business School Strategy Board
	Member of the Supervisory Board of Telefónica Deutschland Holding AG	Member of the Council of the University of Reading
		Member of the Reading University's Strategy and Finance Committee
Sabina Fluxà Thienemann	Director of Telefónica, S.A.	Co-Vice President and CEO of Iberostar Group
		Member of the Regional Advisory Board of BBVA
		Member of the Board of Directors of APD Illes Balears
		Trustee of Iberostar Foundation
Carmen García de Andrés	Director of Telefónica, S.A.	Chairwoman of <i>Fundación Tomillo</i>
		Trustee of <i>Fundación Tomillo Tietar</i>
		Trustee of the <i>Fundación Young Business Spain</i>
		Treasurer of the <i>Asociación Española de Fundaciones</i> (AEF)
		Trustee of <i>Fundación Secretariado Gitano</i>
		Trustee of <i>Fundación Xavier de Salas</i>
		Member of the Board of Directors of the collective initiative <i>Juntos por el Empleo de los más desfavorecidos</i>
		Co-Founder and Trustee of <i>Fundación Aprendiendo a ser</i>
María Luisa García Blanco	Director of Telefónica, S.A.	Partner at the law firm Salama García Blanco
		Member of the Royal Academy of Jurisprudence and Legislation.
Jordi Gual Solé	Director of Telefónica, S.A.	Chairman of CaixaBank, S.A.
		Member of the Supervisory Board of ERSTE Group Bank AG
		Chairman of FEDEA
		Vice President of the Círculo de Economía

Name	Principal activities inside the Group	Principal Activities outside the Group
		Vice President of the <i>Fundación Cotect para la Innovación</i>
		Trustee of the <i>Fundación CEDE</i>
		Trustee of the <i>Real Instituto Elcano</i>
		Trustee of the <i>Fundación Barcelona Mobile Word</i>
Peter Löscher	Director of Telefónica, S.A.	Chairman of the Supervisory Board of Sulzer AG
		Member of the Board of Directors of Thyssen-Bosnemisza Group AG, Switzerland
		Member, non-executive, of the Board of Directors of Doha Venture Capital LLC, Qatar
Ignacio Moreno Martínez	Director of Telefónica, S.A.	Chairman of Metrovacesa, S.A.
		Member of the Board of Roadis Transportation Holding, S.L.U.
		Senior Advisor of Apollo Investment Consulting Europe LTD for Spain
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
Verónica Pascual Boé	Director of Telefónica, S.A.	CEO of Mobile Robotics Group of companies
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
Francisco Javier de Paz Mancho	Director of Telefónica, S.A.	
	Director of Telefónica Móviles de Argentina, S.A.	
	Director of Telefônica Brasil, S.A.	
	Chairman of Telefónica Ingeniería de Seguridad, S.A.	
	Director of Telefónica Móviles México, S.A. de C.V.	
Francisco José Riberas Mera	Director of Telefónica, S.A.	Chairman and CEO of Gestamp Automoción, S.A.
		Member of the Board of Directors of companies of the Gestamp Group
		Member of the Board of Directors of companies of the Gonvarri Group
		Member of the Board of Directors of companies of the Acek Energías Renovables Group
		Member of the Board of Directors of companies of the Inmobiliaria Acek Group

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
		Member of the Board of Directors of CIE Automotive
		Member of the Board of Directors of Sideacero, S.L. and companies of its Group
		Chairman of the Family Business Institute
		Member of the Board of Directors of General Alquiler de Maquinaria, S.A. (GAM)
		Collaborates with the Endeavor Foundation
Claudia Sender Ramírez	Director of Telefónica, S.A.	Member of the Board of Directors of LafargeHolcim Ltd
		Member of the Board of Directors of Gerdau, S.A.
		Member of the Board of Directors of Yduqs University
		Member of the Board of Directors of Amigos do Bem

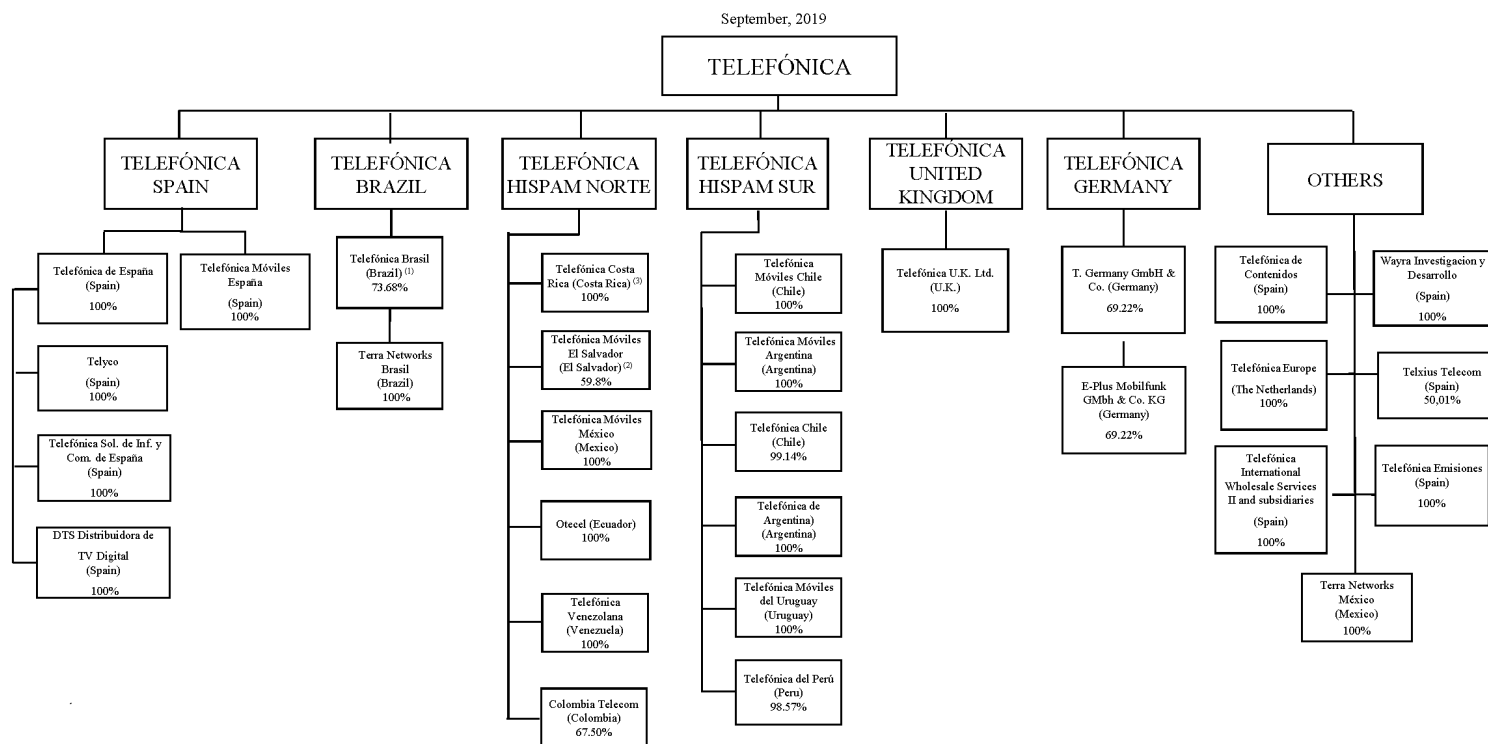
The business address of each of the directors of the Guarantor is Distrito Telefónica Ed. Central, Ronda de la Comunicación s/n, 28050 Madrid, España.

Conflicts of Interest

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

Organisational Structure

The following chart shows the organisational structure of the principal subsidiaries of the Telefónica Group at 30 September 2019, including their jurisdictions of incorporation and Telefónica's ownership interest.



(1) 94.85% voting interest

(2) On January 24, 2019 an agreement was reached for the sale of Telefónica Móviles El Salvador.

(3) On February 20, 2019 an agreement was reached for the sale of Telefónica Costa Rica

TAXATION

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

Also investors should note that the appointment by an investor in Securities, or any person through which an investor holds Securities, of a custodian, collection agent or similar person in relation to such Securities in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Dutch Tax

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

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

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

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes or would be taxable as a corporation for Dutch corporate tax purposes in case such corporation or other person would be or would be deemed to be tax resident in the Netherlands for Dutch corporate tax purposes.

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

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

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

1. **WITHHOLDING TAX**

All payments of principal and interest by the Issuer under the Securities can be made without withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein. However, as of 1 January 2021 withholding tax may apply on certain (deemed) payments of interest made to a related entity or permanent establishment of such entity (i) in a specifically listed low-tax jurisdiction that has no profits tax or a tax rate that is lower than 9 per cent., or which is included in the EU Blacklist for non-cooperative jurisdictions, or (ii) in certain abusive situations involving a hybrid or conduit entity within the meaning of the conditional withholding tax act 2021 (*Wet bronbelasting 2021*).

2. **TAXES ON INCOME AND CAPITAL GAINS**

Residents

Resident entities

An entity holding Securities which is or is deemed to be resident in the Netherlands for Dutch corporate tax purposes and which is not tax exempt, will generally be subject to Dutch corporate tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 25 per cent. in 2020).

Resident individuals

An individual holding Securities who is or is deemed to be resident in the Netherlands for Dutch income tax purposes will be subject to Dutch income tax in respect of income or a capital gain derived from the Securities at the prevailing statutory rates (up to 49.50 per cent. in 2020) if:

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

If neither condition (i) nor (ii) applies, such individual will be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Securities. For 2020, the deemed return ranges from 1.80 per cent. to 5.33 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Securities). The applicable rates will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at the prevailing statutory rate (30 per cent. in 2020).

Non-residents

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

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

3. **GIFT AND INHERITANCE TAXES**

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

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

4. **VALUE ADDED TAX**

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

5. **OTHER TAXES AND DUTIES**

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

6. **RESIDENCE**

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

Spanish Tax

Applicable law for Spanish tax purposes

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

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

Payments made by the Guarantor

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

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

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

The application of the above mentioned exemption from Spanish withholding tax is conditional:

- (i) while the Securities are represented by Global Securities and the Global Securities are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, upon the submission by the Fiscal Agent, in a timely manner, to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) with a certificate containing certain information relating to the Securities in accordance with section 44 of the Royal Decree 1065/2007, as detailed under the Fiscal Agency Agreement, or
- (ii) while the Securities are represented by Definitive Securities, upon the submission by the Holder to the issuer (that is, the Guarantor with respect to any payments of interest under the Guarantee) prior to the corresponding payment of interest under the Guarantee of a valid certificate of tax residence, duly issued by the tax authorities of the country of tax residence of the Holder, each certificate generally being valid for a period of one year beginning on the date of the issuance. For these purposes, if the certificate is referred to a specific period, it will only be valid for that period.

The Issuer, the Guarantor and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Securities so that before the close of business on the Business Day (as defined in the Conditions) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Securities (each, a "**Payment Date**") is due, the Guarantor must receive from the Fiscal Agent a certificate containing certain information relating to the Securities as prescribed under section 44 paragraph 5 of the Royal Decree 1065/2007. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will withhold tax at the then-applicable rate (as at the date of this Prospectus, 19 per cent.) from any payment of interest in respect of the relevant Security. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

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

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

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

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

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

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

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

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

US Foreign Account Tax Compliance Withholding.

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

SUBSCRIPTION AND SALE

Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., BNP Paribas, CaixaBank, S.A., Mizuho Securities Europe GmbH and NatWest Markets N.V. (the "**Joint Bookrunners**") have, in a subscription agreement dated 28 January 2020 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Securities. The Joint Bookrunners are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Securities.

United Kingdom

Each Joint Bookrunner has represented, warranted and undertaken that:

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

Prohibition of Sales to EEA and UK Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive 2016/97/EU, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United States of America

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

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

Each Joint Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Securities, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Kingdom of Spain

Neither the Securities nor this Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Securities may not be offered, sold or distributed, nor may any subsequent resale of the Securities be carried out in Spain, except in circumstances which do not require the registration of a prospectus in Spain or without complying with all legal and regulatory requirements under Spanish securities laws. The Securities shall only be directed specifically at, or made to, to professional clients (*clientes profesionales*) as defined in Article 205 of the Spanish Securities Market Law approved by legislative Royal Decree 4/2015, of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (the "**Spanish Securities Market Law**") and Article 58 of Royal Decree 217/2008, of 15 February, and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Law.

Republic of Italy

The offering of the Securities has not been registered with the Commissione Nazionale per le Società e la Borsa ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Bookrunner has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Prospectus or any other document relating to the Securities in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (the "**Issuers Regulation**"), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Prospectus or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

General

Each Joint Bookrunner has represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Securities or possesses, distributes or publishes this Prospectus or any other offering material relating to the Securities. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or possess, distribute or publish this Prospectus or any other offering material relating to the Securities, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 January 2020. The giving of the Guarantee of the Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 17 January 2020, acting upon a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017 and a resolution of the Board of Directors of the Guarantor dated 9 June 2017.

Legal and Arbitration Proceedings

2. Save as described in "*Risk Factors - Risks relating to the Issuer and the Guarantor - Telefónica and Telefónica Group companies are party to lawsuits, antitrust, tax claims and other legal proceedings*" on page 11 of this Prospectus, under "*Description of the Guarantor - Legal Proceedings*" on pages 77 through 81 of this Prospectus and under "*Description of the Guarantor - Tax Proceedings*" on pages 81 through 84 of this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor and its subsidiaries.

Significant/Material Change

3. Since 31 December 2018 there has been no material adverse change in the prospects of the Issuer. Since 30 June 2019 there has been no significant change in the financial position or financial performance of the Issuer, save for: (i) on 16 August 2019, the Issuer made an early repayment for EUR 750 million of its structured financing of EUR 1,500 million signed on 28 November 2016 and originally scheduled to mature in 2024; (ii) on 24 September 2019, the Issuer issued undated deeply subordinated guaranteed fixed rate reset securities, with the subordinated guarantee of the Guarantor for an aggregate nominal amount of EUR 500 million subject to a call option exercisable by the Issuer from the eighth anniversary of the issuance date; (iii) on 15 November 2019, the Issuer made an early repayment for EUR 450 million of its structured financing of EUR 1,500 million signed on 28 November 2016 and originally scheduled to mature in 2024; and (iv) on 16 December 2019, the Issuer made an early repayment for EUR 300 million of its structured financing of EUR 1,500 million signed on 28 November 2016 and originally scheduled to mature in 2024.
4. Since 31 December 2018 there has been no material adverse change in the prospects of the Guarantor and the Group. Since 30 September 2019 there has been no significant change in the financial position or financial performance of the Guarantor and the Group, save for: (i) on 22 October 2019, the Guarantor made an early repayment for EUR 100 million of its bilateral loan of EUR 100 million signed on 28 December 2017; (ii) on 30 October 2019, the Guarantor made an early repayment for EUR 100 million of its bilateral loan of EUR 100 million signed on 24 November 2017; (iii) on 8 November 2019, the Guarantor signed a bilateral loan for EUR 150 million maturing in 2030 (as of the date of this Prospectus, there was no outstanding amount under this bilateral loan); (iv) on 11 November 2019, Telefónica Emisiones S.A.U. redeemed EUR 1,750 million of its notes issued on 10 November 2009, which notes were guaranteed by the Guarantor; (v) on 29 November 2019, Telxius Telecom, S.A.U. drew down EUR 150 million of its bilateral loan signed on 29 November 2019 and maturing in 2021; (vi) on 4 December 2019, the Guarantor signed a bilateral loan for EUR 200 million maturing in 2027 (as of the date of this Prospectus, there was no outstanding amount under this bilateral loan); (vii) on 18 December 2019, Telefónica Germany GmbH & Co. OHG signed a loan with the European Investment Bank for EUR 300 million maturing in 2028 (as of the date of this Prospectus, there was no outstanding amount under this bilateral loan); (viii) on 18 December 2019, Telefónica Germany GmbH & Co. OHG signed a sustainability-linked syndicated facility for an aggregate amount of EUR 750 million, which replaces the existing syndicated facility maturing in March 2023. The new sustainability-linked syndicated facility matures in 2024, with two annual extension options for a maximum maturity in 2026; (ix) on 23 December 2019, the Guarantor made an early repayment for EUR 100 million of its bilateral loan of EUR 100 million signed on 23 February 2016; (x) on 14 January 2020,

Telefónica Germany GmbH & Co. OHG signed a second tranche of its loan with the European Investment Bank for EUR 150 million maturing in 2029 (as of the date of this Prospectus, there was no outstanding amount under this bilateral loan); and (xi) on 20 January 2020, Telefónica Emisiones, S.A.U. redeemed EUR 1,200 million of its notes issued on 19 October 2012, which notes were guaranteed by the Guarantor.

Auditors

5. The consolidated financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Auditores S.L. with its registered address at Torre PwC, Paseo de la Castellana, 259B, 28046 Madrid, Spain, registered with the Official Registry of Accounting Auditors ("ROAC") under number S0242.
6. The unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2018 and 31 December 2017 by PricewaterhouseCoopers Accountants N.V. with its registered address at Thomas R. Malthusstraat 5, 1066 JR Amsterdam, the Netherlands, registered in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 34180285. The auditor that signed the auditors' reports on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

Documents on Display

7. For so long as the Securities are listed, electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent, at the registered/head office of the Issuer and the Guarantor or at www.telefonica.com:
 - (a) the articles of association of the Issuer (together with English translations thereof), as the same may be updated from time to time;
 - (b) the by-laws of the Guarantor (together with English translations thereof), as the same may be updated from time to time;
 - (c) the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee;
 - (d) the audited unconsolidated financial statements of the Issuer for the years ended 31 December 2018 and 2017 and the unaudited and unreviewed interim unconsolidated financial statements of the Issuer for the six months ended 30 June 2019; and
 - (e) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2018 and 2017, the unaudited condensed consolidated interim financial statements of the Guarantor for the six months ended 30 June 2019 subject to limited review and the unaudited consolidated interim management statement of the Guarantor for the nine months ended 30 September 2019.

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

For the avoidance of doubt, unless specifically incorporated by reference into this Prospectus, information contained on the website does not form part of this Prospectus.

This Prospectus will be available, in electronic format, on the website of Euronext Dublin (www.ise.ie).

Yield

8. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the Securities will be 2.501 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price and it is not an indication of future yield.

Legend Concerning US Persons

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

Credit Ratings

10. The Securities are expected to be rated BB+ by S&P, Ba2 by Moody's and BB+ by Fitch. In accordance with Fitch's ratings definitions available as at the date of this Prospectus on <https://www.fitchratings.com/site/definitions>, a rating of "BB" indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments. In accordance with S&P's ratings definitions available as at the date of this Prospectus on https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352, an obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation. In accordance with Moody's ratings definitions available as at the date of this Prospectus on <https://www.moody.com/ratings-process/Ratings-Definitions/002002>, obligations rated "Ba" are judged to be speculative and are subject to substantial credit risk.

Listing

11. It is expected that the listing of the Securities on the Official List and the admission of the Securities to trading on the regulated market of Euronext Dublin will take place on or about 5 February 2020, subject to the issue of the Temporary Global Security.
12. The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Securities to the Official List of the Euronext Dublin and trading on the regulated market of Euronext Dublin.

Validity of Prospectus and supplements thereto

13. The period of validity of this Prospectus is up to (and including) the admission to trading of the Securities. For the avoidance of doubt, the Issuer and the Guarantor shall have no obligation to supplement this Prospectus after the admission to trading of the Securities.

Fees

14. The estimated costs and expenses in relation to admission to trading are approximately EUR 1,540.

Legal Entity Identifier

15. The Legal Entity Identifier (LEI) code of the Issuer is 7245007FZS0M65WUGP67.
16. The Legal Entity Identifier (LEI) code of the Guarantor is 549300EEJH4FEPDBBR25.

ISIN and Common Code

17. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Securities is XS2109819859 and the common code is 210981985.

Conflicts of Interests

18. Certain Joint Bookrunners and/or their affiliates (including parent companies) may have engaged in various general financing and banking transactions with, and provided financial advisory and investment banking services to the Issuer, the Guarantor and their parent and group companies.

In addition, in the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Guarantor, or the Issuer's or the Guarantor's affiliates. Certain of the Joint Bookrunners or their affiliates that have a lending relationship with the Issuer or the Guarantor routinely hedge their credit exposure to the Issuer or the Guarantor consistent with their customary risk management policies. Typically, such Joint Bookrunners and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of positions in securities, including potentially the Securities issued. Any such positions could adversely affect future trading prices of the Securities issued. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, positions in such securities and instruments. For the purposes of this paragraph the term "affiliates" includes also the relevant parent companies of the Joint Bookrunners. The Joint Bookrunners will also receive fees for their role in the issuance.

**REGISTERED AND HEAD OFFICE OF THE
ISSUER**

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

FISCAL AGENT

**The Bank of New York Mellon, London
Branch**
One Canada Square
London E14 5AL
United Kingdom

**REGISTERED AND HEAD OFFICE OF THE
GUARANTOR**

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

IRISH LISTING AGENT

**The Bank of New York Mellon SA/NV, Dublin
Branch**
Riverside II, Sir John Rogerson's Quay
Grand Canal Dock
Dublin 2
Republic of Ireland

THE JOINT BOOKRUNNERS

Banco Bilbao Vizcaya Argentaria, S.A.
Ciudad BBVA
Calle Saucedo 28
Edificio Asia
28050 Madrid
Spain

Banco Santander, S.A.
Calle Juan Ignacio Luca de Tena, 11
Edificio Magdalena, Planta 1
28027 Madrid
Spain

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

CaixaBank, S.A.
C/Pintor Sorolla, 2
46002 Valencia
Spain

Mizuho Securities Europe GmbH
Taunustor 1
60310 Frankfurt am Main
Federal Republic of Germany

NatWest Markets N.V.
Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands

LEGAL ADVISERS

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

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Paseo de la Castellana, 110
28046 Madrid
Spain

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

Clifford Chance LLP
IJsbaanpad 2
1076 CV Amsterdam
The Netherlands

To the Joint Bookrunners as to Spanish, English and Dutch law:

Linklaters, S.L.P.
Almagro 40
28010 Madrid
Spain

Linklaters LLP
World Trade Centre Amsterdam
Tower H, 22nd Floor
Zuidplein 180
1077 XV, Amsterdam
The Netherlands

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

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

AUDITORS TO THE ISSUER

PricewaterhouseCoopers Accountants N.V.

Thomas R. Malthusstraat 5
1066 JR Amsterdam
The Netherlands

AUDITORS TO THE GUARANTOR

PricewaterhouseCoopers Auditores S.L.

Torre PwC
Paseo de la Castellana, 259B
28046 Madrid
Spain