



Telefónica Europe B.V.

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

**EUR 625,000,000 Undated 8 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**GBP 600,000,000 Undated 7 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 750,000,000 Undated 6 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 1,000,000,000 Undated 10 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 850,000,000 Undated 5 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 1,000,000,000 Undated 2016 5.5 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 1,000,000,000 Undated 2017 5.5 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 1,250,000,000 Undated 5.7 Year Non-Call
Deeply Subordinated Guaranteed Fixed Rate Reset Securities**

**EUR 1,000,000,000 Undated 8.5 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 625,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**8 Year Non-Call Securities**"), the GBP 600,000,000 Undated 7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**7 Year Non-Call Securities**"), the EUR 750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**6 Year Non-Call Securities**"), the EUR 1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**10 Year Non-Call Securities**"), the EUR 850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**5 Year Non-Call Securities**"), the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on 15 September 2016 (the "**2016 5.5 Year Non-Call Securities**"), the EUR 1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on 7 December 2017 (the "**2017 5.5 Year Non-Call Securities**"), the EUR 1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**5.7 Year Non-Call Securities**") and the EUR 1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "**8.5 Year Non-Call Securities**" and together with the 8 Year Non-Call Securities, 7 Year Non-Call Securities, 6 Year Non-Call Securities, 10 Year Non-Call Securities, 5 Year Non-Call Securities, 2016 5.5 Year Non-Call Securities, 2017 5.5 Year Non-Call Securities and 5.7 Year Non-Call Securities, the "**Securities**") were issued by Telefonica

Europe B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis by Telefónica, S.A. (each a "**Guarantee**", and "**Guarantor**" or "**Telefónica**", respectively).

As described in the Terms and Conditions of the relevant Securities, the Securities will bear interest on their principal amount (i) at the fixed rate specified herein from (and including) the Issue Date (as defined in the relevant Terms and Conditions) to (but excluding) the First Reset Date (as defined in the relevant Terms and Conditions) payable annually, except for a short first interest period (where relevant), in arrear (ii) from (and including) the First Reset Date, at the applicable mid-swap rate (as described in the relevant Terms and Conditions) in respect of the relevant Reset Period plus the relevant margin specified in the relevant Terms and Conditions.

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 relevant Terms and Conditions under the heading "*Optional Interest Deferral*". Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate (as defined in the Terms and Conditions of the relevant Securities) applicable from time to time), shall constitute Arrears of Interest (as defined in the Terms and Conditions of the relevant Securities). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Terms and Conditions of the relevant Securities. 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 (as defined in the Terms and Conditions of the relevant Securities) following the Interest Payment Date (as defined in the Terms and Conditions of the relevant Securities) on which any outstanding Deferred Interest Payment (as defined in the Terms and Conditions of the relevant Securities) was first deferred, all as more particularly described in the relevant Terms and Conditions under the heading "*Optional Interest Deferral — Mandatory Settlement of Arrears of Interest*", respectively.

The Securities are 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) (A) in respect of the 8 Year Non-Call Securities, the 7 Year Non-Call Securities, the 6 Year Non-Call Securities, the 10 Year Non-Call Securities, the 5 Year Non-Call Securities, the 2016 5.5 Year Non-Call Securities and the 2017 5.5 Year Non-Call Securities, on the First Reset Date of the relevant series of such Securities and (B) in respect of the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, on any date during the Relevant Period (as defined in the Terms and Conditions of the relevant Securities) or (ii) upon any Interest Payment Date thereafter, at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date (as defined in the Terms and Conditions of the relevant Securities) and any outstanding Arrears of Interest (including any Additional Interest Amounts (as defined in the Terms and Conditions of the relevant Securities) 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 Terms and Conditions of the relevant Securities), 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 the relevant Terms and Conditions under the heading "*Redemption and Purchase*".

The Securities 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 the Terms and Conditions of the relevant Securities. The payment obligations of the Guarantor under each Guarantee 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 Terms and Conditions of the relevant Securities) against the Guarantor in respect of or arising under the Guarantee rank, as against the other obligations of the Guarantor, in the manner more particularly described in the Terms and Conditions of the relevant Securities.

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 the relevant Terms and Conditions under the heading "*Taxation*".

This document comprises a prospectus ("**Prospectus**") for the purposes of Article 5 of Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"). This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. 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 (the "**Main Securities Market**") of The Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"). The Main Securities 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 were initially distributed outside the United States 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 are in bearer form and in the denomination of EUR 100,000, save for the 7 Year Non-Call Securities, which are in the denomination of GBP 100,000. Each series of Securities was initially represented by a temporary global security (each a "**Temporary Global Security**" and together, the "**Temporary Global Securities**"), without interest coupons or talons, deposited with a common depository on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or about the relevant Issue Date. Interests in each Temporary Global Security were exchangeable for interests in a permanent global security (each a "**Permanent Global Security**" and together with the Temporary Global Securities, the "**Global Securities**") in the circumstances set out in the relevant Temporary Global Security. Each Permanent Global Security will be exchangeable for definitive Securities (the "**Definitive Securities**") in the circumstances set out in the relevant Permanent Global Security. See "*Summary of Provisions relating to the Securities while in Global Form*".

The Securities are 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 (EU) No 1060/2009, as amended (the "**CRA Regulation**").

The determination of the Prevailing Interest Rate on and after the First Reset Date (i) in respect of all Securities denominated in Euro, is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute and (ii) in respect of the 7 Year Non-Call Securities, is dependent upon the 6-month London Interbank Offered Rate ("**LIBOR**") administered by ICE Benchmark Administration Limited. As at the date of this Prospectus, ICE Benchmark Administration Limited 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**") (the "**Register of Administrators and Benchmarks**") and European Money Markets Institute is not included in the Register of Administrators and Benchmarks. As far as the Issuer and the Guarantor are aware, transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute is not currently required to appear in the Register of Administrators and Benchmarks.

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.

11 January 2019

IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains 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 the 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 that this Prospectus contains all information regarding the Issuer, the Guarantor and the Securities which is (in the context of the admission of the Securities to the Main Securities Market) 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 or the Guarantor.

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 and the Guarantor 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 "**sterling**", "**pound sterling**" or "**£**" are to the currency of the United Kingdom and references to "**EUR**", "**euro**" or "**€**" 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 reduce risk or 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.

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 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 ("EEA"). 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 2002/92/EC (as amended or superseded), 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 has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Certain terms and conventions

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

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

"**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.

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

"**Atento**" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

"**Bundles**" refer to combination products that combine fixed services (wirelines, broadbands and television) and mobile services.

"**Catch-Up content**" is television contents that can be watched on the Internet from the day after transmission on television and that is available for a certain period of time.

"**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).

"**Cloud Phone**" is an application that allows the transfer of files between smartphones.

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

"**Connectivity services**" are services on a fixed or mobile Internet network.

"**Data ARPU**" is the average data revenues per user per month. Data ARPU is calculated by dividing total data revenues (from sources such as Short Message Service ("**SMS**"), Multimedia Messaging Services ("**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 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.

"**E-care**" is a customer support service provided through the Internet.

"**FaaST**" is a cybersecurity technology that scans an organisation's system 24 hours a day, seven days a week, in order to prevent cybernetic attacks.

"**Final client accesses**" means accesses provided directly to residential and corporate clients.

"**Fixed telephony accesses**" includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or 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).

"**Fixed termination rates**" is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

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

"**FWA**" means the fixed broadband service supported on fixed wireless technology (fixed telephony service with mobile technology).

"**GHz**" means gigahertz.

"**Gross adds**" means the gross increase in the customer base measured in terms of accesses in a period.

"**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).

"**Hybrid/Control Customer**" is a contractual relationship with the customer, where the customer has a postpaid line; if the customer consumes more traffic than the pre-established limit the excess will be billed according to the pre-negotiated tariffs and requires the customer to top up.

"**Incoming revenues**" refers to the interconnection revenues derived from the completion of calls made from outside mobile or fixed carriers into Telefónica's network.

"**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**" 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.

"**IoT**" means the Internet of Things.

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

"**ISP**" means Internet service provider.

"**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.

"**Latch**" is a cybernetic application, protecting accounts and on-line services.

"**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.

"**Metashield**" is a cybernetic product for protecting metadata (information on data) in digital documents and archives.

"**MHz**" means megahertz.

"**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).

"**MTR**" means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

"**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.

"**Non SMS data revenues**" means data revenues excluding SMS revenues.

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

"**Outgoing revenues**" refers to mobile voice or data revenues (SMS, MMS) derived from Telefónica's consumers' consumed service.

"**P2P SMS**" means person to person short messaging service (usually sent by mobile customers).

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

"**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.

"**Tacyt**" is a cybersecurity tool that supervises, stores, analyses, correlates and classifies mobile applications.

"**Trackers**" is a service that contains the information necessary for users to connect with other users.

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

"**VAS**" or "**Value Added Services**" means services such as e-mail, e-banking and teleconferencing.

"**VHCN**" means very high capacity network.

"**Voice Traffic**" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"**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.

"**Wholesale ADSL**" means accesses of broadband or fiber that 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 being considered a hyperinflationary economy in 2015, 2016, 2017 and 2018 by eliminating all adjustments made as a result of such consideration. Additionally, the cumulative financial information for periods ended after 1 July 2018 is presented excluding the effects of Argentina, which has been considered as an hyperinflationary economy since that date.

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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 relating to the Issuer and the Guarantor

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

No regulation of the Issuer by any regulatory authority.

The Issuer is not required to be licensed, registered or authorised under any current relevant laws in the Netherlands, and will operate without supervision by any authority in any jurisdiction. Regulatory authorities in one or more jurisdictions may decide, however, that the Issuer is subject to certain laws in such jurisdiction, which could have an adverse impact on the Issuer or the holders of Securities.

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, reputation, corporate image and brand and its results of operations are set out below and must be considered jointly with the information set out in the 2017 Consolidated Financial Statements (as defined below) and the 2018 First Half Interim Financial Statements (as defined below).

Group- Related 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 the Company's business, financial position, cash flows and results of operations and/or the performance of some or all of the Group's financial indicators.

Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group.

Macroeconomic perspectives in Europe continued to improve in the first half of 2018, although the growing trade tensions that are materialising throughout 2018 could pose a risk to economic growth and global stability. In Europe, political uncertainty decreased after the results of the general elections in some European countries. However, uncertainty remains in Italy due to the lack of political commitment with a reformist agenda. Economic activity and financial stability in Europe could also be affected by the monetary normalisation that the European Central Bank is expected to continue implementing and by the developments related to the agreement reached in relation to the exit of Greece from its bailout programme

and how this country will continue managing its banking and economic restructuring process, which is still ongoing. Furthermore, the planned exit of the United Kingdom from the European Union following the outcome of the referendum held in June 2016 will result in economic adjustments regardless of the nature of the new trade and investment relationships between the United Kingdom and the rest of Europe in the future. However, such adjustments are not expected to be significant in the operations of O2 and the Telefónica Group because the commercial relationships between the Telefónica United Kingdom and the rest of the Group companies are minimal. In the meantime, there is uncertainty regarding investment, economic activity, employment and financial market volatility, which could limit or restrict access to capital markets. Such negative effects could arise regardless of the uncertainty as to the deadlines and duration of the exit process of the United Kingdom from the European Union.

Finally, another possible source of uncertainty given Telefónica's exposure could come from Catalonia's political situation and its impact on the Spanish economy. Although recent developments have contributed to reduce the uncertainty, if political tensions re-emerge or intensify, there could be a negative impact both on financing conditions and on the current positive Spanish macroeconomic scenario. In the first nine months of 2018, the Telefónica Group obtained 26.4 per cent. of its revenues in Spain (24.2 per cent. in the first nine months of 2017), 15.0 per cent. in Germany (13.9 per cent. in the first nine months of 2017) and 13.8 per cent. in the United Kingdom (12.4 per cent. in the first nine months of 2017).

In Latin America, exchange rate risk is particularly noteworthy. Certain external factors contributing to this risk are the uncertainty derived from the monetary normalisation process in the United States, increasing global trade tensions, the continuing low commodity prices in certain cases despite recent improvements and doubts about growth and imbalances in China. Certain internal factors contributing to this risk are the high fiscal and external deficits in major Latin American countries and the low liquidity in certain exchange markets, together with a low productivity growth, which hinder a more accelerated progress in economic development and the rebalancing of still existent mismatches. Additionally, the new government's capacity to carry out the needed structural reforms in Brazil and the final approval of the recently reached Free Trade Agreement (the "USMCA") among the US, Canada and Mexico, are sources of potential currency instability for the short and medium term.

In Brazil, after the electoral results that resulted in a change of government leadership, it is key to check the capacity of the new government to approve the announced reforms that would bring potential improvement to the growth of the economy and drive the fiscal accounts towards their sustainability. On the other hand, while signs of stabilisation have emerged and the economy has started to show positive growth figures, the pace of the recovery is still weak. Moreover, despite decreasing external financing needs, internal financing needs remain high. The combination of such elements has led to risks of further downgrades to the country's credit rating, which is already below investment grade, possibly leading to further currency depreciation.

Mexico has high commercial and financial exposure to the United States, which could generate uncertainty. Domestically, there is also uncertainty surrounding new government's political agenda, despite having a relatively stable outlook. The political management by the new government of the structural achievements made in recent years is relevant, as well as the final approval of the USMCA. The USMCA significantly reduces uncertainty, although it does not eliminate it, as the ratification by the respective national legislative chambers is still necessary. Any increase in interest rates in the United States and/or a possible re-negotiation of trade agreements between the abovementioned countries could result in higher restrictions on imports into the United States, which, together with political uncertainty surrounding such matters, could negatively impact economic activity and exchange rates in Mexico. The relative weight of Mexico in the consolidated revenues of the Telefónica Group was 2.42 per cent. for first nine months of 2018.

Chile, Colombia and Peru have been able to stabilise their economies and improve growth as a result of internal demand and recent adjustments and political decisions that have addressed certain fiscal and external account issues. Nevertheless, these economies are exposed not only to changes in the external environment, but also to unexpected changes in financial conditions and abrupt movements in commodity prices.

In Argentina, the government is focused on resolving the country's macroeconomic and financial imbalances and on recovering international confidence, particularly after the agreement reached with the International Monetary Fund to provide financial support. Even though the measures taken by the government are expected to have positive effects in the medium term, both the macroeconomic and exchange rate risks remain high in the short term. The major challenges the economy is facing, both internal

(high inflation and public deficit) and external (significant financing needs), make the Argentine economy vulnerable to episodes of volatility in the financial markets.

In Ecuador, a decrease in domestic political uncertainty has allowed for an improvement in economic activity through exports, but risks persist, mainly on the fiscal front. The country's financing needs are still high, which, together with low international reserves, keep the country in a more vulnerable position against volatility shocks.

During the first nine months of 2018, Telefónica Hispam North and Telefónica Hispam South represented 8.5 per cent. and 13.1 per cent. of the Telefónica Group's revenues, respectively (8.4 per cent. and 15.8 per cent., respectively, in the first nine months of 2017). During the first nine months of 2018, 4.3 per cent. of Telefónica Group's revenues came from Chile, 4.3 per cent. from Peru and 4.0 per cent. from Argentina. During the first nine months of 2018, Telefónica Brazil represented 21.2 per cent. of the Telefónica Group's revenues (23.5 per cent. in the first nine months of 2017), while Venezuela represented 0.04 per cent. of the Telefónica Group's revenues. Approximately 27.8 per cent. of the Group's revenues were generated in countries that do not have investment grade status (in order of revenue, as a proportion of the Group's revenues: Brazil, Argentina, Ecuador, Costa Rica, Nicaragua, Guatemala, El Salvador and Venezuela) and other countries close to losing this status.

"Country risk" factors include, among others, the following:

- unexpected adverse changes in regulation or administrative policies, including changes that modify the terms and conditions of licences and concessions and their renewal (or delay their approval);
- abrupt exchange rate movements;
- high inflation rates;
- expropriation or nationalisation of assets, adverse tax decisions, or other forms of state intervention;
- economic-financial downturns, political instability and civil disturbances; and
- maximum limits on profit margins imposed in order to limit the prices of goods and services through the analysis of cost structures (for example, in Venezuela, a maximum profit margin has been introduced that is set annually by the Superintendence for Defense of Socioeconomic Rights).

Any of the foregoing may adversely affect the business, financial position, results of operations and/or cash flows of the Group.

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.

In nominal terms, as of 30 September 2018, 75.9 per cent. of the Group's net financial debt plus commitments was pegged to fixed interest rates for a period greater than one year. As of the same date, 18.9 per cent. of the Group's net financial debt plus commitments was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to variations in short-term interest rates, as of 30 September 2018: (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 €77 million, (ii) whereas 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 €61 million. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and taking into account the derivative financial instruments arranged by the Group.

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 losses of €6 million, 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 2018, taking into account derivative instruments in place.

During the first nine months of 2018, Telefónica Brazil represented 27.7 per cent. (25.8 per cent. in the first nine months of 2017), Telefónica United Kingdom represented 11.2 per cent. (10.3 per cent. in the first nine months of 2017), Telefónica Hispam South represented 10.3 per cent. (14.3 per cent. in the first nine months of 2017) and Telefónica Hispam North represented 6.2 per cent. (7.6 per cent. in the first nine months of 2017) of the operating income before depreciation and amortisation ("**OIBDA**") of the Telefónica Group.

The Telefónica Group uses a variety of strategies to manage this risk, among others the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. However, 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.

The evolution of exchange rates negatively impacted the Group's 2017 results, decreasing the Group's consolidated revenues and OIBDA by 3.2 percentage points and 4.7 percentage points, respectively. This was mainly due to the depreciation of the Argentine peso, the Venezuelan bolivar and the pound sterling. In the first nine months of 2018, the evolution of exchange rates had a negative impact on the Group's results, decreasing the Group's consolidated revenues and OIBDA by 10.1 percentage points and 11.7 percentage points, respectively. This was mainly due to the depreciation of the Brazilian real and the Argentine peso. Furthermore, translation differences had a negative impact on the Group's equity of €4,607 million as of 31 December 2017, whereas they had a negative impact on the Group's equity of €1,700 million as of 30 September 2018 (€3,100 million as of 30 September 2017).

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.

Existing or worsening conditions in the financial markets may limit the Group's ability to finance, and consequently, the 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 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.

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 significant deterioration of conditions in the international or local financial markets due to monetary policies set by central banks, including increases in interest rates and/or balance sheet reductions, oil price instability, or if there is an eventual deterioration in the solvency or operating performance of Telefónica.

As of 30 September 2018, the Group's net financial debt amounted to €42,636 million (€44,230 million as of 31 December 2017) and the Group's gross financial debt amounted to €55,988 million (€55,746 million as of 31 December 2017). As of 30 September 2018, the average maturity of the debt was 9.16 years (8.08 years as of 31 December 2017).

As of 30 September 2018, the Group's gross financial debt scheduled to mature in 2018 amounted to €2,576 million, and gross financial debt scheduled to mature in 2019 amounted to €6,937 million.

In accordance with its liquidity policy, Telefónica has covered its gross debt maturities for the next twelve months with cash and credit lines available at 30 September 2018. As of 30 September 2018, the Telefónica Group had undrawn committed credit facilities arranged with banks for an amount of €12,083 million (€11,620 million of which will expire in more than twelve months). Telefónica's liquidity could be affected if market conditions make it difficult to renew existing undrawn credit lines. As of 30 September 2018, 3.8 per cent. of the aggregate undrawn amount under credit lines was scheduled to expire prior to 30 September 2019.

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.

Adoption of new accounting standards could affect the Group's reported results and financial position.

Accounting standard-setting bodies and other authorities may periodically change accounting regulations that govern the preparation of the Group's consolidated financial statements. Those changes could have a significant impact on the way the Group accounts for certain matters and presents its financial position and its results of operations. In some instances, a modified standard or a new requirement with retroactive effect must be implemented, which requires the Group to restate previous financial statements.

In particular, Telefónica is required to adopt the new accounting standard, IFRS 16 "Leases", effective from 1 January 2019.

This standard presents significant changes that will affect the accounting treatment for all lease contracts, where Telefónica acts as lessee, other than certain short-term leases and leases of low-value assets. The Group estimates that the first-time adoption of these changes will have a material impact on the Group's financial statements and may make comparisons between periods less meaningful.

Note 3 to the 2017 Consolidated Financial Statements and Note 3 to the 2018 First Half Interim Financial Statements include information on the main impacts expected from the first-time adoption of the new requirements.

Risks Relating to the Group's Industry

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and sector-specific regulations in the majority of the countries where the Group operates. Additionally, many of the services the Group provides require the granting of a licence, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to the acquisition of spectrum capacity. Among the main risks of this nature are those related to spectrum regulation and licences/concessions, rates, universal service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality. The fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations.

As the Group provides most of its services under licences, authorisations or concessions, it is vulnerable to administrative bodies' decisions, such as economic fines for serious breaches in the provision of services and, potentially, revocation or failure to renew these licences, authorisations or concessions, or the granting of new licences to competitors for the provisions of services in a specific market. The spectrum to which each of the licences and administrative concessions refers is used for the provision of mobile services on 2G, 3G and 4G technologies. The complementarity between the different frequency bands successively assigned to an operator in a geographic market enables greater flexibility and efficiency in both the deployment of the network and the provision of services to final customers over the capacities resulting from such network.

Any challenges or amendments to the terms of licences, authorisations or concessions granted to the Group and necessary for the provision of its services, or the Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed below or any others in which it operates, or its inability to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on its ability to maintain the quality of existing services, which may adversely affect the Group's business, financial condition, results of operations and/or cash flows.

More detailed information can be found in Annex VI to the 2017 Consolidated Financial Statements "*Key regulatory issues and concessions and licences held by the Telefónica Group*".

Additionally, the Telefónica Group could be affected by regulatory actions of the antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or lead to heavy fines. Any such measures implemented by the competition 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 businesses.

Regulation of spectrum and access to new government licences/concessions of spectrum

On 14 September 2016, the European Commission (the "EC") adopted, among others, a proposed Directive for the establishment of a European Electronic Communication Code ("EECC"), which could have significant implications, inter alia, for access to networks, spectrum use, auction conditions, duration and renewal of licences, universal service and consumer protection. On 14 November 2018, the European Parliament formally approved the proposed text agreed upon previously in the *trilogue* process and it is due to be confirmed by the European Council in early December 2018. It is still too early to assess what the final impact of the EECC will be as its impact will depend, to a large extent, on its local implementation by the Member States.

In Europe, spectrum auctions are expected to take place in the coming years, requiring potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with these licenses.

On 17 May 2017, the European Parliament and Council approved a decision regarding the use and availability of the 700 MHz band.

In Spain, the auction of the 3.6GHz band was carried out during July 2018, in which Telefónica was awarded 50MHz in exchange for €107 million, payable over 20 years. The Ministry of Economy and Business Affairs has published the roadmap to free digital television from the 700MHz band, in line with the calendar approved by the EC and with the 5G National Plan adopted in December 2017. The plan foresees the completion of the release of the 700MHz band before 30 June 2020 and the Ministry has indicated its intention to hold the auction in 2020.

In the United Kingdom, in March and April 2018, the Office of Communications ("**Ofcom**"), the national telecommunications regulatory authority, conducted a spectrum auction for the 2.3GHz and 3.4GHz bands. Telefónica United Kingdom won all of the 2.3GHz spectrum available (40MHz) and an additional 40MHz of the 3.4GHz spectrum band (out of the 150MHz available), in both cases under 20-year renewable licenses. Earlier in 2018, Ofcom launched a public consultation regarding the coverage obligations relating to the 700MHz band, which is expected to be auctioned (together with the 3.6GHz band) at the end of 2019. The auction could however be delayed until the beginning of 2020. Ofcom is currently analysing the responses obtained to this public consultation.

In Germany, on 16 May 2018 the regulatory agency for electricity, gas, telecommunications, post and railway ("**BNetzA**") decided to auction two 60MHz nationwide spectrums from the 2GHz band and one 300MHz nationwide spectrum from the 3.6GHz band. Two 40MHz spectrums of the 2GHz band will be available as of 2021 and two 20MHz spectrums of the 2GHz band will be available as of 2026. The majority of the 3.6GHz will be usable as of 2022. BNetzA decided to allocate another 100MHz spectrum from the 3.6GHz band for local and regional usage, which shall be provided to the market in separate allocation proceedings. The auction rules and allocation process are set out in the decision adopted by BNetzA on 26 November 2018. The auction is expected to take place in the first half of 2019.

The bands mentioned above are all considered technologically neutral, which means that they could potentially be used in the future for 5G services.

In Latin America, spectrum auctions are expected to take place in the coming years, requiring potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with these licences. Specifically, the procedures expected to take place in 2018 in jurisdictions that are relevant for the Group are:

- *Mexico*: In August 2018, the *Instituto Federal de Telecomunicaciones* ("**IFT**") awarded Telefónica two blocks of 10MHz on the 2500-2690MHz band, which is considered technologically neutral. It will be used mainly to increase the capacity of existing LTE services. The rules and the procedure of the auction were challenged by a third-party operator and Telefónica has responded to the allegations of the third-party operator. Telefónica's 170MHz spectrum on the 1900MHz band (approximately 40 per cent. out of the total on the 1900 MHz band) will expire in 2018 and it has requested the renewal of this concession. The IFT is expected to decide on the renewal of this concession during the first quarter of 2019.
- *Colombia*: In February 2017, the Ministry of Information Technologies and Communications ("**ITC**") launched a public consultation on the conditions for the auction of 70MHz of spectrum

on the 700MHz band and of 5MHz of spectrum on the 1900MHz band. The ITC modified the spectrum caps through Decree 2194 of 27 December 2017, increasing them by 5MHz for high bands, reaching a total of 90MHz, and by 15MHz for low bands, reaching a total of 45MHz, allowing Colombia Telecomunicaciones, S.A., ESP ("ColTel") to participate in the auction. On 23 January 2018, the ITC published for public consultation a second project on the conditions of the 700MHz auction, which included certain modifications, such as: the auction mechanism would be based on a multiple round ascending clock auction, the obligation to provide free wifi zones would be removed and included extensive coverage obligations in rural areas. This second project was subject to comments until 28 May 2018. Telefónica Colombia submitted comments to the draft conditions of the auction that had been published. The process is currently on hold due to the change of government that took place in Colombia on 7 August 2018. The new government has submitted to Congress a draft bill on information and communications technologies. Among the aspects included in the draft bill there is an extension in the duration of the spectrum licenses. The approval process of the draft bill might have an impact on the timing of the auction.

- *Peru:* The Ministry of Transport and Communications published a draft supreme decree approving the regulation for the reordering of frequency bands, known as "refarming". Telefónica has submitted comments to such draft and requested a comprehensive re-assessment of the draft in order to achieve a more favorable legal framework for its interests.

It is possible that some of the abovementioned spectrum tender procedures will not be completed, or even initiated within the proposed time frames. In addition to the above, it may be the case that certain administrations which have not yet announced their intention to release new spectrum, may do so. The above does not include processes announced through general statements by administrations, which involve bands not key to Telefónica's needs. Furthermore, Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

Risks relating to concessions and licences previously granted

In Spain, pursuant to the licence for the 800MHz spectrum band, there are a series of obligations that Telefónica is subject to with the aim of reaching coverage that allows access, with a speed of at least 30 Mb per second, to at least 90 per cent. of the inhabitants in population units of less than 5,000 inhabitants. The approval of the final terms and conditions to implement this coverage obligation was published in November 2018. Telefónica is undergoing a constant process of deployment and densification of LTE solutions over the 800MHz band that will be the base for compliance with such obligations.

Telefónica owns two concessions of 2.1GHz and 3.5GHz spectrum, both awarded in 2000, which expire in April 2020 but are capable of extension for an additional ten years.

In Germany, in connection with the merger of Telefónica Deutschland Holding AG and E-Plus that has been approved by the EC, on 9 October 2018, the three legal proceedings that remained open before the European General Court relating to Telefónica's implementation of its commitments relating to the merger were dismissed by the court in their entirety.

In the state of São Paulo, Telefônica Brazil provides local and national long-distance Fixed Switched Telephony Services ("STFC") under the so-called public regime, through a concession agreement, which is expected to remain in force until 2025. In accordance with current regulations, Telefônica Brazil informed the Brazilian regulatory authority (*Agencia Nacional de Telecomunicações* or "ANATEL") that the net value of assets assigned to the provision of STFC was estimated to total 8,763 million Brazilian reais as of 31 December 2017 (approximately €2,209 million under the exchange rate applicable on that date). In principle, such assets were considered to be reversible assets, and were thus supposed to revert to the federal government at the end of the concession agreement. A bill amending the regulatory framework in Brazil is in process, establishing, among other things, that such assets would no longer be reversible under a new licence regime in exchange for investment commitments. The bill was approved in the House of Representatives and was sent to the Senate at the end of 2016 where it obtained approval, but was challenged before the Federal Supreme Court due to an alleged procedural error. As a result, the bill returned to the Senate and is currently awaiting a vote.

As of the date of this Prospectus, there is no certainty that the change in the regulatory framework will be completed, or that it will be completed in fully satisfactory terms for Telefónica Brazil. Only after a potential law is adopted enabling the exchange of reversion obligations for investment commitments could

ANATEL adopt the administrative resolutions that would allow to determine potential investment obligations.

Similarly, as of the date of this Prospectus, it is not possible to estimate the hypothetical investment obligations that ANATEL could impose on the concessionaires in exchange for eliminating their obligation to revert assets used for the provision of the STFC services.

In Colombia, the ITC issued resolution 597 on 27 March 2014 to renew 850 MHz/1900 MHz band licences for ten additional years. Under the scope of such resolution, ColTel (67.5 per cent. of which is owned, directly and indirectly, by Telefónica and 32.5 per cent. of which is owned by the government of Colombia), renewed its licence to exploit such spectrum to provide telecommunication services.

The concession agreements from 1994, which were renewed in 2004 and under which the mobile telephone services were provided until 28 November 2013, contained a reversion clause for the underlying assets. However, Law 422 of 1998 and Law 1341 of 2009 provided that upon expiration of a concession agreement for telecommunication services, only the spectrum reverts to the State. That was the understanding under which all the operators, including the authorities, were operating between 1998 and 2013. In 2013, however, when analysing an appeal on the constitutionality of said laws, the Constitutional Court confirmed the constitutionality of the laws but ruled that it could not be concluded that those laws modified with retroactive effect the reversion clause of the concession agreements of 1994. On 16 February 2016, the ITC started an arbitration proceeding against ColTel and other defendants in accordance with the terms of the relevant concession agreement of 1994, in order to clarify the validity and scope of such reversion clause. The arbitration award was rendered on 25 July 2017 and was not favourable to ColTel and its co-defendants.

The arbitration tribunal ordered ColTel to pay 1,651,012 million Colombian pesos. On 29 August 2017, the shareholders' meeting of ColTel approved a capital increase in a total amount of 1,651,012 million Colombian pesos (€470 million at the exchange rate as of 29 August 2017) to pay the amount imposed by the arbitration award. The Telefónica Group and the Colombian government subscribed the capital increase *pro rata* to their respective shareholding in ColTel. Telefónica's decision to participate in the capital increase does not constitute, and should not be understood as, an acceptance of the arbitration award. Telefónica reserves all of its legal rights and the exercise by Telefónica or ColTel of any applicable legal action, national or international. Both ColTel and Telefónica have started legal actions. On 18 August 2017, ColTel filed an appeal to challenge the arbitration award at Colombia's highest court of administrative litigation (*Consejo de Estado*), which was dismissed on 24 May 2018. In addition, on 18 December 2017, ColTel also filed a constitutional action (*acción de tutela*) seeking to protect its constitutional rights jeopardised by the arbitration award. On 15 March 2018, the constitutional action was denied and ColTel filed an appeal against this ruling on 18 April 2018, which was dismissed on 24 May 2018.

On the other hand, pursuant to the relevant bilateral treaty, Telefónica notified Colombia of its intention to file a claim in the International Centre for Settlement of Investment Disputes ("**ICSID**") after the expiration of the 90-day notice period. After the expiration of such deadline, on 1 February 2018, Telefónica submitted the arbitration request to the ICSID and, on 20 February 2018, the General Secretary registered the request for the institution of arbitration proceedings. The request for arbitration is ongoing and the arbitral tribunal is in the process of being appointed.

In Peru, Telefónica has concessions for the provision of fixed-line services until November 2027. In December 2013, Telefónica filed a partial renewal request for these concessions for five more years. In December 2014, June 2016 and May 2017 Telefónica filed renewal requests for an additional twenty years in relation to a concession for the provision of local carrier services to one of the concessions to provide mobile services in certain provinces, and to one concession to provide fixed-line services, respectively. As of the date of this Prospectus, the decision of the Ministry of Transport and Communications (*Ministerio de Transportes y Comunicaciones*) in these proceedings is still pending and, according to the legislation, the underlying concessions remain in force as long as the proceedings are pending.

In Chile, Telefónica Móviles Chile, S.A. and other two telecoms operators were awarded spectrum on the 700MHz band in March 2014, with Telefónica Móviles Chile awarded two 10MHz spectrums. While services are being provided on such spectrum, a consumer organisation filed a claim before the Tribunal for the Defence of Free Competition (the "**TDFC**") against Telefónica Moviles Chile, S.A. and the other two operators, regarding the allocation of spectrum on the 700MHz band and challenging the outcome of the spectrum allocation. The TDFC rejected this claim on consecutive occasions but, on 25 June 2018, the Supreme Court issued a final judgment stating that the assignment of spectrum on the 700MHz band to the

mobile operators was anticompetitive behavior as it awarded spectrum blocks without respecting the 60MHz spectrum cap set by the Supreme Court in a ruling from 2009.

The Supreme Court ruled that the operators have to relinquish the same amount of spectrum that they acquired in the 700MHz auction. However, the Supreme Court allowed the operators to choose the band from which the spectrum that exceed the fixed cap (60MHz) will be relinquished and no deadline has been set. The Court ruling also states that if the sector-specific authority ("**Subtel**") considers it necessary to review the maximum spectrum cap, it should put in place a consultative process before the TDFC. Subtel must otherwise initiate the necessary procedures to adapt the set cap to the fixed parameters of 60MHz for each participating operator in the aforementioned radio spectrum. On 3 October 2018, Subtel published the spectrum cap consultation and the TDLC set a deadline of 28 December 2018 for the interested parties to provide their comments.

Additionally, Subtel issued a decision on 21 June 2018 suspending operations in the 3.4-3.8GHz spectrum band in order to carry out an in-depth study of the efficient usage of this band in light of international best practices and the need for efficient spectrum management. The decision, among other things, suspends granting authorisations, modifying concessions or the consideration of works in connection with such spectrum band. The decision has had a limited impact on Telefónica operations as Telefónica Móviles Chile, S.A. only has spectrum assigned in that band in Regions XI and XII and that spectrum is currently not in use. On 3 October 2018, Subtel resolved that part of the 3.4-3.8GHz spectrum could be used by operators to provide wireless fixed services. On 20 November 2018, Telefónica Móviles Chile, S.A. requested the TDLC to initiate a consultation process to determine whether this Subtel decision violates competition law.

During the first nine months of 2018, the Group's consolidated investment in spectrum acquisitions and renewals amounted to €612 million (€502 million in the first nine months of 2017).

Regulation of wholesale services

The EC's proposal in respect of the regulatory framework intends, among other measures, to incorporate a methodology and a European upper limit for the call-termination prices for landline phones/mobile phones (FTRs/MTRs) applicable in the EU. The decreases in wholesale MTRs in Europe are noteworthy. Since termination fees in mobile and fixed communications have decreased substantially in recent years, future decreases are expected to become smaller so that the negative impact on turnover is expected to be less significant than in the past.

In the United Kingdom, on 1 June 2018, the price of MTRs fell to 0.489 pence per minute, with further reductions based on inflation (consumer prices index ("**CPI**") minus 4.1 per cent. from 1 April 2019 and CPI minus 3.7 per cent. from 1 April 2020).

In Spain, in January 2018 the Spanish National Regulatory and Competition Authority (*Comisión Nacional de los Mercados y la Competencia* or "**CNMC**") approved a decision setting the new MTRs for all mobile operators, which would result in a progressive reduction of 40 per cent. from January 2018 levels. The approved dates and MTRs are as follows: from the date the decision became effective until 31 December 2018 at €0.0070 per minute; from 1 January 2019 until 31 December 2019 at €0.0067 per minute; and as from 1 January 2020 at €0.0064 per minute. CNMC launched a public consultation in November 2018 regarding FTRs, which proposed a decrease in prices and would result in a progressive reduction of 34 per cent. from November 2018 levels. The proposed prices are as follows: from the date the decision becomes effective until 31 December 2019 at €0.0640 per minute; from 1 January 2020 until 31 December 2020 at €0.0591 per minute and from 1 January 2021 at €0.0542 per minute. A final decision is expected in the first quarter of 2019.

In Germany, on 1 December 2018 the price of the MTR fell from €0.0107 per minute to €0.0095 per minute. This price will be in force until 30 November 2019.

In Latin America, the Group believes it is likely that MTRs will also be reduced in the short to medium term.

In Brazil, Resolution 639/2014 established that MTRs will be subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees are expected to be in force. Consequently, ANATEL published Act No. 6211/2014 with the reference prices to be applied by the holders of significant

market power ("SMP"). Besides the cost-oriented-model, the *Plano Geral de Metas de Competição* ("PGMC"), amended by Resolution 649/2015, updated the partial "bill and keep" model for MTRs, fixing an imbalanced remuneration pattern between holders of SMP and other companies operating in the relevant market. This measure was intended to adapt the networks to the reductions of MTRs and promote a gradual adaptation for the enforcement of the cost-oriented fees in early 2019. The new PGMC was published in July 2018 because the "bill and keep" model, which was expected to expire in February 2019, was extended until the next revision of the PGMC in four years.

In Mexico, on 9 November 2017, the IFT announced that the MTRs applicable to the so-called Prevailing Economic Agent ("PEA") for 2018 shall be 0.028562 pesos per minute while the MTRs applicable to the operators other than the PEA shall be 0.112799 pesos per minute. The IFT fixed the MTRs on the PEA's network as a result of a prior ruling of the Supreme Court of Justice in favour of the PEA and against its obligation to refrain from charging fees for the termination of mobile, fixed and SMS traffic on its network. On 13 November 2018, the IFT announced that the MTRs applicable to the PEA for 2019 shall be 0.028313 pesos per minute while the MTRs applicable to the operators other than the PEA shall be 0.112623 pesos per minute.

In Peru, the *Organismo Supervisor de las Telecomunicaciones* ("OSIPTEL") started in November 2016 the process to amend the maximum MTRs. On 28 January 2018, OSIPTEL published the caps on interconnection rates for MTRs. The approved rate was the same for all networks and entailed a decrease of 63 per cent. (USD 0.00661 per minute rated at the second). The new fees established by OSIPTEL will apply as of the adoption of the regulation.

In Argentina, on 17 August 2018, *Ente Nacional de Comunicaciones* ("Enacom") published the provisional termination and local origination charges for the mobile communications service provided by the networks until the final charges are decided pursuant to a cost model. Enacom set a tariff of USD 0.0108 per minute and the measurement unit for valuation will be per second. During the summer of 2018, Enacom launched a public consultation on the cost models for mobile communications services.

In Chile, on 29 July 2018, Telefónica submitted a tariff study to the regulator, Subtel, for the review of the mobile rates. On 26 November 2018, Subtel notified Telefónica of its objections and counter-proposals. In this response, Subtel counterproposed an average rate of 1.35 Chilean pesos per minute (EUR 0.0017, excluding VAT, as at 7 January 2019). On that occasion, Telefónica modified its initial proposal and proposed a new rate of 4.59 Chilean pesos per minute. On 25 January 2019, Subtel will issue the final decision on the mobile termination rate (access charge) that will apply for the next five years.

As a result of the foregoing actions, the prices for certain wholesale services may be reduced, which may materially adversely affect the Group's business, financial condition, results of operations and/or cash flows. During the first nine months of 2018, the negative impact of these wholesale regulations (mainly MTRs, FTRs and roaming) is estimated to have resulted in the deduction of approximately 1.1 percentage points from the organic growth of the Group's revenues.

Regulation of universal service obligations

Universal service obligations ("USO") refers to the obligations imposed on telecommunication operators which are aimed at granting access to all consumers in a country to a minimum set of services offered at reasonable and fair prices in order to avoid social exclusion.

On its proposal for the reform of the regulatory framework issued on 14 September 2016 (the "Code"), the EC sought to modernise USO in Europe, removing the mandatory inclusion of the legacy outdated services (telephone boxes, directories and information services) and focusing on the provision of affordable broadband services. The Code provides the Member States with full flexibility in relation to financing the provision of these services, allowing Member States to choose between public or industry funding. The latter, together with the possibility that the affordability obligations end up being too onerous, may result in higher costs for the industry. In any case, the new regulation is not expected to be applicable before 2020.

In Spain, Telefónica is the operator responsible for the provision of universal service elements to fixed network access with a broadband bandwidth of at least 1 Mb per second (until December 2019). On 28 December 2018, the government approved (by Royal Decree 1517/2018) the modification of the framework applicable to universal service, eliminating the obligation to provide telephone directories that was assigned

from 1 January 2017 to Telefónica, but maintaining its designation as the operator responsible for the provision of sufficient public payphones until 31 December 2019.

In Brazil, the review of the General Plan of Universalisation Targets (PGMU IV) of Fixed Switched Telephony Services that was due to have been published in 2016 has not yet been approved by the government. The balance to be paid to the government and the required investment projects are still under discussion.

The imposition on the Telefónica Group of additional or more onerous USO in the jurisdictions where it operates could have a material adverse effect on its business, financial condition, results of operations and/or cash flows.

Regulation of fiber networks

On 6 March 2018, the CNMC approved a final decision on the economic replicability methodology to be used to assess the maximum wholesale access price which Telefónica can charge other operators for accessing the optical fiber network in regulated areas (NEBA Local and NEBA services). According to this methodology, from April 2018, Telefónica is to apply a wholesale access price ("**NEBA**") of €17.57 per month, with this price being updated twice a year in order to assess whether Telefónica's retail offers (broadband flagship products) are economically replicable with such NEBA price. In July 2018, the CNMC approved a final decision on the methodology to assess if Telefónica's retail offers for the business sector can be replicated by other operators.

Any of such obligations and restrictions could raise costs and limit Telefónica's freedom to provide the aforementioned services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulations on privacy

In Europe, the General Data Protection Regulation ("**GDPR**") of 27 April 2016, has been directly applicable in all Member States since 25 May 2018 and implementing measures have been introduced by Member States, including Germany and the United Kingdom.

In Spain, a new Personal Data Protection and Digital Rights Act has been approved by Parliament, but it is not yet in force. This Act implements GDPR in Spain, addressing several particularities concerning data blocking for judicial purposes or specific matters on databases for advertising purposes or data for deceased people. Equally, it implements procedural mechanisms within the framework of legal investigations concerning potential infringements of the GDPR.

In addition, on 10 January 2017, the EC presented its proposal for a regulation on privacy and electronic communications ("**ePrivacy Regulation**"), which will replace the current Directive 2002/58/EC. The proposal implies an extra layer of regulation on top of the GDPR and also introduces administrative fines of up to 4 per cent. of an undertaking's annual global turnover for breaching new regulations. In this area, a strict data protection and privacy regulation may result in limitations on the ability to offer innovative digital services such as big data services. The future ePrivacy Regulation is not expected to be adopted until the first half of 2019 at the earliest.

The Privacy Shield, approved by the EC on 12 July 2016 to lay out the framework for the international transfer of personal data from the EU to the US, was challenged before the EU's General Court by civil-society groups. One of the appeals was not admitted and the admission of a second appeal is still pending as at the date of this Prospectus. Additionally, on 5 July 2018, the European Parliament issued a non-binding resolution alleging that the Privacy Shield does not provide the appropriate level of privacy of data and requesting the EC to suspend the agreement unless the US authorities complied with its terms by 1 September 2018. The EC carried out its second annual review of the Privacy Shield in October 2018 and it is expected that the results are to be published by the end of 2018. Should the Privacy Shield be suspended, international transfers of personal data from Europe to the US could be made through other mechanisms that offer sufficient guarantees.

In Latin America, the Personal Data Protection Act (Act 13709/2018) was approved on 15 August 2018 in Brazil. This Act entails further obligations and restrictions for operators in relation to the collection of personal data and its processing and is based on GDPR. The text was approved in the Chamber of Deputies and the Senate but the President vetoed the creation of the Authority for the Protection of Personal Data

and of the National Council for the Protection of Personal Data and Privacy, after considering them unconstitutional. The new Personal Data Protection Act will enter into force 18 months after its publication. In Chile and Argentina, two bills aligned with the GDPR are in process to pass into law.

Any obligations and restrictions arising from privacy regulations could raise costs and limit Telefónica's ability to provide certain services, which could materially adversely affect Telefónica's business, financial condition, results of operations and/or cash flows.

Regulation of network neutrality

Under the principle of network neutrality applicable to the Internet access services realm, network operators are not permitted to establish technical or commercial restrictions regarding the terminals that can be connected or the services, or applications and contents that can be accessed or distributed through the Internet by the end user. It also refers to the non-discriminatory behavior (e.g. non-anticompetitive) to be adopted by operators regarding the different types of Internet traffic circulating through their networks.

In Europe, network neutrality is regulated by Regulation (EU) 2015/2120 of 25 November 2015.

Telefónica operates in Latin American countries where net neutrality regulations are being implemented, such as Chile, Colombia, Mexico, Peru (where OSIPTEL implemented regulations on net neutrality on 1 January 2017) and in Brazil. In Mexico, it is expected that IFT will issue guidelines during 2018. In Chile, on 22 November 2016, the Commission of Telecommunications submitted a bill for amending the Network Neutrality Act. The main changes proposed concern the establishment of rules applying measures for traffic management and restrictive rules for "Zero Rating" offers.

If changes to regulations such as those described above, or otherwise, occur in the various jurisdictions where the Telefónica Group operates, it could have a material adverse effect on its business, financial condition, results of operations and/or cash flows of the Group.

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 laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's international operations are subject to various anti-corruption laws, including the US Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanctions programmes, including those administered by the United Nations, the European Union and the United States, including the US Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Telefónica Group's business, it may deal with entities, the employees of which are considered government officials. In addition, economic sanctions programmes restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies and procedures designed to ensure compliance with 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 take actions 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 or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to the Group's reputation and other consequences, that could have a material adverse effect on the Group's business, results of operations and financial condition.

As of the date of this Prospectus, Telefónica is conducting internal investigations covering various countries regarding possible violations of applicable anti-corruption laws. Telefónica has been in contact with and cooperating with governmental authorities about these matters and intends to continue to cooperate with those authorities as the investigations continue. Although it is not possible at this time to predict the scope or duration of these matters or their likely outcome, Telefónica believes that, considering the size of the Group, any potential penalty as a result of the resolution of these investigations would not materially affect the Group's financial condition.

Customers' perceptions of services offered by Telefónica may put it at a disadvantage compared to competitors' offerings.

Customers' perceptions of the assistance and services offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects Telefónica's competitive position relative to other technology sector companies, and its ability to extract the value generated during the process of digital transformation it is immersed in. Failure to do so adequately could have an adverse impact on the Group's business, financial condition, results of operations and/or cash flows.

Telefónica may not be able to adequately foresee and respond to technological changes and sector trends.

In a sector characterised by rapid technological change, it is essential to be able to offer the products and services demanded by the market and consider the impacts of changes in the life cycle of technical assets, secure margins and select the right investments to make.

The Telefónica Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both of these characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt, in a timely manner, to constant technological changes, changes in customer preferences that are taking place in the industry, as well as economic, political and social circumstances. The entry of new competitors in the markets where the Group is the leader, such as Chile and Peru, has resulted in the Group losing market share in the mobile phone market during the period between 2015 and the end of June 2018. In this competitive environment, the Group has focused on its high-value customers and estimates that the loss of revenues has been lower than the loss of accesses.

Failure to adequately anticipate and adapt to constant technological changes, changes in customer preferences that are taking place in the industry, as well as economic, political and social circumstances could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

New products and technologies arise constantly and their development can render obsolete the products and services the Telefónica Group offers and the technology it uses. This means that Telefónica must invest in the development of new products, technology and services so it can continue to compete effectively with current or future competitors, which may result in the decrease of the Group's profits and revenue margins. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are deriving from mobile Internet and connectivity services that are being launched. Examples of these services include IPTV services, IoT services, financial, security and cloud services.

Research and development costs amounted to €703 million in the first nine months of 2018, representing an increase of 18.9 per cent. from €591 million in the first nine months of 2017. These expenses represented 2.0 per cent. and 1.5 per cent. of the Group's consolidated revenues in the first nine months of 2018 and 2017, respectively. Research and development costs amounted to €862 million in 2017, representing a decrease of 4.8 per cent. from €906 million in 2016 (€1,055 million in 2015). These expenses represented 1.7 per cent., 1.7 per cent. and 1.9 per cent. of the Group's consolidated revenues in 2017, 2016 and 2015, respectively. These figures have been calculated using the guidelines established in the Organisation for Economic Cooperation and Development ("OECD") manual.

One technology that telecommunications operators, including Telefónica (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, such as Internet speed of up to 300MB or HD television services. However, substantial investment is required to deploy these networks, which entails fully or partially substituting copper loop access with optic fiber. In Spain, as of 30 September 2018, Telefónica has already 20.8 million premises passed with fiber, which shows the level of investment required. While an increasing demand for the capabilities offered by these new networks to end users exists, the high level of the investments requires a continuous analysis of the return on investment.

The explosion of the digital market and entry of new players in the communications market, such as MVNOs, Internet companies or device manufacturers, may cause the loss of value of certain assets, and affect the Group's ability to generate income. Therefore, it is necessary to update the business model, encouraging the pursuit of income and additional efficiencies to those traditionally sought. Failure to do so

adequately could have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to respond to Telefónica's operating requirements is a key factor to be taken into account with respect to the commercial development, customer satisfaction and business efficiency. Any failure by Telefónica Group's IT systems to adequately respond to the Group's evolving operating requirements could have an adverse effect on the Group's business, financial condition and/or results of operations.

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 in a small number of suppliers, poses risks that may affect Telefónica's operations, and may cause legal contingencies or damages to its image in the event that inappropriate practices are produced by a participant in the supply chain.

As of 30 September 2018, the Telefónica Group depended on two handset suppliers and nine network infrastructure suppliers, which, together, accounted for 70 per cent. and 80 per cent. respectively, for the awarded contracts as of such date (for their products groups). One of the handset suppliers represented 60 per cent. of all handset allocations 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.

If these suppliers fail to deliver products and services to the Telefónica Group on a timely basis, it could jeopardise network deployment and expansion plans, which in some cases could adversely affect the Telefónica Group's ability to satisfy its licence terms and requirements, or otherwise have an adverse effect on the Group's business, financial condition, results of operations and/or cash flows.

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

Unanticipated network interruptions as a result of system failures, including those due to natural disasters caused by natural or meteorological events (due, in turn, to extreme weather conditions, especially in the geographies with greater exposure to them), network, hardware or software failures, stealing of infrastructure elements or cyber-attacks, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm the Telefónica Group's image and reputation.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses have become increasingly dependent on telecommunications and computer networks and adopt cloud computing technologies. Cybersecurity threats may include gaining unauthorised access to Telefónica's systems or inserting computer viruses or malicious software in its systems to misappropriate consumer data and other sensitive information, 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 and intelligence gathering on employees with access. Further, the Group's employees or other persons may have unauthorised or authorised access to the Group's systems and/or take actions that affect the Group's networks in an inconsistent manner with the Group's policies 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, including backup, log review, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion detection or prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures may not always be effective. Although the Telefónica Group has insurance policies to cover these types of incidents, and the claims and loss in revenue caused by service interruptions to date have been covered by these policies, these policies may not be sufficient to cover all possible monetary losses.

The telecommunications industry may be affected by the possible effects that electromagnetic fields, emitted by mobile devices and base stations, may have on human health.

In some countries, there is a concern regarding potential effects of electromagnetic fields, emitted by mobile devices and base stations, on human health. This public concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructures necessary to

ensure quality of service, and affected the deployment criteria of new networks and digital services such as smart meters development.

There is a consensus between certain expert groups and public health agencies, including the World Health Organisation that states that currently there are no established risks associated with exposure to low frequency signals in mobile communications. However, the scientific community is still investigating this issue especially with respect to mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Non-Ionising Radiation Protection Committee have been internationally recognised. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Worries about radio frequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting where transmitters and cell sites can be located, how they operate, the use of mobile telephones and the massive deployment of smart meters and other products using mobile technology. This could lead to Telefónica being unable to expand or improve its mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health, may adversely affect the business, financial conditions, results of operations and/or cash flows of the Telefónica Group.

Possible regulatory, business, economic or political changes could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognise impairments in goodwill, intangible assets, property, plant and equipment or financial assets. Although the recognition of impairments of these assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairments on certain of its investments, affecting its results of operations in the year in which they were experienced. In 2016, impairment losses, in the value of goodwill, were recognised amounting to €215 million, related to Telefónica's operations in Venezuela (€124 million) and in Mexico (€91 million). No impairments were recognised in 2017. In the first nine months of 2018, impairment losses in the value of goodwill, have been recognised amounting to €108 million, related to Telefónica's operations in Mexico.

The Telefónica Group's networks carry and store large volumes of confidential, personal and corporate data, and its Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

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 in 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 the 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, or lead to legal claims and liabilities that are difficult to measure in advance.

In addition, the Telefónica Group's Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for any loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which the Telefónica Group operates, the provision of its Internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the Internet, notably in Europe.

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 and Telefónica Group companies are party to lawsuits, 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 is unpredictable. 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. 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 17 and 21 to the 2017 Consolidated Financial Statements and in Note 18 to the 2018 First Half Financial Statements. Additional details on provisions for litigation, tax sanctions and claims can be found in Note 15 "Provisions" to the 2017 Consolidated Financial Statements.

Risks relating to Withholding

Risks in relation to Dutch Taxation.

Dutch tax risks related to the new government's approach on tax avoidance and tax evasion

On 10 October 2017, the new Dutch government released its coalition agreement (*Regeerakkoord*) 2017-2021, which includes, among others, certain policy intentions for tax reform. On 23 February 2018, the Dutch State Secretary for Finance published a letter with an annex containing further details on the government's policy intentions against tax avoidance and tax evasion.

The Dutch government released its Tax Plan 2019 as part of Budget Day 2018 on 18 September 2018 and made certain amendments to the Tax Plan 2019 in memoranda of amendments published on 26 October 2018, which include, among others, certain legislative proposals based on the policy intentions as mentioned in the coalition agreement and letter on tax avoidance and tax evasion. Two policy intentions in particular may become relevant in the context of the Dutch tax treatment of the Issuer, the Securities, and/or payments under the Securities.

The first policy intention relates to the introduction of a conditional withholding tax on interest paid to creditors in low tax jurisdictions or non-cooperative jurisdictions as of 2021. A legislative proposal introducing a similar conditional withholding tax on dividends and the supporting parliamentary documents thereto mention that, like the conditional dividend withholding tax, this interest withholding tax would apply to certain payments made by a Dutch entity directly or indirectly to a group or related entity (as defined in the legislative proposal on the conditional dividend withholding tax) in a low tax or non-cooperative jurisdiction. However, it cannot be ruled out that it will have a wider application and, as such, it could potentially be applicable to payments under the Securities.

The memoranda of amendments published by the Dutch government on 26 October 2018 in which it is announced that, among others, the introduction of the conditional withholding tax on dividends will be postponed (and the current Dutch dividend withholding tax will not be abolished). The introduction of the conditional withholding tax on interest and royalties will not be postponed. A legislative proposal is still expected to be published in 2019.

The second policy intention relates to the introduction of a thin capitalisation rule as of 2020 that would limit the deduction of interest on debt exceeding 92 per cent. of the commercial balance sheet total. The heading in the coalition agreement, the annex to the letter and the legislative proposal on the conditional withholding tax on dividends suggest that this thin capitalisation rule will apply solely to banks and insurers. However, it cannot be ruled out that it will have a generic application and, as such, it could potentially be applicable to other taxpayers (including the Issuer).

Many aspects of these policy intentions remain unclear. However, if the policy intentions are implemented they may have an adverse effect on the Issuer and its financial position and may give rise to a Tax Event or Withholding Tax Event (in each case as defined in Condition 17 (*Definitions*) of the relevant Securities), in which case the Issuer may redeem the Securities pursuant to its option under Condition 6(c) (*Redemption*

for Taxation Reasons) of the relevant Securities (see "Risk Factors - The Issuer may redeem the Securities under certain circumstances" and "Risk Factors - The Issuer may redeem the Securities after a Tax Event relating to an intra-group loan").

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 Terms and Conditions of each series of Securities) 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 relevant 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 or the Guarantor assumes any responsibility therefore.

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 timely submitted 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 relevant 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 relevant Terms and 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 relevant 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 Terms and Conditions of each series of Securities 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, investors 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 the First Reset Date or, as applicable, any date during the Relevant Period and on any Interest Payment Date thereafter (in each case, as defined in the Terms and Conditions of the relevant Securities).

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 relevant Securities). The relevant redemption amount may be less than the then current market value of the relevant Securities.

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

The net proceeds of the issue of the Securities have been on-lent by the Issuer to the Guarantor pursuant to a Subordinated Loan (as defined in the Terms and Conditions of the relevant Securities). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change (as defined in the Terms and Conditions of the relevant Securities), 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 relevant Securities or, in the case of the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, substitute or vary the terms of the Securities pursuant to Condition 12(c) (*Substitution and Variation*) of the relevant 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 relevant 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 relevant 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 original issue discount or 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.

In respect of the 2016 5.5 Year Non-Call Securities, the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, there is a risk that, after the issue of such 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 such Securities (including the substitution of such 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 such 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, in respect of the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, 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 such Securities, the Issuer may, without any requirement for the consent of the Holders, substitute or vary such 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 Terms and Conditions of the relevant Securities) may change their rating methodology or may apply a different set of criteria after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), and as a result the relevant Securities may no longer be eligible for the same or a higher amount of "equity credit" attributable to the relevant series of Securities at the date of their issue, in which case the Issuer may redeem all of such Securities (but not some only), as provided in Condition 6(e) (*Redemption and Purchase – Redemption for Rating Reasons*) of the relevant 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.

Fixed rate securities have a market risk.

A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such security to change. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

Interest rate reset may result in a decline of yield.

A Holder with a fixed interest rate that will be reset during the term of the Securities is 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 such 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 recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. 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. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Securities sometimes called "notching". 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 and LIBOR.

The determination of the Prevailing Interest Rate on and after the Reset Date (i) in respect of all Securities denominated in Euro, is dependent upon the relevant 6-month Euro Interbank Offered Rate ("**EURIBOR**") administered by the European Money Markets Institute and (ii) in respect of the 7 Year Non-Call Securities, is dependent upon the 6-month London Interbank Offered Rate ("**LIBOR**") administered by ICE Benchmark Administration Limited, in each case at the relevant time (as specified in the Terms and Conditions of the relevant Securities) and the relevant swap rate (as specified in the Terms and Conditions of the relevant Securities). EURIBOR, LIBOR 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 relevant Terms and Conditions, and have a material adverse effect on the value of and return on any the Securities.

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 ("**COMI**") of the debtor is located in such countries.

Aside from new information duties between the countries (e.g. such countries must create an insolvency registry), the most relevant aspects of this regulation are as follows:

- (i) The type of proceedings to which this regulation applies (foreseen under Annex A of the EU Insolvency Regulation) has increased, and pre-insolvency proceedings are now included. With regards to Spain, the EU Insolvency Regulation includes homologation proceedings, extrajudicial payment proceedings, or anticipated arrangement proposals and with regards to the Netherlands includes the suspension of payments and bankruptcy.
- (ii) The determination on the judicial competence to declare the principal insolvency proceeding is explained in more detail. In this sense, the definition of COMI is now foreseen under article 3, which foresees that the centre of main interests shall be the place where the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties. In the case of a company or legal person, the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within the 3-month period prior to the request for the opening of insolvency proceedings.
- (iii) A new chapter on the insolvency of companies that belong to the same group has been included. The EU Insolvency Regulation pretends to ensure more cooperation and coordination between the insolvency receivers, courts, etc., in charge of each proceeding, and has even included a new proceeding called "group coordination proceeding", which is voluntary and enables the insolvency proceedings of group companies to be processed jointly.

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.

Where main proceedings have been opened in the Member State in which the company has its centre of main interests, any proceedings opened subsequently in another Member State in which the company has an establishment shall be secondary proceedings. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only where either: (a) insolvency proceedings cannot be opened in the Member State in which the company's centre of main interests is situated under that Member State's law; or (b) the opening of territorial insolvency proceedings is requested by:

- (i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested; or
- (ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings.

Any judgment opening insolvency proceedings handed down by a court of a Member State which has jurisdiction pursuant to Article 3 shall be recognised in all other Member States from the moment that it becomes effective in the State of the opening of proceedings. This shall also apply where, on account of a debtor's capacity, insolvency proceedings cannot be brought against that debtor in other Member States.

Recognition of main proceedings shall not preclude the opening of a secondary proceeding. The insolvency receiver appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on it by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

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.

There are two primary insolvency regimes under Dutch law. The first, suspension of payments (*surseance van betaling*), is intended to facilitate the re-organisation of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. The consequences of both proceedings are roughly equal from the perspective of a creditor, with creditors being treated on a *pari passu* basis subject to exceptions. A general description of the principles of both insolvency regimes is set forth below.

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 debtor. Consequently, a creditor's potential recovery could be reduced in Dutch insolvency proceedings.

Any pending executions of judgments against the debtor will 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 creditor on the debtor'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. A composition will be binding on all unsecured and non-preferential creditors 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.

Claims against a company subject to Dutch insolvency proceedings will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, to be entitled to distributions. "Verification" under Dutch law means, in the case of suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, that the value of the claim is determined and whether and to what extent it will be admitted in the insolvency proceedings. The valuation of claims that would not otherwise have been payable at the time of the proceedings may be based on a net present value analysis. Unless secured by a pledge or a mortgage, interest accruing after the date on which insolvency proceedings are opened cannot be verified. Where interest accrues after the date of opening of the proceedings, it can be admitted *pro memoria*.

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.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a "cooling down period" for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the bankruptcy costs. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Under Dutch law, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party's obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of the debtor's creditors or its receiver in bankruptcy, if (a) it performed such act without an obligation to do so (*onverplicht*), (b) the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (c) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards

which it acted, knew or should have known that one or more of the debtor's creditors (existing or future) would be prejudiced. In addition, in the case of a person's bankruptcy, the receiver in bankruptcy may nullify its performance of any due and payable obligation (including (without limitation) an obligation under a guarantee or to provide security for any of its or a third party's obligations) if (i) the recipient of the payment or performance knew, at the time of the payment or performance, that a request for bankruptcy had been filed, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

Risks arising in connection with the Spanish Insolvency Law

Subordination of the claims of the Holders under the Guarantee as a result of a contractual subordination.

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.

The insolvency proceedings, which are called *concurso de acreedores*, are applicable to all persons or entities, except for public entities. These proceedings may lead either to the restructuring of the business or to the liquidation of the assets of the debtor.

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 (*insolvencia 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 (*insolvencia 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.

With regards to bilateral agreements with pending obligations for both parties, creditors will not be able to accelerate the maturity of their credits based only on the declaration of the insolvency (*declaración de concurso*) of the debtor. Any provision to the contrary will be null and void.

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:

- (i) Debts against the insolvency estate (*créditos contra la masa*) are not considered part of the debtor's general debt and are payable when due according to their own terms (and, therefore, are paid before other debts under insolvency proceedings). Debt against the insolvency estate includes, among others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnify in cases of voluntary termination or breach by the insolvent debtor, (iv) those that derive from the exercise of a clawback action within the insolvency proceedings of acts performed by the insolvent debtor and correspond to a refund of consideration received by it (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from the non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) 50 per cent. of the funds lent under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71 bis or Additional Provision 4 of the Spanish Insolvency Law (100 per cent. in the case that the funds are lent before 2 October 2016) and (vii) certain debts incurred by the debtor following the declaration of insolvency.
- (ii) Debts benefiting from special privileges, representing attachments on certain assets (basically *in rem* security). These privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year (unless an arrangement with

the creditors that does not affect the specific security is agreed on, or the liquidation phase is initiated before such term elapses), or the consideration of the secured asset as necessary to the debtor's activity. However, within such waiting period or while any enforcement proceedings remain suspended under the Spanish Insolvency Law, the insolvency administrators shall have the option to pay the relevant claims against the insolvency estate under specific payment rules. Privileged creditors are not bound by a creditors arrangement, except if they give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they shall be the first to collect payment against the attached assets.

- (iii) Debts benefiting from general privileges, including among others certain labour debts and certain debts with public administrations. Other debts with public administrations corresponding to tax debts and social security obligations are recognised as privileged for half their amount, and debts held by the creditor applying for the corresponding insolvency proceedings, to the extent such application has been approved, up to a 50 per cent. of the amount of such debt. Funds under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.6 of Spanish Insolvency Law in the amount not admitted as a debt against the insolvency estate (*crédito contra la masa*) will also be credits with general privileges. The holders of general privileges are not to be affected by the restructuring except if they give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they are the first to collect payment, in the order established under the Spanish Insolvency Law.
- (iv) Ordinary debts (non-subordinated and non-privileged creditors). They will be paid on a pro-rata basis.
- (v) Subordinated debts (thus classified by virtue of law). Subordinated debts include, among others, those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the administrators and any shareholders holding, directly or indirectly, more than 5 per cent. (for companies which have issued securities listed on an official secondary market) or 10 per cent. (for companies which have not issued securities listed on an official secondary market) of the share capital and companies pertaining to the same group as the debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Likewise, credits which have been contractually subordinated with respect to *all* other credits against the debtor (such as claims under the Securities) are classified as subordinated credits.

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).

Creditors holding security *in rem*, that had been traditionally allowed to enforce their debts against the secured asset notwithstanding the initiation of insolvency proceedings, are also generally subject to certain restrictions in order to initiate separate enforcement proceedings (or to continue with such proceedings, if they were being carried out), and if the secured asset is deemed to be necessary for the debtor's activities, enforcement cannot be carried out outside the insolvency proceedings. In summary, enforcement by the creditor is subject to a delay of a maximum of one year if such asset is deemed to be necessary for the debtors activities in which case enforcement cannot be carried out outside the insolvency proceedings.

There are no prior transactions that automatically become void as a result of initiation of the insolvency proceedings. The court receivers may only challenge those transactions that could be deemed as having "damaged" the debtor's interests, provided that they have taken place within two years prior to the declaration of insolvency (transactions taking place earlier than two years before insolvency has been declared are subject to the general regime of rescission in accordance with Article 71.6 of the Spanish Insolvency Law). Those transactions that are executed in the ordinary course of business, according to the business of the debtor, are not subject to challenge.

"Damage" does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interests. In any case, the law refers to transactions that are somehow exceptional: damage exists (as a non-rebuttable presumption) in the case of donations and early payment of unsecured obligations maturing after the insolvency declaration, and damage is deemed to exist (as a rebuttable presumption) in the case of transactions entered into with special related persons and the creation of rights *in rem* in order to secure existing obligations or those incurred to replace existing obligations and the cancellation of obligations secured by an *in rem* security interest falling due after the declaration of insolvency; in the remaining cases, damage would have to be justified.

The agreements in relation to the Securities could be challenged only if those transactions were deemed to have caused damage, as explained above.

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

Change of law.

The Terms and Conditions of each series of Securities are based on laws in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to relevant law or administrative practice after the date of this Prospectus.

There may not be an active trading market for the Securities.

The Securities may not be widely distributed and currently have no active trading market. If the Securities are traded, 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 Main Securities 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 each Permanent Global Security. The Global Securities are deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in each Permanent Global Security, investors will not be entitled to receive Definitive Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Securities. 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 depository 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.

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.

Exchange rate fluctuations may affect the value of the Securities.

The Issuer will pay principal and interest on the Securities in euro (in the case of the euro denomination Securities) and sterling (in the case of the 7 Year Non-Call Securities only). 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 or sterling (as applicable). These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or sterling (as applicable) 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 or sterling (as applicable) would decrease (1) the Investor's Currency-equivalent yield on the Securities, (2) the Investor's Currency-equivalent value of the principal payable on the Securities and (3) 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 relevant "Terms and Conditions of the Securities" below have the same meanings in this overview.

Issuer:	Telefónica Europe B.V.
Guarantor:	Telefónica, S.A.
Description of Securities:	<p>8 Year Non-Call Securities: €625,000,000 Undated 8 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "8 Year Non-Call Securities");</p> <p>7 Year Non-Call Securities: £600,000,000 Undated 7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "7 Year Non-Call Securities");</p> <p>6 Year Non-Call Securities: €750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "6 Year Non-Call Securities");</p> <p>10 Year Non-Call Securities: €1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "10 Year Non-Call Securities");</p> <p>5 Year Non-Call Securities: €850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "5 Year Non-Call Securities");</p> <p>2016 5.5 Year Non-Call Securities: €1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on 15 September 2016 (the "2016 5.5 Year Non-Call Securities");</p> <p>2017 5.5 Year Non-Call Securities: €1,000,000,000 Undated 5.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued on 7 December 2017 (the "2017 5.5 Year Non-Call Securities");</p> <p>5.7 Year Non-Call Securities: €1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "5.7 Year Non-Call Securities"); and</p> <p>8.5 Year Non-Call Securities: €1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (the "8.5 Year Non-Call Securities"),</p> <p>together, the "Securities").</p>
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Issue Price:	100 per cent. of the principal amount of the Securities.
Issue Date:	<p>8 Year Non-Call Securities: 18 September 2013.</p> <p>7 Year Non-Call Securities: 26 November 2013.</p> <p>6 Year Non-Call Securities and the 10 Year Non-Call Securities: 31 March 2014.</p> <p>5 Year Non-Call Securities: 4 December 2014.</p>

2016 5.5 Year Non-Call Securities: 15 September 2016.

2017 5.5 Year Non-Call Securities: 7 December 2017.

5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities: 22 March 2018.

Maturity Date: Undated.

Interest: The 8 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 7.625 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 18 September 2014; and
- (ii) from (and including) the First Reset Date, at the applicable 8 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) 18 September 2023, 5.586 per cent. per annum;
 - (B) in respect of the period commencing on 18 September 2023 to (but excluding) 18 September 2041, 5.836 per cent. per annum; and
 - (C) from and including 18 September 2041, 6.586 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 18 September 2022, subject to Condition 5 (*Optional Interest Deferral*) of the 8 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 8 Year Non-Call Securities.

The 7 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 6.750 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 26 November 2014; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 26 November 2025, 4.458 per cent. per annum;
 - (B) in respect of the period commencing on 26 November 2025 to (but excluding) 26 November 2040, 4.708 per cent. per annum; and
 - (C) from and including 26 November 2040, 5.458 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 26 November 2021, subject to Condition 5 (*Optional Interest Deferral*) of the 7 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 7 Year Non-Call Securities.

The 6 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 5.000 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 6 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) 31 March 2024, 3.804 per cent. per annum;
 - (B) in respect of the period commencing on 31 March 2024 to (but excluding) 4 December 2043, 4.054 per cent. per annum; and
 - (C) from and including 31 March 2040, 4.804 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2021, subject to Condition 5 (*Optional Interest Deferral*) of the 6 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of 6 Year Non-Call Securities.

The 10 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 5.875 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 10 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) 31 March 2044, 4.301 per cent. per annum; and
 - (B) from and including 31 March 2044, 5.051 per cent. per annum.

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2025, subject to Condition 5 (*Optional Interest Deferral*) of the 10 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 10 Year Non-Call Securities.

The 5 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 4.200 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 4 December 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 4 December 2024, 3.806 per cent. per annum;
 - (B) in respect of the period commencing on 4 December 2024 to (but excluding) 4 December 2039, 4.056 per cent. per annum; and
 - (C) from and including 4 December 2039, 4.806 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 4 December 2020, subject to Condition 5 (*Optional Interest Deferral*) of the 5 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 5 Year Non-Call Securities.

The 2016 5.5 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 3.750 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 15 March 2017; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 15 March 2027, 3.858 per cent. per annum;
 - (B) in respect of the period commencing on 15 March 2027 to (but excluding) 15 March 2042, 4.108 per cent. per annum; and
 - (C) from and including 15 March 2042, 4.858 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 15 March 2023, subject to Condition 5 (*Optional Interest Deferral*) of the 2016 5.5 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 2016 5.5 Year Non-Call Securities.

The 2017 5.5 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 2.625 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 7 June 2018; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 7 June 2028, 2.327 per cent. per annum;
 - (B) in respect of the period commencing on 7 June 2028 to (but excluding) 7 June 2043, 2.577 per cent. per annum; and
 - (C) from and including 7 June 2043, 3.327 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 7 June 2024, subject to Condition 5 (*Optional Interest Deferral*) of the 2017 5.5 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 2017 5.5 Year Non-Call Securities.

The 5.7 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 3.000 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 4 December 2018; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 4 December 2028, 2.451 per cent. per annum;
 - (B) in respect of the period commencing on 4 December 2028 to (but excluding) 4 December 2043, 2.701 per cent. per annum; and
 - (C) from and including 4 December 2043, 3.451 per cent. per annum,
- all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 4 December 2018, subject to Condition 5 (*Optional Interest Deferral*) of the 5.7 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 5.7 Year Non-Call Securities.

The 8.5 Year Non-Call Securities will bear interest on their principal amount:

- (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 3.875 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 22 September 2018; and
- (ii) from (and including) the First Reset Date, at the applicable 8 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) 22 September 2028, 2.967 per cent. per annum;
 - (B) in respect of the period commencing on 22 September 2028 to (but excluding) 22 September 2046, 3.217 per cent. per annum; and
 - (C) from and including 22 September 2046, 3.967 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 22 September 2018, subject to Condition 5 (*Optional Interest Deferral*) of the 8.5 Year Non-Call Securities and all as more particularly described in Condition 4 (*Interest Payments*) of the 8.5 Year Non-Call Securities.

**Interest
Payment
Dates:**

8 Year Non-Call Securities: Interest payments will be payable annually in arrear on 18 September in each year, commencing on 18 September 2014.

7 Year Non-Call Securities: Interest payments will be payable annually in arrear on 26 November in each year, commencing on 26 November 2014.

6 Year Non-Call Securities and 10 Year Non-Call Securities: Interest payments will be payable annually in arrear on 31 March in each year, commencing on 31 March 2015.

5 Year Non-Call Securities: Interest payments will be payable annually in arrear on 4 December in each year, commencing on 4 December 2015.

2016 5.5 Year Non-Call Securities: Interest payments will be payable annually (except for a short first Interest Period) in arrear on 15 March in each year, commencing on 15 March 2017.

2017 5.5 Year Non-Call Securities: Interest payments will be payable annually (except for a short first Interest Period) in arrear on 7 June in each year, commencing on 7 June 2018.

5.7 Year Non-Call Securities: Interest payments will be payable annually (except for a short first Interest Period) in arrear on 4 December in each year, commencing on 4 December 2018.

8.5 Year Non-Call Securities: Interest payments will be payable annually (except for a short first Interest Period) in arrear on 22 September in each year, commencing on 22 September 2018.

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 *pari passu* and without any preference among themselves.

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. Condition 2(b) (*Status and Subordination of the Securities and Coupons – Subordination of the Securities*) of the relevant Securities 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 Condition 2(b) (*Status and Subordination of the Securities and Coupons – Subordination of the Securities*) of the relevant Securities under Section 6:253 of the Dutch Civil Code.

Guarantee and Status of Guarantee: Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons are unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis.

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 *pari passu* and without preference among themselves.

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.

Optional Interest Deferral: 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 Condition 5 (*Optional Interest Deferral*) of the relevant Securities. 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.

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 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) (*Optional Interest Deferral - Optional Settlement of Arrears of Interest*) of the relevant Securities.

Mandatory 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.

"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 Securities are redeemed or repaid in accordance with Condition 6 (*Redemption and Purchase*) of the relevant Securities or become due and payable in accordance with Condition 9 (*Enforcement Events and No Events of Default*) of the relevant Securities; and
- (iv) in relation to the 2016 5.5 Year Non-Call Securities, the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, the date on which those securities are substituted or varied in accordance with Condition 12(c) (*Substitution and Variation*) of those Securities.

Subject to certain exceptions, as more particularly described in Condition 5 (*Optional Interest Deferral*) of the relevant 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 (i) in relation to the 7 Year Non-Call Securities, the 6 Year Non-Call Securities and the 10 Year Non-Call Securities, in respect of the 2002 Preferred Securities; or (ii) in relation to all Securities, 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 (other than, in relation to the 8 Year Non-Call Securities, the 7 Year Non-Call Securities, the 6 Year Non-Call Securities and the 10 Year Non-Call Securities, any repurchase, redemption or acquisition of any 2002 Preferred Securities).

all as more particularly described in Condition 5 (*Optional Interest Deferral*) of the relevant 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 8 Year Non-Call Securities, the 7 Year Non-Call Securities, the 6 Year Non-Call Securities, the 10 Year Non-Call Securities, the 5 Year Non-Call Securities and the 2016 5.5 Year Non-Call Securities in whole, but not in part, on (i) the First Reset Date under the relevant Terms and Conditions of those Securities 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.

The Issuer may redeem the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities in whole, but not in part, on (i) any date during the applicable Relevant Period under the relevant Terms and Conditions of those Securities 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 relevant Securities.

Pursuant to a deed of covenant dated 18 November 2015, the Issuer and the Guarantor have undertaken not to exercise their right to require early redemption of the 8 Year Non-Call Securities, the 7 Year Non-Call Securities, the 6 Year Non-Call Securities, the 10 Year Non-Call Securities or the 5 Year Non-Call Securities in the circumstances described in limb (ii) of the definition of "Capital Event" in the Terms and Conditions of the relevant 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 relevant Securities.

Form:

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

Substitution or Variation:

In relation to the 2016 5.5 Year Non-Call Securities, the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, 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) of the relevant Securities (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 14 of the relevant Securities, the Holders (which notice shall be irrevocable), on any applicable Interest Payment Date either (i) exchange the relevant 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 relevant Securities, so that after such substitution or variation those 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.

In relation to the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities only, 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 relevant Securities, the Issuer may, subject to Condition 12(c) of the relevant 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 relevant 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 relevant Securities.

Denominations: The Securities, except for the 7 Year Non-Call Securities, are issued in the denomination of €100,000. The 7 Year Non-Call Securities are issued in the denomination of £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) of the relevant Securities (*Status and Subordination of the Securities and Coupons – Subordination 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) of the relevant Securities (*Guarantee, Status and Subordination of the Guarantee – Status of the Guarantee*) and Condition 3(c) of the relevant Securities (*Guarantee, Status and Subordination of the Guarantee – Subordination of the Guarantee*) 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 relevant 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 during the 360-day period prior to, or in the case of the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, 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 at least "BBB" (or such similar nomenclature then used by S&P) 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 Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or
- (iii) in respect of the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, such 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) (A) in the case of a repurchase in respect of the 2016 5.5 Year Non-Call Securities, is in an amount necessary to allow the Issuer's aggregate principal amount of hybrid capital outstanding after such repurchase to remain below the maximum aggregate principal amount of hybrid capital to which S&P would assign equity content under its prevailing methodology, or (B) in the case of a repurchase in respect of the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, such repurchase relates to an aggregate principal amount of such 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 Interest Payment Date falling on (i) in respect of the 8 Year Non-Call Securities, 18 September 2041, (ii) in respect of the 7 Year Non-Call Securities, 26 November 2040, (iii) in respect of the 6 Year Non-Call Securities, 31 March 2040, (iv) in respect of the 10 Year Non-Call Securities, 31 March 2044, (v) in respect of the 5 Year Non-Call Securities, 4 December 2039, (vi) in respect of the 2016 5.5 Year Non-Call Securities, 15 March 2042, (vii) in respect of the 2017 5.5 Year Non-Call Securities, 7 June 2043 (viii) in respect of the 5.7 Year Non-Call Securities, 4 December 2043 and (ix) in respect of the 8.5 Year Non-Call Securities, 22 September 2046.

Rating: The Securities are 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 Directive 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 Main Securities Market of Euronext Dublin. The Main Securities Market is a regulated market for the purposes of MiFID II.

Selling Restrictions: The United States and the EEA (including the United Kingdom, the Netherlands, the Kingdom of Spain and the Republic of Italy). See "*Subscription and Sale*".

Category 2 selling restrictions apply for the purposes of Regulation S under the Securities Act.

Use of Proceeds:	The aggregate net proceeds of the issue of the Securities were used for general corporate purposes of the Guarantor and its Group.
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:	<p>8 Year Non-Call Securities: XS0972588643.</p> <p>7 Year Non-Call Securities: XS0997326441.</p> <p>6 Year Non-Call Securities: XS1050460739.</p> <p>10 Year Non-Call Securities: XS1050461034.</p> <p>5 Year Non-Call Securities: XS1148359356.</p> <p>2016 5.5 Year Non-Call Securities: XS1490960942.</p> <p>2017 5.5 Year Non-Call Securities: XS1731823255.</p> <p>5.7 Year Non-Call Securities: XS1795406575.</p> <p>8.5 Year Non-Call Securities: XS1795406658.</p>
Common Code:	<p>8 Year Non-Call Securities: 097258864.</p> <p>7 Year Non-Call Securities: 099732644.</p> <p>6 Year Non-Call Securities: 105046073.</p> <p>10 Year Non-Call Securities: 105046103.</p> <p>5 Year Non-Call Securities: 114835935.</p> <p>2016 5.5 Year Non-Call Securities: 149096094.</p> <p>2017 5.5 Year Non-Call Securities: 173182325.</p> <p>5.7 Year Non-Call Securities: 179540657.</p> <p>8.5 Year Non-Call Securities: 179540665.</p>

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 2017 are available on https://www.rns-pdf.londonstockexchange.com/rns/2781G_-2018-2-28.pdf; the audited unconsolidated financial statements of Telefónica Europe B.V. for the year ended 31 December 2016 are available on https://www.rns-pdf.londonstockexchange.com/rns/4940Y_-2017-3-3.pdf; the unaudited and unreviewed interim unconsolidated financial statements of Telefónica Europe B.V. for the six months ended 30 June 2018 are available on https://www.rns-pdf.londonstockexchange.com/rns/8671V_1-2018-7-26.pdf; the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2017 (the "**2017 Consolidated Financial Statements**") are available on http://www.rns-pdf.londonstockexchange.com/rns/6302F_2-2018-2-22.pdf; the audited consolidated financial statements of Telefónica, S.A. for the year ended 31 December 2016 (the "**2016 Consolidated Financial Statements**") are available on https://www.rns-pdf.londonstockexchange.com/rns/6411X_1-2017-2-23.pdf; the unaudited condensed consolidated financial statements of Telefónica, S.A. for the six months ended 30 June 2018 subject to limited review (the "**2018 First Half Interim Financial Statements**") are available on https://www.rns-pdf.londonstockexchange.com/rns/8398V_1-2018-7-26.pdf; and the unaudited consolidated interim management statement January-September 2018 of Telefónica, S.A. is available on https://www.rns-pdf.londonstockexchange.com/rns/8521F_1-2018-10-31.pdf.

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 2017 and 2016, and the unaudited and unreviewed interim unconsolidated financial statements for the six months ended 30 June 2018, 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 2017 and 2016, the consolidated financial statements, the limited review report and the notes to financial statements for the six months ended 30 June 2018 and the consolidated interim management statement January-September 2018, 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.

TERMS AND CONDITIONS OF THE 8 YEAR NON-CALL SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the 8 Year Non-Call Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the 8 Year Non-Call Securities was authorised by a resolution of the Board of Directors of the Issuer passed on 4 September 2013 and the guarantee of the 8 Year Non-Call Securities was authorised by a resolution of the Board of Directors of the Guarantor dated 25 August 2013 and by a resolution of the shareholders of the Guarantor acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013. A fiscal agency agreement dated 18 September 2013 (the "**Fiscal Agency Agreement**") has been entered into in relation to the 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities and the Holders of the Coupons (each as defined in Condition 1(b) below) (whether or not attached to the relevant 8 Year Non-Call 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 8 Year Non-Call Securities are serially numbered and in bearer form in the denominations of €100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the 8 Year Non-Call Securities and Coupons passes by delivery. The holder of any 8 Year Non-Call 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 8 Year Non-Call Securities and Coupons**

- (a) **Status of the 8 Year Non-Call Securities and Coupons:** The 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities bear interest at the Prevailing Interest Rate from (and including) 18 September 2013 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the 8 Year Non-Call Securities with respect to any Interest Period annually in arrear on each Interest Payment Date in each case as provided in this Condition 4.

- (b) **Interest Accrual**

The 8 Year Non-Call Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 unless, upon due presentation, payment of all amounts due in respect of the 8 Year Non-Call Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the 8 Year Non-Call 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 8 Year Non-Call Security shall be calculated per €100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each 8 Year Non-Call 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 8 Year Non-Call Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any 8 Year Non-Call 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.

- (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 8 Year Non-Call 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 7.625 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 18 September 2014; and

- (ii) from (and including) the First Reset Date, at the applicable 8 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) 18 September 2023, 5.586 per cent. per annum;
 - (B) in respect of the period commencing on 18 September 2023 to (but excluding) 18 September 2041, 5.836 per cent. per annum; and
 - (C) from and including 18 September 2041, 6.586 per cent. per annum,
- all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 18 September 2022, subject to Condition 5,

and where:

"8 year Swap Rate" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 8 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 8 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 8 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 8 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The "**8 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 eight 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) 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 8 Year Non-Call Securities are for the time being listed or admitted to trading and, in accordance with Condition 14, the Holders of the 8 Year Non-Call 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.

- (e) 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 in London. 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), the Issuer shall forthwith appoint another leading financial institution in London 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.

(f) **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 as aforesaid) 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) and 5(c) 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, 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(c), 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 8 Year Non-Call 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, 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), 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 Arrears of Interest was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, 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; and
- (iii) the date on which the 8 Year Non-Call Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

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

- (iv) 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 (i) in respect of the 2002 Preferred Securities; or (ii) exclusively in Ordinary Shares of the Guarantor); or
- (v) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations (other than any repurchase, redemption or acquisition of any 2002 Preferred Securities),

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 Arrears of Interest 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 Arrears of Interest 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 8 Year Non-Call Securities are undated securities with no specified maturity date. The 8 Year Non-Call Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b), 6(c), 6(d), 6(e), or 6(f).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable), redeem the 8 Year Non-Call Securities in whole, but not in part, on the First Reset Date and 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 8 Year Non-Call 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 First Reset Date) 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 8 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 8 Year Non-Call 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 First Reset Date, 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 8 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 8 Year Non-Call 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 First Reset Date, 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 8 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 8 Year Non-Call 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 8 Year Non-Call Securities.

- (g) **Preconditions to Redemption:** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b)), 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of 8 Year Non-Call Securities or for the purposes of Condition 12.
- (i) **Cancellation:** All 8 Year Non-Call 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 8 Year Non-Call Securities only to the extent that the aggregate principal amount of the 8 Year Non-Call 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 during the 360-day period 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 8 Year Non-Call 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 8 Year Non-Call Securities), unless:

- (i) *the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) 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 8 Year Non-Call Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the 8 Year Non-Call Securities originally issued in any period of 10 consecutive years, or*
- (iii) *the 8 Year Non-Call Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or*
- (iv) *such redemption or repurchase occurs on or after the Interest Payment Date falling on 18 September 2041.*

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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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. 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 8 Year Non-Call Security, unmatred Coupons relating to such 8 Year Non-Call Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any 8 Year Non-Call Security is presented for redemption without all unmatred 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 8 Year Non-Call 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).
- (e) **Payments on business days:** A 8 Year Non-Call 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 8 Year Non-Call 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 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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Security or Coupon who is liable for Taxes in respect of such 8 Year Non-Call 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 8 Year Non-Call 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) while the 8 Year Non-Call Securities are represented by Global 8 Year Non-Call Securities and the Global 8 Year Non-Call Securities are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, to, or to a third party on behalf of, a Holder or to the beneficial owner of any 8 Year Non-Call 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 Law 13/1985 of May 25, as amended ("**Law 13/1985**"), and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the 8 Year Non-Call Securities are represented by Definitive 8 Year Non-Call Securities, 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 8 Year Non-Call Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any 8 Year Non-Call Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (viii) 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 8 Year Non-Call Security to another Paying Agent in a Member State of the European Union.

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 8 Year Non-Call 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) and (c) 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 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 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 Additional Provision Two of Law 13/1985 to the 8 Year Non-Call Securities for Spanish tax purposes.

Payments in respect of the 8 Year Non-Call 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 3 of Additional Provision Two of Law 13/1985 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 8 Year Non-Call Securities through a permanent establishment located in Spanish territory

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

There are no events of default in respect of the 8 Year Non-Call 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 8 Year Non-Call Security, in respect of such 8 Year Non-Call 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 8 Year Non-Call Security and all interest then accrued but unpaid on such 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 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 8 Year Non-Call Securities and Coupons**

If any 8 Year Non-Call 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 8 Year Non-Call 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 therefor, pay such Coupon when due.

12. **Meetings of Holders of 8 Year Non-Call Securities and Modification**

(a) **Meetings of Holders of 8 Year Non-Call Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of 8 Year Non-Call 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 8 Year Non-Call Securities holding not less than one twentieth in principal amount of the 8 Year Non-Call 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 8 Year Non-Call Securities for the time

being outstanding, or at any adjourned meeting one or more persons being or representing Holders of 8 Year Non-Call Securities whatever the principal amount of the 8 Year Non-Call Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of 8 Year Non-Call 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 8 Year Non-Call Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of 8 Year Non-Call 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 8 Year Non-Call Securities.

- (b) **Modification:** The 8 Year Non-Call Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of 8 Year Non-Call Securities to correct a manifest error. No other modification may be made to the 8 Year Non-Call Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the 8 Year Non-Call Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the 8 Year Non-Call Securities.

14. **Notices**

Notices to Holders of 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities are represented by Global 8 Year Non-Call Securities and the Global 8 Year Non-Call Securities are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Holders of 8 Year Non-Call 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 8 Year Non-Call 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 8 Year Non-Call Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

- (a) **Governing Law:** The Fiscal Agency Agreement, the 8 Year Non-Call 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) which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Conditions 3(b) and 3(c), 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 8 Year Non-Call Securities or the Coupons (including a dispute relating to the existence, validity or termination of the 8 Year Non-Call Securities or any non-contractual obligations arising out of or in connection with the 8 Year Non-Call 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 UK Limited, 260 Bath Road, Slough, SL1 4DX, 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:

"2002 Preferred Securities" means the €2,000,000,000 preferred securities (*participaciones preferentes*) issued by Telefónica Finance USA LLC on 30 December 2002 (*of which, as of the date hereof, €58,765,000 were outstanding*);

"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;

"5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued by the Issuer and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"8 Year Swap Rate" has the meaning given to it in Condition 4(c);

"8 year Swap Rate Quotations" has the meaning given to it in Condition 4(c);

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 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 8 Year Non-Call 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);

"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);

"business day" has the meaning given to it in Condition 7(e);

"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);

a **"Capital Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) 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; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the 8 Year Non-Call Securities will no longer be eligible 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 8 Year Non-Call Securities at the Issue Date;

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

"Condition" means the terms and conditions of the 8 Year Non-Call Securities;

"Deferral Notice" has the meaning given to it in Condition 5(a);

"Deferred Interest Payment" has the meaning given to it in Condition 5(a);

"Early Redemption Amount" means in respect of a redemption of the 8 Year Non-Call Securities following the occurrence of a Tax Event, an Accounting Event, a Capital Event or a Substantial Purchase Event, 101 per cent. of the principal amount of such 8 Year Non-Call Securities;

"First Reset Date" means 18 September 2021;

"Fitch Ratings" means Fitch Ratings Limited;

"Further 8 Year Non-Call Securities" means any 8 Year Non-Call Securities issued pursuant to Condition 13 and forming a single series with the outstanding 8 Year Non-Call Securities;

"Holder" has the meaning given to it in Condition 1(b);

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

"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 Payment Date" means 18 September 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 18 September 2013;

"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;

"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 13/1985" means the Additional Provision Two of Law 13/1985 of the Kingdom of Spain (as amended from time to time);

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c);

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

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 Law 13/1985, 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 Law 13/1985 or any other law or regulation of Spain or of any other jurisdiction) (which include the guarantee granted by the Guarantor in connection with the 2002 Preferred Securities) 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 guarantee granted by the Guarantor in connection with the 5 Year 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 8 Year 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 8 Year Non-Call Securities applicable from time to time pursuant to Condition 4;

"Proceedings" has the meaning given to it in Condition 16(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings;

"Redemption Date" means the date fixed for redemption of the 8 Year Non-Call Securities pursuant to Condition 6;

"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 8 Year Non-Call Securities in accordance with Condition 14 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;

"Reset Date" means the First Reset Date and each date falling on the eighth 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);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"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;

"S&P" means Standard & Poor's Credit Market Services Europe Limited;

"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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 18 September 2013, pursuant to which the proceeds of the issue of the 8 Year Non-Call Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the 8 Year Non-Call Securities originally issued (which for these purposes shall include any Further 8 Year Non-Call 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));

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 8 Year Non-Call 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 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 11 September 2013;

"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 11 September 2013;

"Taxing Authority" has the meaning given to it in Condition 8(a); 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 8 Year Non-Call 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 8 Year Non-Call 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.

TERMS AND CONDITIONS OF THE 7 YEAR NON-CALL 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 Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 12 November 2013 and the guarantee of the Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 11 October 2013, by a resolution of the Board of Directors of the Guarantor dated 31 May 2013, and by a resolution of the shareholders of the Guarantor acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013. A fiscal agency agreement dated 26 November 2013 (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) 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 denominations of £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) 26 November 2013 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities with respect to any Interest Period annually 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 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 £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.

- (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 6.75 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 26 November 2014; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 26 November 2025, 4.458 per cent. per annum;

(B) in respect of the period commencing on 26 November 2025 to (but excluding) 26 November 2040, 4.708 per cent. per annum; and

(C) from and including 26 November 2040, 5.458 per cent. per annum,

all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date, commencing on 26 November 2021, subject to Condition 5,

and where:

"5 year Swap Rate" means, in respect of any Reset Period, the mid-swap rate with a term of 5 years as displayed on Reuters screen "ISDAFIX4" (the **"Reset Screen Page"**) as at 11:00 a.m. (London time) on the relevant Reset Interest Determination Date.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. **"Reset Reference Bank Rate"** means the percentage rate determined by the Agent Bank on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the **"Reset Reference Banks"**) to the Agent Bank at approximately 11:00 a.m. (London time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The **"5 year Swap Rate Quotations"** means, in respect of each Interest Period falling within a Reset Period, the arithmetic mean of the bid and offered rates for the semiannual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating Sterling interest rate swap which (i) has a term of five years commencing on the relevant Reset Interest Determination 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 LIBOR rate (calculated on an Actual/365 (Fixed) day count basis).

(d) **Publication of Prevailing Interest Rate**

The Issuer shall cause notice of the Prevailing Interest Rate, the amount payable per Calculation Amount determined in accordance with this Condition 4 in respect of each relevant Reset Period commencing on or after the First Reset Date 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, 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 Prevailing 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.

(e) **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 in London. 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), the Issuer shall forthwith appoint another leading financial institution in London 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.

(f) **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 as aforesaid) 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) and 5(c) 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, 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(c), 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, 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), 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 Arrears of Interest was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, 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; and
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

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

- (iv) 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 (i) in respect of the 2002 Preferred Securities; or (ii) exclusively in Ordinary Shares of the Guarantor); or
- (v) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations (other than any repurchase, redemption or acquisition of any 2002 Preferred Securities),

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 Arrears of Interest 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 Arrears of Interest 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 Condition 6(b), 6(c), 6(d), 6(e), or 6(f).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the

Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, on the First Reset Date and 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date) 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date, 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date, 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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)), 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.
- (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 during the 360-day period 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 at least "BBB" (or such similar nomenclature then used by S&P) 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 Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or
- (iii) the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or
- (iv) such redemption or repurchase occurs on or after the Interest Payment Date falling on 26 November 2040.

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 sterling account maintained by the payee with a bank in London. 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. 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).
- (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 sterling 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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

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) while the Securities are represented by Global Securities and the Global Securities are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, 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 Law 13/1985 of May 25, as amended ("**Law 13/1985**"), and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the Securities are represented by Definitive Securities, 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 provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (viii) 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.

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) and (c) 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 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 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 Additional Provision Two of Law 13/1985 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 3 of Additional Provision Two of Law 13/1985 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.

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 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 therefor, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification**

- (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. 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.

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 Global Securities and the Global Securities are deposited with a common depository 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) which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Conditions 3(b) and 3(c), 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 UK Limited, 260 Bath

Road, Slough, SL1 4DX, 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:

"2002 Preferred Securities" means the €2,000,000,000 preferred securities (*participaciones preferentes*) issued by Telefónica Finance USA LLC on 30 December 2002 (*of which, as of the date hereof, €58,765,000 were outstanding*);

"5 year Swap Rate" has the meaning given to it in Condition 4(c);

"5 year Swap Rate Quotations" has the meaning given to it in Condition 4(c);

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 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;

"Actual/365 (Fixed)" means, in respect of any period, the actual number of days in the relevant period in respect of which payment is being made divided by 365;

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

"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);

"business day" has the meaning given to it in Condition 7(e);

"Business Day" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets settle payments and are open for general business in London;

"Calculation Amount" has the meaning given to it in Condition 4(b);

a **"Capital Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) 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; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the Securities will no longer be eligible 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;

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

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

"Deferral Notice" has the meaning given to it in Condition 5(a);

"Deferred Interest Payment" has the meaning given to it in Condition 5(a);

"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 26 November 2020;

"Fitch Ratings" means Fitch Ratings Limited;

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

"Holder" has the meaning given to it in Condition 1(b);

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

"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 Payment Date" means 26 November 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 26 November 2013;

"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;

"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 13/1985" means the Additional Provision Two of Law 13/1985 of the Kingdom of Spain (as amended from time to time);

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c);

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

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 Law 13/1985, 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 Law 13/1985 or any other law or regulation of Spain or of any other jurisdiction) (which include the guarantee granted by the Guarantor in connection with the 2002 Preferred Securities) 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 September 2013 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;

"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;

"Proceedings" has the meaning given to it in Condition 16(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings;

"Redemption Date" means the date fixed for redemption of the Securities pursuant to Condition 6;

"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 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;

"Reset Date" means the First Reset Date and each date falling on the fifth 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);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"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;

"S&P" means Standard & Poor's Credit Market Services Europe Limited;

"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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) issued by the Issuer on 18 September 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"September 2013 8 Year Non-Call Securities" means the €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;

"September 2013 Securities" means the September 2013 5 Year Non-Call Securities and the September 2013 8 Year Non-Call Securities;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 26 November 2013, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 80 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));

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 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 19 November 2013;

"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 19 November 2013. For the avoidance of doubt the ruling by the Spanish General Tax Directorate (*Dirección General de Tributos*) of 11 November 2013 no. V3313-13 will not be considered a Tax Law Change;

"Taxing Authority" has the meaning given to it in Condition 8(a); 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.

TERMS AND CONDITIONS OF THE 6 YEAR NON-CALL SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the 6 Year Non-Call Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the 6 Year Non-Call Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 14 March 2014 and the guarantee of the 6 Year Non-Call Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 14 March 2014, by a resolution of the Board of Directors of the Guarantor dated 31 May 2013, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013. A fiscal agency agreement dated 31 March 2014 (the "**Fiscal Agency Agreement**") has been entered into in relation to the 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Securities and the Holders of the Coupons (each as defined in Condition 1(b) below) (whether or not attached to the relevant 6 Year Non-Call 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 6 Year Non-Call Securities are serially numbered and in bearer form in the denominations of €100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the 6 Year Non-Call Securities and Coupons passes by delivery. The holder of any 6 Year Non-Call 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 6 Year Non-Call Securities and Coupons**

- (a) **Status of the 6 Year Non-Call Securities and Coupons:** The 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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.

The Issuer does not have any Preferred Shares of the Issuer outstanding and the Issuer's Articles of Association do not provide for the issuance of such shares by the Issuer. For so long as any of the 6 Year Non-Call Securities remains outstanding, the Guarantor and the Issuer do not intend to issue any Preferred Shares of the Issuer.

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 6 Year Non-Call 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 6 Year Non-Call Securities bear interest at the Prevailing Interest Rate from (and including) 31 March 2014 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the 6 Year Non-Call Securities with respect to any Interest Period annually in arrear on each Interest Payment Date in each case as provided in this Condition 4.

(b) **Interest Accrual**

The 6 Year Non-Call Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 unless, upon due presentation, payment of all amounts due in respect of the 6 Year Non-Call Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the 6 Year Non-Call 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 6 Year Non-Call Security shall be calculated per €100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each 6 Year Non-Call 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 6 Year Non-Call Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any 6 Year Non-Call 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.

(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 6 Year Non-Call 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 5.000 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 6 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) 31 March 2024, 3.804 per cent. per annum;
 - (B) in respect of the period commencing on 31 March 2024 to (but excluding) 31 March 2040, 4.054 per cent. per annum; and
 - (C) from and including 31 March 2040, 4.804 per cent. per annum,all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 31 March 2021, subject to Condition 5,

and where:

"**6 year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 6 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 6 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 6 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 6 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The "**6 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 six 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) **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 6 Year Non-Call Securities are for the time being listed or admitted to trading and, in accordance with Condition 14, the Holders of the 6 Year Non-Call 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.

(e) **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 in London. 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), the Issuer shall forthwith appoint another leading financial institution in London 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.

(f) **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 as aforesaid) 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) and 5(c) 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, 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(c), 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 6 Year Non-Call 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, 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), 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 Arrears of Interest was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, 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; and
- (iii) the date on which the 6 Year Non-Call Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

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 (i) in respect of the 2002 Preferred Securities; or (ii) 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 (other than any repurchase, redemption or acquisition of any 2002 Preferred Securities),

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 Arrears of Interest 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 Arrears of Interest 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 6 Year Non-Call Securities are undated securities with no specified maturity date. The 6 Year Non-Call Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b), 6(c), 6(d), 6(e), or 6(f).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable), redeem the 6 Year Non-Call Securities in whole, but not in part, on the First Reset Date and 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 6 Year Non-Call 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 First Reset Date) 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 6 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 6 Year Non-Call 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 First Reset Date, 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 6 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 6 Year Non-Call 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 First Reset Date, 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 6 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice

shall be irrevocable) and subject to Condition 6(g), redeem the 6 Year Non-Call 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 6 Year Non-Call Securities.

- (g) **Preconditions to Redemption:** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b)), 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of 6 Year Non-Call Securities or for the purposes of Condition 12.
- (i) **Cancellation:** All 6 Year Non-Call 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 6 Year Non-Call Securities only to the extent that the aggregate principal amount of the 6 Year Non-Call 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 during the 360-day period 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 6 Year Non-Call 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 6 Year Non-Call Securities), unless:

- (i) *the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) 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 6 Year Non-Call Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the 6 Year Non-Call Securities originally issued in any period of 10 consecutive years, or*

(iii) *the 6 Year Non-Call Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or*

(iv) *such redemption or repurchase occurs on or after the Reset Date falling on 31 March 2040.*

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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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. 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 6 Year Non-Call Security, unmaturing Coupons relating to such 6 Year Non-Call Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any 6 Year Non-Call Security is presented for redemption without all unmaturing 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 6 Year Non-Call 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).
- (e) **Payments on business days:** A 6 Year Non-Call 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 6 Year Non-Call 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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Security or Coupon who is liable for Taxes in respect of such 6 Year Non-Call 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 6 Year Non-Call 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) while the 6 Year Non-Call Securities are represented by Global 6 Year Non-Call Securities and the Global 6 Year Non-Call Securities are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, to, or to a third party on behalf of, a Holder or to the beneficial owner of any 6 Year Non-Call 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 Law 13/1985 of May 25, as amended ("**Law 13/1985**"), and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the 6 Year Non-Call Securities are represented by Definitive 6 Year Non-Call Securities, 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 6 Year Non-Call Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any 6 Year Non-Call Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (viii) 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 6 Year Non-Call Security to another Paying Agent in a Member State of the European Union.

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 6 Year Non-Call 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) and (c) 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 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 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 Additional Provision Two of Law 13/1985 to the 6 Year Non-Call Securities for Spanish tax purposes.

Payments in respect of the 6 Year Non-Call 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 3 of Additional Provision Two of Law 13/1985 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 6 Year Non-Call Securities through a permanent establishment located in Spanish territory.

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

There are no events of default in respect of the 6 Year Non-Call 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 6 Year Non-Call Security, in respect of such 6 Year Non-Call 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 6 Year Non-Call Security and all interest then accrued but unpaid on such 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 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 6 Year Non-Call Securities and Coupons**

If any 6 Year Non-Call 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 6 Year Non-Call 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 therefor, pay such Coupon when due.

12. **Meetings of Holders of 6 Year Non-Call Securities and Modification**

- (a) **Meetings of Holders of 6 Year Non-Call Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of 6 Year Non-Call 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 6 Year Non-Call Securities holding not less than one twentieth in principal amount of the 6 Year Non-Call 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 6 Year Non-Call Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders of 6 Year Non-Call Securities whatever the principal amount of the 6 Year Non-Call Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of 6 Year Non-Call 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 6 Year Non-Call Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of 6 Year Non-Call 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 6 Year Non-Call Securities.

- (b) **Modification:** The 6 Year Non-Call Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of 6 Year Non-Call Securities to correct a manifest error. No other modification may be made to the 6 Year Non-Call Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the 6 Year Non-Call Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the 6 Year Non-Call Securities.

14. **Notices**

Notices to Holders of 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Securities are represented by Global 6 Year Non-Call Securities and the Global 6 Year Non-Call Securities are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Holders of 6 Year Non-Call 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 6 Year Non-Call 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 6 Year Non-Call Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

(a) **Governing Law:** The Fiscal Agency Agreement, the 6 Year Non-Call 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) which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Conditions 3(b) and 3(c), 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 6 Year Non-Call Securities or the Coupons (including a dispute relating to the existence, validity or termination of the 6 Year Non-Call Securities or any non-contractual obligations arising out of or in connection with the 6 Year Non-Call 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 UK Limited, 260 Bath Road, Slough, SL1 4DX, 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:

"**2002 Preferred Securities**" means the €2,000,000,000 preferred securities (*participaciones preferentes*) issued by Telefónica Finance USA LLC on 30 December 2002 (*of which, as of the date hereof, €58,765,000 were outstanding*);

"**2013 Non-Call Securities**" means the September 2013 5 Year Non-Call Securities, the September 2013 8 Year Non-Call Securities and the November 2013 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;

"6 year Swap Rate" has the meaning given to it in Condition 4(c);

"6 year Swap Rate Quotations" has the meaning given to it in Condition 4(c);

"10 Year Non-Call Securities" means the €1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued by the Issuer concurrently with the 6 Year Non-Call Securities and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

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 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 6 Year Non-Call 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);

"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);

"business day" has the meaning given to it in Condition 7(e);

"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);

a **"Capital Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) 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; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the 6 Year Non-Call Securities will no longer be eligible 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 6 Year Non-Call Securities at the Issue Date;

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

"Condition" means the terms and conditions of the 6 Year Non-Call Securities;

"Deferral Notice" has the meaning given to it in Condition 5(a);

"Deferred Interest Payment" has the meaning given to it in Condition 5(a);

"Early Redemption Amount" means in respect of a redemption of the 6 Year Non-Call Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such 6 Year Non-Call Securities;

"First Reset Date" means 31 March 2020;

"Fitch Ratings" means Fitch Ratings Limited;

"Further 6 Year Non-Call Securities" means any 6 Year Non-Call Securities issued pursuant to Condition 13 and forming a single series with the outstanding 6 Year Non-Call Securities;

"Guarantor" means Telefónica, S.A.;

"Holder" has the meaning given to it in Condition 1(b);

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

"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 Payment Date" means 31 March 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 31 March 2014;

"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;

"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 6 Year Non-Call Securities, including (i) Ordinary Shares of the Issuer, (ii) Preferred Shares of the Issuer, if any, and, (iii) if there are any Preferred Shares of the Issuer outstanding and any 2013 Non-Call Securities outstanding which by their terms are expressed to rank *pari passu* with Preferred Shares of the Issuer, such 2013 Non-Call Securities;

"Law 13/1985" means the Additional Provision Two of Law 13/1985 of the Kingdom of Spain (as amended or replaced from time to time);

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c);

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

"November 2013 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;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 Law 13/1985, 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 Law 13/1985 or any other law or regulation of Spain or of any other jurisdiction) (which include the guarantee granted by the Guarantor in connection with the 2002 Preferred Securities) 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 10 Year 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 6 Year Non-Call Securities including (i) the 10 Year Non-Call Securities and, (ii) the 2013 Non-Call Securities, except in the event that such 2013 Non-Call Securities are Junior Obligations of the Issuer (as defined above);

"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 6 Year Non-Call Securities applicable from time to time pursuant to Condition 4;

"Proceedings" has the meaning given to it in Condition 16(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings;

"Redemption Date" means the date fixed for redemption of the 6 Year Non-Call Securities pursuant to Condition 6;

"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 6 Year Non-Call Securities in accordance with Condition 14 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;

"Reset Date" means the First Reset Date and each date falling on the sixth 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);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"S&P" means Standard & Poor's Credit Market Services 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) issued by the Issuer on 18 September 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"September 2013 8 Year Non-Call Securities" means the €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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 31 March 2014, pursuant to which the proceeds of the issue of the 6 Year Non-Call Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the 6 Year Non-Call Securities originally issued (which for these purposes shall include any Further 6 Year Non-Call 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));

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 6 Year Non-Call 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 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 24 March 2014;

"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 24 March 2014;

"Taxing Authority" has the meaning given to it in Condition 8(a); 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 6 Year Non-Call 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 6 Year Non-Call 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.

TERMS AND CONDITIONS OF THE 10 YEAR NON-CALL SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the 10 Year Non-Call Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the 10 Year Non-Call Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 14 March 2014 and the guarantee of the 10 Year Non-Call Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 14 March 2014, by a resolution of the Board of Directors of the Guarantor dated 31 May 2013, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013. A fiscal agency agreement dated 31 March 2014 (the "**Fiscal Agency Agreement**") has been entered into in relation to the 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Securities and the Holders of the Coupons (each as defined in Condition 1(b) below) (whether or not attached to the relevant 10 Year Non-Call 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 10 Year Non-Call Securities are serially numbered and in bearer form in the denominations of €100,000, each with Coupons attached on issue.
- (b) **Title:** Title to the 10 Year Non-Call Securities and Coupons passes by delivery. The holder of any 10 Year Non-Call 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 10 Year Non-Call Securities and Coupons**

- (a) **Status of the 10 Year Non-Call Securities and Coupons:** The 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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.

The Issuer does not have any Preferred Shares of the Issuer outstanding and the Issuer's Articles of Association do not provide for the issuance of such shares by the Issuer. For

so long as any of the 10 Year Non-Call Securities remains outstanding, the Guarantor and the Issuer do not intend to issue any Preferred Shares of the Issuer.

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 10 Year Non-Call 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 10 Year Non-Call Securities bear interest at the Prevailing Interest Rate from (and including) 31 March 2014 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the 10 Year Non-Call Securities with respect to any Interest Period annually in arrear on each Interest Payment Date in each case as provided in this Condition 4.

(b) **Interest Accrual**

The 10 Year Non-Call Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 unless, upon due presentation, payment of all amounts due in respect of the 10 Year Non-Call Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the 10 Year Non-Call 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 10 Year Non-Call Security shall be calculated per €100,000 in principal amount thereof (the "**Calculation Amount**"). The interest payable on each 10 Year Non-Call 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 10 Year Non-Call Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any 10 Year Non-Call 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.

(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 10 Year Non-Call 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 5.875 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 31 March 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 10 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) 31 March 2044, 4.301 per cent. per annum; and
 - (B) from and including 31 March 2044, 5.051 per cent. per annum,all as determined by the Agent Bank payable annually in arrear on each Interest Payment Date, commencing on 31 March 2025, subject to Condition 5,

and where:

"10 year Swap Rate" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the **"Reset Screen Page"**) as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 10 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 10 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. **"Reset Reference Bank Rate"** means the percentage rate determined by the Agent Bank on the basis of the 10 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the **"Reset Reference Banks"**) to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 10 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The **"10 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 ten 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) **Publication of Prevailing Interest Rates**

The Issuer shall cause notice of the Prevailing Interest Rate, the amount payable per Calculation Amount determined in accordance with this Condition 4 in respect of each relevant Reset Period commencing on or after the First Reset Date and the relevant dates scheduled for payment to be given to the Fiscal Agent, the Paying Agents, any stock exchange on which the 10 Year Non-Call Securities are for the time being listed or admitted to trading and, in accordance with Condition 14, the Holders of the 10 Year Non-Call 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 Prevailing 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.

(e) **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 in London. 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), the Issuer shall forthwith appoint another leading financial institution in London 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.

(f) **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 as aforesaid) 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) and 5(c) 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, 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(c), 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 10 Year Non-Call 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, 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), 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 Arrears of Interest was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, 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; and
- (iii) the date on which the 10 Year Non-Call Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

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 (i) in respect of the 2002 Preferred Securities; or (ii) 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 (other than any repurchase, redemption or acquisition of any 2002 Preferred Securities),

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 Arrears of Interest 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 Arrears of Interest 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 10 Year Non-Call Securities are undated securities with no specified maturity date. The 10 Year Non-Call Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b), 6(c), 6(d), 6(e), or 6(f).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable), redeem the 10 Year Non-Call Securities in whole, but not in part, on the First Reset Date and 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 10 Year Non-Call 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 First Reset Date) 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 10 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 10 Year Non-Call 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 First Reset Date, 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 10 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 10 Year Non-Call 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 First Reset Date, 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 10 Year Non-Call 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), redeem the 10 Year Non-Call 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 10 Year Non-Call Securities.

- (g) **Preconditions to Redemption:** Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b)), 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of 10 Year Non-Call Securities or for the purposes of Condition 12.
- (i) **Cancellation:** All 10 Year Non-Call 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 10 Year Non-Call Securities only to the extent that the aggregate principal amount of the 10 Year Non-Call 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 during the 360-day period 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 10 Year Non-Call 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 10 Year Non-Call Securities), unless:

- (i) *the rating assigned by S&P to the Guarantor is at least "BBB" (or such similar nomenclature then used by S&P) 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 10 Year Non-Call Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the 10 Year Non-Call Securities originally issued in any period of 10 consecutive years, or*
- (iii) *the 10 Year Non-Call Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or*

- (iv) *such redemption or repurchase occurs on or after the Interest Payment Date falling on 31 March 2044.*

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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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. 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 10 Year Non-Call Security, unmatred Coupons relating to such 10 Year Non-Call Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any 10 Year Non-Call Security is presented for redemption without all unmatred 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 10 Year Non-Call 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).
- (e) **Payments on business days:** A 10 Year Non-Call 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 10 Year Non-Call 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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

8. **Taxation**

- (a) **Additional Amounts:** All payments of principal and interest in respect of the 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Security or Coupon who is liable for Taxes in respect of such 10 Year Non-Call 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 10 Year Non-Call 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) while the 10 Year Non-Call Securities are represented by Global 10 Year Non-Call Securities and the Global 10 Year Non-Call Securities are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, to, or to a third party on behalf of, a Holder or to the beneficial owner of any 10 Year Non-Call 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 Law 13/1985 of May 25, as amended ("**Law 13/1985**"), and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the 10 Year Non-Call Securities are represented by Definitive 10 Year Non-Call Securities, 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 10 Year Non-Call Security or Coupon to comply with the Issuer's or the Guarantor's request addressed to the Holder or the beneficial owner to provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any 10 Year Non-Call Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (viii) 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 10 Year Non-Call Security to another Paying Agent in a Member State of the European Union.

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 10 Year Non-Call 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) and (c) 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 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 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 Additional Provision Two of Law 13/1985 to the 10 Year Non-Call Securities for Spanish tax purposes.

Payments in respect of the 10 Year Non-Call 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 3 of Additional Provision Two of Law 13/1985 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 10 Year Non-Call Securities through a permanent establishment located in Spanish territory.

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

There are no events of default in respect of the 10 Year Non-Call 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 10 Year Non-Call Security, in respect of such 10 Year Non-Call 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 10 Year Non-Call Security and all interest then accrued but unpaid on such 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 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 10 Year Non-Call Securities and Coupons**

If any 10 Year Non-Call 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 10 Year Non-Call 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 therefor, pay such Coupon when due.

12. **Meetings of Holders of 10 Year Non-Call Securities and Modification**

- (a) **Meetings of Holders of 10 Year Non-Call Securities:** The Fiscal Agency Agreement contains provisions for convening meetings of Holders of 10 Year Non-Call 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 10 Year Non-Call Securities holding not less than one twentieth in principal amount of the 10 Year Non-Call 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 10 Year Non-Call Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders of 10 Year Non-Call Securities whatever the principal amount of the 10 Year Non-Call Securities held or represented. Any Extraordinary Resolution duly passed shall be binding on Holders of 10 Year Non-Call 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 10 Year Non-Call Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of 10 Year Non-Call 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 10 Year Non-Call Securities.

- (b) **Modification:** The 10 Year Non-Call Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Holders of 10 Year Non-Call Securities to correct a manifest error. No other modification may be made to the 10 Year Non-Call Securities, these Conditions the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the 10 Year Non-Call Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the 10 Year Non-Call Securities.

14. **Notices**

Notices to Holders of 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Securities are represented by Global 10 Year Non-Call Securities and the Global 10 Year Non-Call Securities are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, notices to Holders of 10 Year Non-Call 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 10 Year Non-Call 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 10 Year Non-Call Securities under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law**

(a) **Governing Law:** The Fiscal Agency Agreement, the 10 Year Non-Call 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) which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Conditions 3(b) and 3(c), 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 10 Year Non-Call Securities or the Coupons (including a dispute relating to the existence, validity or termination of the 10 Year Non-Call Securities or any non-contractual obligations arising out of or in connection with the 10 Year Non-Call 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 UK Limited, 260 Bath Road, Slough, SL1 4DX, 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:

"**2002 Preferred Securities**" means the €2,000,000,000 preferred securities (*participaciones preferentes*) issued by Telefónica Finance USA LLC on 30 December 2002 (of which, as of the date hereof, €58,765,000 were outstanding);

"**2013 Non-Call Securities**" means the September 2013 5 Year Non-Call Securities, the September 2013 8 Year Non-Call Securities and the November 2013 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;

"6 Year Non-Call Securities" means the €750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities issued by the Issuer concurrently with the 10 Year Non-Call Securities and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"10 year Swap Rate" has the meaning given to it in Condition 4(c);

"10 year Swap Rate Quotations" has the meaning given to it in Condition 4(c);

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 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 10 Year Non-Call 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);

"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);

"business day" has the meaning given to it in Condition 7(e);

"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);

a **"Capital Event"** shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) 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; or (ii) the application of a different hybrid capital methodology or set of criteria by the relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the 10 Year Non-Call Securities will no longer be eligible 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 10 Year Non-Call Securities at the Issue Date;

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

"Condition" means the terms and conditions of the 10 Year Non-Call Securities;

"Deferral Notice" has the meaning given to it in Condition 5(a);

"Deferred Interest Payment" has the meaning given to it in Condition 5(a);

"Early Redemption Amount" means in respect of a redemption of the 10 Year Non-Call Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such 10 Year Non-Call Securities;

"First Reset Date" means 31 March 2024;

"Fitch Ratings" means Fitch Ratings Limited;

"Further 10 Year Non-Call Securities" means any 10 Year Non-Call Securities issued pursuant to Condition 13 and forming a single series with the outstanding 10 Year Non-Call Securities;

"Guarantor" means Telefónica, S.A.;

"Holder" has the meaning given to it in Condition 1(b);

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

"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 Payment Date" means 31 March 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 31 March 2014;

"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;

"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 10 Year Non-Call Securities, including (i) Ordinary Shares of the Issuer, (ii) Preferred Shares of the Issuer, if any, and, (iii) if there are any Preferred Shares of the Issuer outstanding and any 2013 Non-Call Securities outstanding which by their terms are expressed to rank *pari passu* with Preferred Shares of the Issuer, such 2013 Non-Call Securities;

"Law 13/1985" means the Additional Provision Two of Law 13/1985 of the Kingdom of Spain (as amended or replaced from time to time);

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c);

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

"November 2013 Non-Call Securities" means the £600,000,000 Undated 7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS099326441) issued by the Issuer on 26 November 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 Law 13/1985, 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 Law 13/1985 or any other law or regulation of Spain or of any other jurisdiction) (which include the guarantee granted by the Guarantor in connection with the 2002 Preferred Securities) 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 6 Year 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 10 Year Non-Call Securities including (i) the 6 Year Non-Call Securities and, (ii) the 2013 Non-Call Securities, except in the event that such 2013 Non-Call Securities are Junior Obligations of the Issuer (as defined above);

"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 10 Year Non-Call Securities applicable from time to time pursuant to Condition 4;

"Proceedings" has the meaning given to it in Condition 16(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings;

"Redemption Date" means the date fixed for redemption of the 10 Year Non-Call Securities pursuant to Condition 6;

"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 10 Year Non-Call Securities in accordance with Condition 14 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;

"Reset Date" means the First Reset Date and each date falling on the tenth 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);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"S&P" means Standard & Poor's Credit Market Services 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) issued by the Issuer on 18 September 2013 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"September 2013 8 Year Non-Call Securities" means the €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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 31 March 2014, pursuant to which the proceeds of the issue of the 10 Year Non-Call Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the 10 Year Non-Call Securities originally issued (which for these purposes shall include any Further 10 Year Non-Call 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));

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 10 Year Non-Call 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 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 24 March 2014;

"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 24 March 2014;

"Taxing Authority" has the meaning given to it in Condition 8(a); 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 10 Year Non-Call 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 10 Year Non-Call 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.

TERMS AND CONDITIONS OF THE 5 YEAR NON-CALL 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 Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 November 2014 and the guarantee of the Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 14 November 2014, by a resolution of the Board of Directors of the Guarantor dated 30 May 2014, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 30 May 2014. A fiscal agency agreement dated 4 December 2014 (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) 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 €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) 4 December 2014 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities with respect to any Interest Period annually 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 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 €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.

- (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 4.200 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 4 December 2015; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 4 December 2024, 3.806 per cent. per annum;

(B) in respect of the period commencing on 4 December 2024 to (but excluding) 4 December 2039, 4.056 per cent. per annum; and

(C) from and including 4 December 2039, 4.806 per cent. per annum,

all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 4 December 2020, subject to Condition 5,

and where:

"**5 year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The "**5 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 5 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) **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, 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.

(e) **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 in London. 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), the Issuer shall forthwith appoint another leading financial institution in London 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.

(f) **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 as aforesaid) 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) and 5(c) 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, 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(c), 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, 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), 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, 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; and
- (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9.

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), 6(c), 6(d), 6(e), or 6(f).
- (b) **Issuer's Call Option:** The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, on the First Reset Date and 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date) 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date, 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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 First Reset Date, 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 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(g), 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)), 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.
- (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 during the 360-day period 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 at least "BBB" (or such similar nomenclature then used by S&P) 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 Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or*
- (iii) *the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event or a Withholding Tax Event, or*
- (iv) *such redemption or repurchase occurs on or after the Reset Date falling on 4 December 2039.*

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. 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).
- (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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

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) while the Securities are represented by a Security in global form and such Security in global form is deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, 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 Additional Provision One of Law 10/2014, and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the Securities are represented by Securities in definitive form, 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 provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (viii) 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; or
- (ix) 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) and (c) 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 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 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 Additional Provision One 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 Additional Provision One 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.

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 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 therefor, pay such Coupon when due.

12. **Meetings of Holders of Securities and Modification**

- (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. 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.

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) which are governed by and construed in accordance with the laws of The Netherlands, and the provisions of Conditions 3(b) and 3(c), 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 UK Limited, 260 Bath Road, Slough, SL1 4DX, 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 5 Year Non-Call Securities, the September 2013 8 Year Non-Call Securities and the November 2013 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;

"**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;

"**5 year Swap Rate**" has the meaning given to it in Condition 4(c);

"**5 year Swap Rate Quotations**" has the meaning given to it in Condition 4(c);

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 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);

"**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);

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

"**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);

a "**Capital Event**" shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to (i) 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; or (ii) the application of a different hybrid capital methodology or set of criteria by the

relevant Rating Agency after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), the Securities will no longer be eligible 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;

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

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

"**Deferral Notice**" has the meaning given to it in Condition 5(a);

"**Deferred Interest Payment**" has the meaning given to it in Condition 5(a);

"**Dividend Declaration**" has the meaning given to it in Condition 5(c);

"**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 4 December 2019;

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

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

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

"**Holder**" has the meaning given to it in Condition 1(b);

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

"**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 Payment Date**" means 4 December 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 4 December 2014;

"**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 €750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050460739) 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 €1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050461034) issued by the Issuer on 31 March 2014 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);

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

"November 2013 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;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 Additional Provision One 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 Additional Provision One 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 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 2014 Non-Call Securities and (ii) 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;

"Proceedings" has the meaning given to it in Condition 16(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings 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;

"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 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;

"Reset Date" means the First Reset Date and each date falling on the fifth 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);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"S&P" means Standard & Poor's Credit Market Services 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) 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 2013 8 Year Non-Call Securities" means the €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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 4 December 2014, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 80 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));

"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 20 of the consolidated text of the Spanish Corporate Income Tax Law, approved by the Royal Legislative Decree 4/2004, dated 5 March, as at 27 November 2014;

"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 27 November 2014;

"Taxes" has the meaning given to it in Condition 8(a);

"Taxing Authority" has the meaning given to it in Condition 8(a); 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.

TERMS AND CONDITIONS OF THE 2016 5.5 YEAR NON-CALL 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 Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 1 September 2016 and the guarantee of the Securities was authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 29 July 2015, by a resolution of the Board of Directors of the Guarantor dated 30 May 2014, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 30 May 2014. A fiscal agency agreement dated 15 September 2016 (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 €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) 15 September 2016 (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 short 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) 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 €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.

- (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 3.750 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 15 March 2017; and
- (ii) from (and including) the First Reset Date, at the applicable 5 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) 15 March 2027, 3.858 per cent. per annum;

(B) in respect of the period commencing on 15 March 2027 to (but excluding) 15 March 2042, 4.108 per cent. per annum; and

(C) from and including 15 March 2042, 4.858 per cent. per annum,

all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 15 March 2023, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"**5 year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ISDAFIX2" (the "**Reset Screen Page**") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean 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).

The "**5 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 5 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) ***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.

(e) ***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 in London. 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 in London 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.

(f) ***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 as aforesaid) 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(c) (*Optional Interest Deferral – Mandatory Settlement of Arrears of Interest*), 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; and
- (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:

- (v) 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
- (vi) 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 30 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, on the First Reset Date and 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 30 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 First Reset Date) 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 30 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 First Reset Date, 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 30 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 First Reset Date, 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 30 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 during the 360-day period 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 at least "BBB" (or such similar nomenclature then used by S&P) 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 Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or*

- (iii) *in the case of a repurchase, such repurchase is in an amount necessary to allow the Issuer's aggregate principal amount of hybrid capital outstanding after such repurchase to remain below the maximum aggregate principal amount of hybrid capital to which S&P would assign equity content under its prevailing methodology, or*
- (iv) *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*
- (v) *such redemption or repurchase occurs on or after the Reset Date falling on 15 March 2042.*

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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. 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) while the Securities are represented by a Security in global form and such Security in global form is deposited with a common depository for Euroclear and/or Clearstream, Luxembourg, 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 July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation;
- (v) while the Securities are represented by Securities in definitive form, 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 provide a valid certificate of tax residence duly issued by the tax authorities of the country of tax residence of the beneficial owner of any Security or Coupon, which the Holder or the beneficial owner is required to provide 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) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (viii) 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; or

- (ix) 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 (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.

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. 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 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 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 under the Subordinated Loan, the Issuer or the Guarantor (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 or in Spain (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 or the Guarantor are not required to pay 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 30 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 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 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 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; 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) for the benefit of the Holders 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.

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 depository 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 5 Year Non-Call Securities, 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, the March 2014 10 Year Non-Call Securities and the December 2014 5 Year 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;

"5 year Swap Rate" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"5 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*);

"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*);

"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, 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 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;

"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;

"December 2014 5 Year Non-Call Securities" means the €850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1148359356) issued by the Issuer on 4 December 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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 15 March 2022;

"Fitch Ratings" 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;

"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;

"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 15 March 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 15 September 2016;

"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 €750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050460739) 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 €1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050461034) issued by the Issuer on 31 March 2014 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;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 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 2014 Non-Call Securities and (ii) 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 Ratings 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;

"Reset Date" means the First Reset Date and each date falling on the fifth 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 Standard & Poor's Credit Market Services 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) 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 2013 8 Year Non-Call Securities" means the €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;

"**Subordinated Loan**" means the subordinated loan made by the Issuer to the Guarantor dated 15 September 2016, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a "**Substantial Purchase Event**" shall be deemed to have occurred if at least 80 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*));

"**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, on Corporate Income Tax, as at 8 September 2016;

"**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 8 September 2016;

"**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.

TERMS AND CONDITIONS OF THE 2017 5.5 YEAR NON-CALL 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 Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 17 November 2017 and the guarantee of the Securities was authorised by a resolution of the Executive Commission of the Board of Directors of the Guarantor dated 17 November 2017, by a resolution of the Board of Directors of the Guarantor dated 9 June 2017, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017. A fiscal agency agreement dated 7 December 2017 (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 €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) 7 December 2017 (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 short 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 €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.

- (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 2.625 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 7 June 2018; and

- (ii) from (and including) the First Reset Date, at the applicable 5 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) 7 June 2028, 2.327 per cent. per annum;
 - (B) in respect of the period commencing on 7 June 2028 to (but excluding) 7 June 2043, 2.577 per cent. per annum; and
 - (C) from and including 7 June 2043, 3.327 per cent. per annum,all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 7 June 2024, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"5 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.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "**Reset Reference Bank Rate**" means the percentage rate determined by the Agent Bank on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the "**Reset Reference Banks**") to 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 5 year Swap Rate will be determined 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, and if the IFA (as defined below) is unable to determine an appropriate alternative rate, the Reset Reference Bank Rate for the relevant period will be equal to the last available 5 year mid-swap rate for euro swap transactions, expressed as an annual rate, on the Reset Screen Page.

The "**5 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 5 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) or, if the 6-month EURIBOR rate is no longer being calculated or administered as at the relevant Reset Interest Determination Date, any alternative rate which has replaced the Euro Interbank Offered Rate ("**EURIBOR**") in customary market usage for the purposes of determining floating rates of interest in respect of euro denominated securities, as notified by the Agent Bank to the Issuer, and promptly thereafter by the Issuer to the Holders in accordance with Condition 14 (*Notices*), *provided, however*, that if the Agent Bank determines, in good faith and following consultation with the Issuer, that there is no clear market consensus as to whether any rate has replaced EURIBOR in customary market usage, the Issuer will appoint in its sole discretion an independent financial adviser (the "**IFA**") to determine an appropriate alternative rate, and the decision of the IFA will be binding on the Issuer, the Agent Bank and the Holders.

(d) ***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.

(e) ***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 in London. 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 in London 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.

(f) ***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 as aforesaid) 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:

- (v) 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
- (vi) 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 30 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 30 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 30 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 30 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 30 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 during the 360-day period 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 at least "BBB" (or such similar nomenclature then used by S&P) 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 Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued 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 7 June 2043.*

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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state. 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 July 27, as amended by Royal Decree 1145/2011 of July 29, 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; 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. 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 30 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) for the benefit of the Holders 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.

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.

Any such exchange or variation 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 depository 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 5 Year Non-Call Securities, 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, the March 2014 10 Year Non-Call Securities and the December 2014 5 Year Non-Call Securities;

"**2016 Non-Call Securities**" means the €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;

"**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;

"**5 year Swap Rate**" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"**5 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*);

"**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*);

"**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 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;

"December 2014 5 Year Non-Call Securities" means the €850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1148359356) issued by the Issuer on 4 December 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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 7 June 2023;

"Fitch Ratings" 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;

"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;

"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 7 June 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 7 December 2017;

"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 €750,000,000 Undated 6 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050460739) 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 €1,000,000,000 Undated 10 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS 1050461034) issued by the Issuer on 31 March 2014 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;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 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 2016 Non-Call Securities, (ii) the 2014 Non-Call Securities and (iii) 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 Ratings 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 Period" means period commencing on (and including) 7 March 2023 and ending on (and including) the First Reset Date;

"Reset Date" means the First Reset Date and each date falling on the fifth 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 Standard & Poor's Credit Market Services 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) 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 2013 8 Year Non-Call Securities" means the €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;

"**Subordinated Loan**" means the subordinated loan made by the Issuer to the Guarantor dated 7 December 2017, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

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*));

"**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, on Corporate Income Tax, as at 29 November 2017;

"**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 29 November 2017;

"**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.

TERMS AND CONDITIONS OF THE 5.7 YEAR NON-CALL SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the 5.7 Year Non-Call Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 1 March 2018 and the guarantee of the Securities was authorised by the Board of Directors of the Guarantor dated 2 March 2018, by a resolution of the Board of Directors of the Guarantor dated 9 June 2017, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017. A fiscal agency agreement dated 22 March 2018 (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 €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) 22 March 2018 (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 short 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 €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.

- (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 3.000 per cent. per annum, payable annually in arrear on each Interest Payment Date commencing on 4 December 2018; and

- (ii) from (and including) the First Reset Date, at the applicable 5 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) 4 December 2028, 2.451 per cent. per annum;
 - (B) in respect of the period commencing on 4 December 2028 to (but excluding) 4 December 2043, 2.701 per cent. per annum; and
 - (C) from and including 4 December 2043, 3.451 per cent. per annum,all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 4 December 2018, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"5 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.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 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 5 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 5 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, and if the IFA (as defined below) is unable to determine an appropriate alternative rate, the Reset Reference Bank Rate for the relevant period will be equal to the last available 5 year mid-swap rate for euro swap transactions, expressed as an annual rate, on the Reset Screen Page.

(d) The "**5 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 5 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) or, if the 6-month EURIBOR rate is no longer being calculated or administered as at the relevant Reset Interest Determination Date, any alternative rate which has replaced the Euro Interbank Offered Rate ("**EURIBOR**") in customary market usage for the purposes of determining floating rates of interest in respect of euro denominated securities, as determined by an independent financial adviser (the "**IFA**") appointed by the Issuer in its sole discretion. The alternative rate will be notified to the Issuer by the IFA, and promptly thereafter by the Issuer to the Holders in accordance with Condition 14 (*Notices*), provided, however, that if the IFA determines, in good faith and following consultation with the Issuer, that there is no clear market consensus as to whether any rate has replaced EURIBOR in customary market usage, the IFA may determine an appropriate alternative rate, and the decision of the IFA will be binding on the Issuer, the Agent Bank and the Holders. If the IFA is unable to determine an

appropriate alternative rate, 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 Reset Reference Bank Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.551 per cent. per annum.

(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 in London. 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 in London 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 as aforesaid) 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:

- (v) 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

- (vi) 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 30 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 30 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 30 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 30 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 30 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 at least "BBB" (or such similar nomenclature then used by S&P) 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% of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25% of the aggregate principal amount of the Securities originally issued 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 4 December 2043.

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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state. 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; 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% 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. 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 30 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 depository 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 5 Year Non-Call Securities, 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, the March 2014 10 Year Non-Call Securities and the December 2014 5 Year Non-Call Securities;

"2016 Non-Call Securities" means the €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 €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 8.5 Year Non-Call Securities" means the €1,000,000,000 Undated 8.5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406658) issued by the Issuer concurrently with the Securities and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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;

"5 year Swap Rate" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"5 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*);

"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*);

"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 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;

"December 2014 5 Year Non-Call Securities" means the €850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1148359356) issued by the Issuer on 4 December 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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% of the principal amount of such Securities;

"First Reset Date" means 4 December 2023;

"Fitch Ratings" 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;

"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;

"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 4 December 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 22 March 2018;

"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 €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 €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;

"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;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"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 2018 8.5 Year 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 2018 8.5 Year Non-Call Securities, (ii) the 2017 Non-Call Securities, (iii) the 2016 Non-Call Securities, (iv) the 2014 Non-Call Securities and (v) 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 Ratings 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 Period" means period commencing on (and including) 4 September 2023 and ending on (and including) the First Reset Date;

"Reset Date" means the First Reset Date and each date falling on the fifth 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) 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 2013 8 Year Non-Call Securities" means the €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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 22 March 2018, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 75% 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*));

"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, on Corporate Income Tax, as at 13 March 2018;

"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 13 March 2018;

"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.

TERMS AND CONDITIONS OF THE 8.5 YEAR NON-CALL SECURITIES

The following are the terms and conditions in the form in which they will be endorsed on the 8.5 Year Non-Call Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the Securities was authorised by a resolution of the Board of Managing Directors of the Issuer dated 1 March 2018 and the guarantee of the Securities was authorised by a resolution of the Board of Directors of the Guarantor dated 2 March 2018, by a resolution of the Board of Directors of the Guarantor dated 9 June 2017, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017. A fiscal agency agreement dated 22 March 2018 (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 €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) 22 March 2018 (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 short 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 €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.

- (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 3.875% per annum, payable annually in arrear on each Interest Payment Date commencing on 22 September 2018; and

- (ii) from (and including) the First Reset Date, at the applicable 8 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) 22 September 2028, 2.967 per cent. per annum;
 - (B) in respect of the period commencing on 22 September 2028 to (but excluding) 22 September 2046, 3.217 per cent. per annum; and
 - (C) from and including 22 September 2046, 3.967% per annum,all as determined by the Agent Bank (each a "**Subsequent Fixed Interest Rate**"), payable annually in arrear on each Interest Payment Date, commencing on 22 September 2018, subject to Condition 5 (*Optional Interest Deferral*),

and where:

"8 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.

In the event that the relevant 8 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 8 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 8 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 8 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, and if the IFA (as defined below) is unable to determine an appropriate alternative rate, the Reset Reference Bank Rate for the relevant period will be equal to the last available 8 year mid-swap rate for euro swap transactions, expressed as an annual rate, on the Reset Screen Page.

(d) The "**8 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 8 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) or, if the 6-month EURIBOR rate is no longer being calculated or administered as at the relevant Reset Interest Determination Date, any alternative rate which has replaced the Euro Interbank Offered Rate ("**EURIBOR**") in customary market usage for the purposes of determining floating rates of interest in respect of euro denominated securities, as determined by an independent financial adviser (the "**IFA**") appointed by the Issuer in its sole discretion. The alternative rate will be notified to the Issuer by the IFA, and promptly thereafter by the Issuer to the Holders in accordance with Condition 14 (*Notices*), provided, however, that if the IFA determines, in good faith and following consultation with the Issuer, that there is no clear market consensus as to whether any rate has replaced EURIBOR in customary market usage, the IFA may determine an appropriate alternative rate, and the decision of the IFA will be binding on the Issuer, the Agent Bank and the Holders. If the IFA is unable to determine an

appropriate alternative rate, 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 Reset Reference Bank Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.911 per cent. per annum.

(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 in London. 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 in London 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 as aforesaid) 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).

2. **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 30 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 30 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 30 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 30 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 30 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 at least "BBB" (or such similar nomenclature then used by S&P) 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% of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25% of the aggregate principal amount of the Securities originally issued 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 22 September 2046.

3. **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, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state. 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*).

4. **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; 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.

5. **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.

6. **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.

7. **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.

8. **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% 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. 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 30 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.

9. 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.

10. **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 depository 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.

11. **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.

12. **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.

13. **Definitions**

In these Conditions:

"2013 Non-Call Securities" means the September 2013 5 Year Non-Call Securities, 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, the March 2014 10 Year Non-Call Securities and the December 2014 5 Year Non-Call Securities;

"2016 Non-Call Securities" means the €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 €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 5.7 Year Non-Call Securities" means the €1,250,000,000 Undated 5.7 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1795406575) issued by the Issuer concurrently with the Securities and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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;

"8 year Swap Rate" has the meaning given to it in Condition 4(c) (*Interest Payments – Prevailing Interest Rate*);

"8 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*);

"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*);

"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 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;

"December 2014 5 Year Non-Call Securities" means the €850,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS1148359356) issued by the Issuer on 4 December 2014 and unconditionally and irrevocably guaranteed on a subordinated basis by the Guarantor;

"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% of the principal amount of such Securities;

"First Reset Date" means 22 September 2026;

"Fitch Ratings" 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;

"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;

"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 22 September 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 22 March 2018;

"**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 €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 €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;

"**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;

"**Ordinary Shares of the Guarantor**" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €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 €460.00 each;

"**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 2018 5.7 Year 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 2018 5.7 Year Non-Call Securities, (ii) the 2017 Non-Call Securities, (iii) the 2016 Non-Call Securities, (iv) the 2014 Non-Call Securities and (v) 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 Ratings 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 Period" means period commencing on (and including) 22 June 2026 and ending on (and including) the First Reset Date;

"Reset Date" means the First Reset Date and each date falling on the eighth 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 5 Year Non-Call Securities" means the €1,125,000,000 Undated 5 Year Non-Call Deeply Subordinated Guaranteed Fixed Rate Reset Securities (ISIN: XS0972570351) 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 2013 8 Year Non-Call Securities" means the €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;

"Subordinated Loan" means the subordinated loan made by the Issuer to the Guarantor dated 22 March 2018, pursuant to which the proceeds of the issue of the Securities are on-lent to the Guarantor;

a **"Substantial Purchase Event"** shall be deemed to have occurred if at least 75% 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*));

"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, on Corporate Income Tax, as at 13 March 2018;

"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 13 March 2018;

"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 were initially in the form of Temporary Global Securities which was 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.

Each Temporary Global Security was exchangeable in whole or in part for interests in a 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 each Temporary Global Security unless exchange for interests in the corresponding 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.

Each Permanent Global Security will become exchangeable in whole, but not in part, for Securities in definitive form ("**Definitive Securities**") in the denomination of (i) in respect of the 7 Year Non-Call Securities, GBP 100,000 and (ii) in respect of the series of all other Securities, 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 relevant Securities is not paid when due and payable.

Whenever a 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 corresponding Permanent Global Security to the bearer of such Permanent Global Security against the surrender of the relevant Permanent Global Security to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) the relevant Temporary Global Security is not duly exchanged, whether in whole or in part, for the corresponding 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 a Permanent Global Security for Definitive Securities; or
- (c) the relevant Temporary or Permanent Global Security (or any part of it) has become due and payable in accordance with the Terms and Conditions of the relevant Securities 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 relevant 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 the deed of covenant executed by the Issuer in respect of the relevant series of Securities (each, a "**Deed of Covenant**"). 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, each Temporary Global Security and Permanent Global Security will contain provisions which modify the Terms and Conditions of the corresponding Securities 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 each Temporary Global Security and 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 relevant Temporary Global Security or (as the case may be) 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 a Temporary Global Security or (as the case may be) 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 a Temporary Global Security or a Permanent Global Security "**business day**" means (i) in respect of the 7 Year Non-Call Securities, any day on which commercial banks and foreign exchange markets are open for general business in London and (ii) in respect of the series of all other Securities, any day on which the TARGET System is open.

Notices: While all the Securities of a given series are represented by a Permanent Global Security (or by a Permanent Global Security and/or a Temporary Global Security) and such Permanent Global Security is (or such Permanent Global Security and/or Temporary Global Security are) deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Holders of such series of 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 relevant Terms and Conditions 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 [•]

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 [•] [•] Undated [•] 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 [•] 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 [•].
- (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:
- (a) 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 Terms and 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 Terms and Conditions of the Securities and which the Issuer has failed to pay; and

- (b) 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 Terms and 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 Issue 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, re-organisation, 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
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 [•], [•] 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 OF PROCEEDS

The net proceeds of the issue of the Securities were used for general corporate purposes of the Guarantor and its Group, including the preservation of the liquidity cushion and hybrid securities refinancing.

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 €46,000 represented by 100 ordinary shares having a nominal value of €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:

<u>Name</u>	<u>Principal occupation</u>	<u>Principal External Activities</u>
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.
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 year ended 31 December 2016 were audited by Ernst & Young Accountants LLP, with its registered address at Antonio Vivaldistraat 150, 1083 HP, Amsterdam, the Netherlands, and registered auditors in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 24432944.

The unconsolidated financial statements of the Issuer for the year ended 31 December 2017 were audited by the current auditors of the Issuer, 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 auditor's report 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 and its telephone number is +34 91 482 34 33. 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 following significant events have occurred since 31 December 2017:

- On 8 November 2018, Telefónica reached an agreement with Grupo Catalana Occidente for the sale of 100 per cent. of Antares, its insurance company in Spain, for a total amount of €161 million. Antares offers health, life, accident and life savings insurance to more than 200,000 insured individuals in Spain. The transaction is expected to generate capital gains of around €90 million for Telefónica and a reduction in net financial debt of close to €30 million. The closing of the transaction is subject to the relevant regulatory approvals;
- On 11 September 2018, Telefónica issued, through its wholly-owned subsidiary Telefónica Emisiones, S.A.U., €1,000 million of notes guaranteed by Telefónica. These Notes mature on 11 September 2025, pay an annual coupon of 1.495 per cent. and were issued at par (100 per cent.);
- On 27 July 2018, Telefónica transferred to a subsidiary of the Pontegadea Group 16.65 per cent. of the share capital of the Telefónica's subsidiary Pontel Participaciones, S.L. ("**Pontel**"), which owns 60 per cent. of the share capital of Telxius Telecom, S.A. ("**Telxius**"), for an amount of €378.8 million, resulting in a price of €15.2 per share of Telxius. This participation of 16.65 per cent. in the capital stock of Pontel is equivalent, in economic terms, to an indirect participation of 9.99 per cent. in the share capital of Telxius;
- On 28 June 2018, Telefónica reached an agreement with Mediapro, S.L.U. ("**Mediapro**") pursuant to which Telefónica acquired the exploitation rights by means of pay television of matches from the "UEFA Champions League" and "UEFA Europa League" competitions in the residential Spanish market for three seasons (2018-2021). These matches can be included in thematic channels produced by Telefónica for sale to private or residential clients. The license granted to Telefónica has been given on exclusive basis with the exception of certain matches from the "UEFA Europa League" that Mediapro has reserved for its broadcast on free-to-air television along with highlights programs of both competitions. The price agreed per season amounts to €360 million. Telefónica may sublicense its rights pursuant to this agreement to other operators interested in this content. The agreement signed with Mediapro also includes a revenue share of the advertising incomes related to the new channels.
- On 25 June 2018, Telefónica announced that it had been declared the winner of the tender to acquire the rights to broadcast all the paid Campeonato Nacional de Liga de Primera División matches in the residential market for the 2019-2022 cycle (packages 4 and 5). The award was made

at an identical price for each of the three seasons (€980 million), which equates to a slight reduction in comparison with the last season of the 2016-2019 cycle;

- On 8 June 2018, the Annual General Shareholders' Meeting of Telefónica was held at second call with the attendance, present or represented, of shareholders holding shares representing 53.42 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 €0.40 during 2018, 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 €0.20 per share on 15 June 2018; the second payment in cash of a gross amount of €0.20 per share on 20 December 2018;
- On 30 May 2018, the Board of Directors of Telefónica appointed the Independent Director, Mr. Peter Löscher as a member of the Service Quality and Customer Service Committee; and the Independent Director, Ms. María Luisa García Blanco as a member of the Service Quality and Customer Service Committee and of the Regulation and Institutional Affairs Committee. Additionally, the Independent Director, Mr. Peter Löscher was appointed Chairman of the Service Quality and Customer Service Committee;
- On 25 April 2018, the Board of Directors of Telefónica took formal note and record of the voluntary resignation as Director of Telefónica by Ms. Eva Castillo Sanz, and as a result, as member of the Service Quality and Customer Service Committee, Regulation and Institutional Affairs Committee, and Strategy and Innovation Committee and Ms. María Luisa García Blanco was appointed as an Independent Director, occupying the vacancy as a consequence of Ms. Eva Castillo Sanz's resignation;
- On 5 April 2018, as a result of its participation in the principal stage of the spectrum auction conducted in the United Kingdom, Telefónica UK Limited ("**O2 UK**") was granted four blocks of 10MHz in the 2.3GHz spectrum band and eight blocks of 5MHz in the 3.4GHz band. The investment commitment for these new frequencies by O2 UK is £523,616,000 (approximately €600 million);
- On 22 March 2018, the Issuer issued two series of Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of Telefónica, with an aggregate nominal amount of €1,250 million in the case of the 5.7 Year Non-call Securities (exercisable from 4 December 2023) and €1,000 million in the case of the 8.5 Year Non-call Securities (exercisable from 22 September 2026);
- On 15 March 2018, Telefónica executed a syndicated facility agreement (the "**Facility Agreement**") with several domestic and international financial entities for a maximum aggregate amount of €5,500 million, which unifies and replaces two existing revolving credit facilities: a revolving credit facility for €3,000 million with maturity in February 2021, and a credit facility of €2,500 million with maturity in February 2022. This Facility Agreement is composed of a five-year single tranche revolving credit facility in an aggregate amount of up to €5,500 million with two annual extension options, at the request of Telefónica, for a maximum maturity of 7 years;
- On 6 March 2018, Telefónica issued through its wholly-owned subsidiary Telefónica Emisiones, S.A.U. under its US Debt Registered Programme filed with the United States Securities and Exchange Commission (the "**SEC**"), notes guaranteed by Telefónica in an aggregate principal amount of U.S.\$2,000 million. The issue was split into two tranches. The first tranche, amounting up to U.S.\$750 million and due on 6 March 2038 with a coupon of 4.665 per cent., payable semi-annually, was issued at par. The second tranche, amounting up to U.S.\$1,250 million and due on 6 March 2048 with a coupon of 4.895 per cent., payable semi-annually, was also issued at par;
- On 22 February 2018, Telefónica filed with the SEC its annual report on form 20-F for the year ended 31 December 2017;

- On 22 January 2018, Telefónica issued through its wholly-owned subsidiary Telefónica Emisiones, S.A.U. notes guaranteed by Telefónica, S.A. amounting to €1,000 million. The notes are due on 22 January 2027, pay an annual coupon of 1.447 per cent. and were issued at par (100 per cent.);
- On 31 January 2018, the Board of Directors of Telefónica appointed Mr. Jordi Gual Solé as a member of the Board of Directors, as a Proprietary Director, replacing Mr. Antonio Massanell Lavilla who had voluntarily resigned from the Board on 21 December 2017. Mr. Gual was also appointed as a member of the Regulation and Institutional Affairs Committee and of the Strategy and Innovation Committee; and
- On 31 January 2018, the Board of Directors of Telefónica also resolved to adopt a new organisational structure in order to make the Group more agile, simple and focused on management, customer service, growth, efficiency and profitability. The main changes were:
 - The areas of General Counsel, and Public Affairs and Regulation were unified;
 - A new Executive Chairman was appointed for Telefónica España, who was also appointed as a member of the Executive Committee of Telefónica, S.A;
 - Telefónica Hispanoamérica was split into two new units: (i) Telefónica Hispam South (encompassing operations in Argentina, Chile, Peru and Uruguay); and (ii) Telefónica Hispam North (encompassing the operations in Colombia, México, Central America, Ecuador and Venezuela); and
 - The area of People (Human Resources) was enhanced and now reports directly to the Executive Chairman. This area will be led by Ms. Marta Machicot, who will join the Executive Committee.

Business Overview

Highlights

Telefónica's **total accesses** totalled 356.3 million as of 30 September 2018, a decrease of 0.6 per cent. year-on-year, mainly as a result of: the reduction of the prepaid base in Telefónica Germany (caused by a low demand as a result of regulatory changes introduced in 2017), Telefónica Brazil (caused by the competitive environment) and to a lesser extent in Telefónica Argentina. During first nine months of 2018, higher-value services continued increasing their proportion of total accesses. As such, (i) LTE customers totalled 111.5 million (+25.3 per cent. year-on-year), with net additions of 14.0 million and a penetration of 44.2 per cent. (+9.6 percentage points year-on-year); (ii) mobile contract accesses stood at 121.6 million (+6.6 percentage points year-on-year) and accounted for 44.9 per cent. of the total mobile accesses (+3.1 percentage points year-on-year); (iii) smartphones totalled 166.8 million accesses (+6.6 percentage points year-on-year) and achieved a penetration of 66.9 per cent. (+5.1 percentage points year-on-year) and net additions of 8.1 million during first nine months of 2018; (iv) FTTx and cable customers totalled 12.8 million accesses, growth of 21.4 per cent. when compared to the first nine months of 2017, accounting for 59.0 per cent. of total fixed broadband accesses (+9.5 percentage points year-on-year) and (v) Paid TV customers totalled 8.8 million customers (+5.6 percentage points year-on-year).

The below table shows the evolution of Group accesses for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾	37,028.0	35,414.0	(4.4)
Internet and data accesses ⁽²⁾	21,696.7	22,087.7	1.8
Broadband ⁽³⁾	21,243.8	21,638.0	1.9
FTTx/Cable.....	10,511.8	12,766.4	21.4
Mobile accesses.....	272,742.7	270,730.3	(0.7)
Prepay.....	158,662.8	149,131.7	(6.0)
Contract.....	114,079.9	121,598.5	6.6
M2M.....	15,572.9	18,397.9	18.1
Pay-TV.....	8,375.8	8,845.3	5.6
Final Clients Accesses.....	339,843.1	337,077.3	(0.8)

Wholesale Accesses	18,752.0	19,207.0	2.4
Fixed wholesale accesses.....	4,689.4	3,987.7	(15.0)
Mobile wholesale accesses ⁽⁴⁾	14,062.6	15,219.3	8.2
Total Accesses	358,595.1	356,284.3	(0.6)

Notes:

- (1) Includes "fixed wireless" and VoIP accesses.
- (2) Also referred to as fixed broadband accesses.
- (3) Includes DSL, satellite, optic fibre, cable modem and broadband circuits.
- (4) Mobile wholesale accesses information has been included since the first quarter 2018 and is also given for comparative purposes from January 2017.

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

Mobile accesses totalled 270.7 million as of 30 September 2018, down 0.7 per cent. compared to 30 September 2017. The decrease in prepay accesses is due to highly competitive markets and Telefónica focussing on high-value customers. This decrease is compensated by the postpaid segment accesses growth, up by 6.6 per cent. year-on-year, that increases its weight over total mobile accesses up to 44.9 per cent. (+3.1 percentage points year-on-year).

Smartphone accesses continue growing (+6.6 per cent. year-on-year), totalling 166.8 million accesses as of 30 September 2018 and reaching a penetration rate over total accesses of 66.9 per cent. (+5.1 percentage points year-on-year), reflecting the Issuer's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 21.6 million as of 30 September 2018, up 1.9 per cent. year-on-year. Fiber accesses stood at 12.8 million as of 30 September 2018, growing 21.4 per cent. compared to 30 September 2017.

Pay-TV accesses totalled 8.8 million as of 30 September 2018, up 5.6 per cent. year-on-year and driven by higher TV accesses in Telefónica Spain and Telefónica Peru.

SEGMENT RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 AND 2017

Telefónica Spain

The below table shows the evolution of accesses in Telefónica Spain for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾	9,387.4	9,085.7	(3.2)
Internet and data accesses ⁽²⁾	6,040.7	6,129.4	1.5
Broadband.....	6,017.6	6,110.5	1.5
FTTx/Cable.....	3,309.3	3,822.2	15.5
Mobile accesses.....	17,419.6	18,189.8	4.4
Prepay.....	1,905.4	1,527.3	(19.8)
Contract.....	15,514.1	16,662.5	7.4
M2M.....	2,020.9	2,227.4	10.2
Pay TV.....	3,766.9	4,036.4	7.2
Final Clients Accesses.....	36,614.6	37,441.3	2.3
Wholesale Accesses.....	4,295.7	3,948.0	(8.1)
Fiber.....	671.7	1,309.8	95.0
Total Accesses.....	40,910.3	41,389.2	1.2

Notes:

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

(2) Also referred to as fixed broadband accesses.

During the first nine months of 2018, commercial activity continued to leverage the differentiated assets of Telefónica, mainly through the convergent offer (which means the offer of more than a single service for a single price) "Movistar Fusión+" and the "more for more" strategy. Telefónica continues to evolve the abovementioned offer and adapt it to incremental customer demand. For example, (i) the increase in data included in all mobile lines included in "Movistar Fusión+" and (ii) doubling the fiber speed from 50Mb per second to 100Mb per second in low speed bundles and from 300Mb per second to 600Mb per second in high speed bundles. In addition, in June 2018, O2 Spain was created to cater for the market segment that is interested only in communications and a simple offer with a premium service. The new O2 portfolio is designed for a premium service segment with a simple offer, offering only two tariffs: mobile and fiber-mobile.

Telefónica Spain had 41.4 million accesses as of 30 September 2018 (+1.2 per cent. compared to 30 September 2017), accelerating growth and posting excellent commercial activity in the third quarter of 2018. This was influenced by the start of the football season amid a new competitive scenario.

Consumer "Movistar Fusión+", with a customer base of 4.6 million with 4.5 million additional wireless lines to the base offer as of 30 September 2018, increased 4.1 per cent. and 33.2 per cent. year-on-year respectively and contributed 86.5 per cent. of the fixed retail broadband customer base (+1.8 percentage points year-on-year) and 82.8 per cent. of the wireless contract customer base (+5.1 percentage points year-on-year). There was significant growth in the penetration of the high-value services of "Movistar Fusión+", with 38.9 per cent. of the customer base already using 600 Mb per second ultra-fast broadband and 89.8 per cent. of the customer base with Pay-TV as of 30 September 2018 (+4.4 percentage points year-on-year).

Fixed accesses decreased 3.2 per cent. year-on-year, with a net loss of 0.2 million accesses in the first nine months of 2018, reducing the net losses and posting a positive portability balance for the first time in August and September.

Retail broadband accesses totalled 6.1 million and increased 1.5 per cent. year-on-year at September 2018, with positive net adds of 90 thousand accesses during the first nine months of 2018, underpinned by the higher volume of gross additions (+26.0 per cent. year-on-year).

Fiber accesses reached 3.8 million customers as of 30 September 2018 (+15.5 per cent. compared to 30 September 2017), representing 62.6 per cent. of total broadband customers (+7.6 percentage points year-on-year) with net adds of 0.4 million accesses in the first nine months of 2018. Ultra speed fiber accesses, with 600 Mb per second reached 2.3 million accesses (60.6 per cent. of total fiber accesses). At 30

September 2018 fiber deployment reached 20.8 million premises, 2.2 million more than at 30 September 2017, and continues to be the largest in Europe.

Total **mobile accesses** stood at 18.2 million as of 30 September 2018, an increase of 4.4 per cent. compared to 30 September 2017, in spite of the decrease in prepay accesses (-19.8 per cent. year-on-year). The contract access base accelerated its growth during first nine months of 2018, growing by 7.4 per cent. year-on-year. Smartphone penetration as of 30 September 2018 stood at 79.9 per cent. of the mobile voice base (+5.2 percentage points year-on-year) and significantly boosted data traffic growth to 71.7 per cent. year-on-year due to higher number of customers with renewed portfolios containing superior data packages.

LTE network rollout continued to progress well and coverage reached approximately 97.6 per cent. of the population at 30 September 2018 (comparable to competitors' criteria which is the sum of residents with LTE signal). LTE customer base reached 8.6 million customers as of 30 September 2018, +17.4 per cent. compared to 30 September 2017 with penetration of 53.9 per cent. (+6.3 percentage points year-on-year).

Pay-TV accesses reached 4 million as of 30 September 2018, growing 7.2 per cent. year-on-year.

Telefónica United Kingdom

The table below shows the evolution of accesses in Telefónica United Kingdom for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾	281.9	301.3	6.9
Internet and data accesses ⁽²⁾	24.8	27.7	11.6
Broadband.....	24.8	27.7	11.6
Mobile accesses.....	25,283.0	24,821.4	(1.8)
Prepay.....	9,477.4	8,804.0	(7.1)
Contract ⁽³⁾	15,805.6	16,017.4	1.3
M2M.....	3,434.4	3,408.3	(0.8)
Wholesale Accesses.....	7,018.0	7,457.2	6.3
Mobile wholesale accesses ⁽⁴⁾	7,018.0	7,457.2	6.3
Total Accesses.....	32,607.7	32,607.6	(0.0)

Notes:

- (1) Includes "fixed wireless" and VoIP accesses.
- (2) Also referred to as fixed broadband accesses.
- (3) Includes the disconnection of 228 thousand inactive contract accesses in the first quarter 2017.
- (4) Mobile Wholesale accesses information has been included since the first quarter 2018 and is also given for comparative purposes from January 2017.

During the first nine months of 2018, despite the competitive environment, Telefónica United Kingdom maintained a competitive position which has been underpinned by the strength of the O2 brand, which retained customer loyalty with the lowest contract churn in the market (according to Telefónica estimates). At the end of August 2018, Telefónica United Kingdom launched "Custom Plans", providing customers with flexibility and choice to allow them to customise their plans by choosing the contract terms (up to 36 months), amount of upfront payment and data plan - supporting its customer-led, mobile first strategy.

Total accesses growth remains flat year-on-year, standing at 32.6 million as of 30 September 2018.

Contract mobile accesses increased by 1.3 per cent. year-on-year to 16.0 million as of 30 September 2018, increasing its proportion over the total mobile accesses to 64.5 per cent. Mobile net loss in the first nine months of 2018 reached 0.2 million accesses, driven by higher volatility in the prepay inactive base. Smartphone penetration rose 2.4 per cent. year-on-year to 76.8 per cent., with a growth of the LTE customers base (+6.0 per cent. year-on-year growth and 13.4 million by 30 September 2018). LTE penetration now represents 62.4 per cent. of the mobile base.

Prepay accesses decreased by 7.1 per cent. year-on-year to 8.8 million customers as of 30 September 2018 due to disconnections of inactive customers and it being also affected by the market trend of migration to postpay, including SIM only.

Telefónica Germany

The below table shows the evolution of accesses in Telefónica Germany for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾	1,979.3	1,966.4	(0.7)
Internet and data accesses ⁽²⁾	2,284.2	2,252.8	(1.4)
Broadband.....	2,072.5	2,054.4	(0.9)
VDSL.....	1,062.5	1,388.9	30.7
Mobile accesses.....	44,841.6	43,048.9	(4.0)
Prepay.....	23,753.8	21,052.4	(11.4)
Contract.....	21,087.8	21,996.5	4.3
M2M.....	969.4	1,134.9	17.1
Final Clients Accesses.....	49,105.1	47,268.1	(3.7)
Wholesale Accesses.....	297.9	0.2	(99.9)
Total Accesses.....	49,402.9	47,268.3	(4.3)

Notes:

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

(2) Also referred to as fixed broadband accesses.

For the first nine months of 2018, Telefónica Germany maintained operational momentum as the updated O2 Free portfolio with Boost and Connect continues to be well received by customers, further fuelling data growth and supporting the ARPU-up strategy. Telefónica Germany results were on-track with full year guidance, supported by successful synergy capture and a value-over-volume approach.

The **total access** base fell 4.3 per cent. year-on-year and stood at 47.3 million as of 30 September 2018, mainly driven by a 4.0 per cent. decrease in the mobile base (which reached 43.0 million).

The **contract mobile customer** base grew 4.3 per cent. year-on-year and reached 22.0 million accesses, as of 30 September 2018, increasing the share over the total mobile base up to 51.1 per cent. Net adds reached 0.7 million accesses, supported by the O2 Free portfolio and strong trading of partners (second brands associated). Smartphone penetration continued to grow by +6.3 percentage points year-on-year, reaching 64.9 per cent. of the total mobile access base and driven by the continued growth of LTE customers (+9.4 per cent. year-on-year) reaching 17.2 million as of 30 September 2018. LTE penetration reached 40.9 per cent. of the total mobile access base.

The **prepay mobile customer** base decreased 11.4 per cent. year-on-year to 21.1 million as of 30 September 2018 due to lower demand after regulatory changes introduced in 2017. Prepay posted a net loss of 0.8 million customers in the first nine months of 2018.

The **retail broadband accesses** were reduced by 18 thousand accesses in the first nine months of 2018, nevertheless highlighting the strong demand of VDSL, with net adds of 0.2 million accesses in the first nine months of 2018 (+30.7 per cent. year-on-year). On the other hand, Wholesale DSL continued to fall due to the planned dismantling of the legacy infrastructure.

Telefónica Brazil

The below table shows the evolution of accesses in Telefónica Brazil for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾	14,007.3	13,209.6	(5.7)
Internet and data accesses	7,554.0	7,583.4	0.4
Broadband	7,485.5	7,502.6	0.2
FTTx/Cable	4,472.2	4,917.3	10.0
Mobile accesses	74,553.6	74,423.6	(0.2)
Prepay	38,897.4	35,017.0	(10.0)
Contract	35,656.2	39,406.7	10.5
M2M	5,845.3	7,628.7	30.5
Pay-TV	1,618.0	1,600.5	(1.1)
Final Clients Accesses	97,732.9	96,817.2	(0.9)
Total Accesses	97,749.8	96,832.0	(0.9)

Notes:

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

Telefónica Brazil closed the first nine months of 2018 maintaining its position in the mobile as well as in the fixed market. In the mobile business, Telefónica Brazil kept its leadership in the total market (Source: ANATEL) and especially in the higher value segments, which permitted the operator to capture mobile revenue growth in 2018. In the fixed business, the transformation towards fiber and Pay-TV continues in order to compensate for the downturn in the traditional fixed business.

Telefónica Brazil reached 96.8 million **accesses** as of 30 September 2018, down 0.9 per cent. compared to 30 September 2017.

In the **mobile business**, the strategic focus remains on gaining and retaining high-value customers, reaching a market share of 41.1 per cent. in the contract segment as of 30 September 2018, (Source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 31.8 per cent. as of 30 September 2018 (Source: ANATEL). Telefónica Brazil's growth in contract customers (+10.5 per cent. year-on-year), compensated for the decrease in prepaid customers (-10.0 per cent. year-on-year). Contract customers' penetration over total mobile clients rose to 52.9 per cent. as of 30 September 2018. The commercial offers focus on data plans and value-added services rather than voice, instead offering unlimited off-net minutes and international roaming plans. More valued customers' offers are focused on family plans completed with OTT services (such as Netflix and VIVO music). More data is included in the franchises, as well as value-added services such as HBO, FOX premium or ESPN in the mobile offer. Digital transformation is helped by the relaunch of VIVO Easy and the launch of new products such as VIVO GIGA Chip, which looks towards the recovery of the prepaid segment.

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 19.3 million premises passed with FTTx as of 30 September 2018 and 4.9 million homes connected, (+10.0 per cent. y-oy). This growth compensated for the fall in other broadband services, such as ADSL. Retail broadband customers totalled 7.5 million as of 30 September 2018, up 0.2 per cent. year-on-year. Broadband offers have been complemented with more VASs and some OTT complements. Fixed telephony accesses decreased by 5.7 per cent. year-on-year due to the fixed-mobile substitution. Pay-TV customers stood at 1.6 million as of 30 September 2018, decreasing 1.1 per cent. year-on-year due to more selective commercial activity directed at high-value customers. These measures are reflected in a 52.7 per cent. increase in IPTV accesses, representing 33.5 per cent. of total Pay-TV accesses.

Telefónica Hispam North

The below table shows the evolution of accesses in Telefónica Hispam North for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year (per cent.)
	2017	2018	
	<i>(thousands)</i>		
Fixed telephony accesses ⁽¹⁾⁽²⁾	3,327.8	3,301.0	(0.8)
Internet and data accesses ⁽²⁾⁽³⁾	1,003.0	1,332.3	32.8
Broadband.....	974.3	1,301.4	33.6
FTTx/Cable.....	86.5	302.7	250.1
Mobile accesses.....	65,790.4	67,233.7	2.2
Prepay.....	56,284.5	57,226.8	1.7
Contract.....	9,506.0	10,006.9	5.3
M2M.....	1,635.8	1,914.3	17.0
Pay TV.....	981.6	1,034.9	5.4
Final Clients Accesses	71,102.9	72,902.0	2.5
Total Accesses	71,141.8	72,902.5	2.5

Notes:

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

(2) Following the pre-payment of the debt derived from the operating agreement with PARAPAT in Colombia and after taking over its subsidiaries Telebucaramanga, Metrotel and Optecom, the consolidated results are included in the fixed business from 1 October 2017.

(3) Also referred to as fixed broadband accesses.

Total accesses reached 72.9 million as of 30 September 2018 (+2.5 per cent. year-on-year).

Mobile accesses increased by 2.2 per cent. year-on-year to 67.2 million customers, mainly due to a higher contract customer base.

- **Contract** accesses increased 5.3 per cent. year-on-year as of 30 September 2018, due to the good performances in all countries within the segment as a result of the Group's continued focus on attracting high-value customers; Mexico (+9.5 per cent. year-on-year), Central America (+15.6 per cent. year-on-year), Colombia (+2.5 per cent. year-on-year), Ecuador (+1.4 per cent. year-on-year) and Venezuela (+1.5 per cent. year-on-year).
- **Prepaid** accesses increased 1.7 per cent. year-on-year, with positive net adds of 36 thousand accesses as of 30 September 2018, mainly as a result of the evolution in Colombia (+0.6 million accesses), Mexico (+0.3 million accesses) and Ecuador (+0.1 million accesses), which were partially offset by Central America (-0.6 million accesses) and Venezuela (-0.4 million accesses).
- **The smartphone** customer base increased 7.4 per cent. year-on-year as of 30 September 2018, reaching 31.4 million accesses (+2.2 million compared to 30 September 2017), with a mobile access penetration of 48.4 per cent. (+2.4 percentage points year-on-year) due to positive evolution in almost all operations: Central America (+26.5 per cent. year-on-year), Colombia (+13.5 per cent. year-on-year), Ecuador (+5.4 per cent. year-on-year) and Venezuela (+0.8 per cent. year-on-year) which offset the evolution of Mexico (-0.2 per cent. year-on-year). In addition, accesses with 4G handsets increased by 53.4 per cent. year-on-year, reaching 17.4 million accesses as of 30 September 2018.

Fixed accesses stood at 3.3 million as of 30 September 2018 (-0.8 per cent. year-on-year) with net losses of 0.3 million customers, due to the erosion of the traditional fixed business. This partially offset the addition of 0.3 million accesses of Tele-Bucaramanga and MetroTel in Colombia in 2017.

Fixed broadband accesses reached 1.3 million as of 30 September 2018 (+33.6 per cent. year-on-year), mainly due to the inclusion of 0.2 million accesses of Tele-Bucaramanga and MetroTel in Colombia. The penetration of FBB accesses over fixed accesses stood at 39.4 per cent. (+10.1 percentage points year-on-year), focusing on UBB deployment in the region and reaching 0.9 million real estate units and 0.3 million connected accesses - almost all of them connected this year. The penetration of UBB accesses over fixed broadband accesses stood at 23.3 per cent. (+14.4 percentage points year-on-year).

Pay-TV accesses stood at 1 million, increasing 5.4 per cent. year-on-year as a result of positive net adds in Colombia (+34 thousand accesses) and Central America (+20 thousand accesses), which offset Venezuela (-one thousand accesses).

Telefónica Hispam South

The below table shows the evolution of accesses in Telefónica Hispam South for the first nine months of 2018 compared to the first nine months of 2017:

Accesses	As of 30 September		Change year-on-year
	2017	2018	
	<i>(thousands)</i>		<i>(per cent.)</i>
Fixed telephony accesses ⁽¹⁾	8,044.3	7,549.9	(6.1)
Internet and data accesses ⁽²⁾	4,688.0	4,675.4	(0.3)
Broadband.....	4,567.1	4,554.9	(0.3)
FTTx/Cable.....	1,514.7	2,285.8	50.9
Mobile accesses	44,352.3	42,324.7	(4.6)
Prepay	28,344.3	25,504.3	(10.0)
Contract.....	16,008.0	16,820.4	5.1
M2M	1,164.9	1,396.2	19.9
Pay TV	2,009.4	2,173.5	8.2
Final Clients Accesses	59,093.9	56,723.6	(4.0)
Total Accesses	59,134.0	56,747.9	(4.0)

Notes:

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Also referred to as fixed broadband accesses.

Total accesses reached 56.7 million as of 30 September 2018 (-4.0 per cent. year-on-year).

Mobile accesses fell by 4.6 per cent. year-on-year to 42.3 million customers as of 30 September 2018, mainly due to a lower prepaid customer base.

- **Contract** accesses increased 5.1 per cent. year-on-year, mainly due to good performances in all operations of the region. For example, Chile (+11.4 per cent. year-on-year), Argentina (+4.3 per cent. year-on-year) and to a lesser extent Peru (+2.6 per cent. year-on-year) and Uruguay (+1.8 per cent. year-on-year).
- **Prepaid** accesses decreased 10.0 per cent. year-on-year with the loss of 2.1 million accesses as of 30 September 2018 as a result of the evolution in all operations of the region: Argentina (-1 million accesses), Chile (-0.6 million accesses), Peru (-0.5 million accesses) and Uruguay (-81 thousand accesses). 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 1.0 per cent. year-on-year at 30 September 2018, reaching 21.1 million accesses (-211 thousand compared to September 2017) with a mobile access penetration of 52.1 per cent. (+2.2 percentage points year-on-year), growing in Chile (+17.2 per cent. year-on-year) partially offset decrease in Peru (-5.9 per cent. year-on-year) and Argentina (-2.7 per cent. year-on-year). In addition, accesses with 4G handsets increased 41.5 per cent., reaching 14.7 million accesses by September 2018.

Fixed accesses stood at 7.5 million as of 30 September 2018 (-6.1 per cent. year-on-year) with negative net adds of 0.4 million customers, due to the erosion of the traditional fixed business.

Fixed broadband accesses reached 4.7 million as of 30 September 2018 (-0.3 per cent. year-on-year), mainly due to Argentina (-10.3 per cent. year-on-year) and Chile (-1.5 per cent. year-on-year) as both operators focused on fiber (high-value customers), which negatively affected the growth in the copper business. This offset the good results in Peru (+10.4 per cent. year-on-year). The penetration of FBB accesses over fixed accesses stood at 60.3 per cent. (+3.5 percentage points year-on-year), focusing on UBB deployment in the region, reaching 7.9 million real estate units and 2.3 million connected accesses (+50.9 per cent. year-on-year). The penetration of UBB accesses over fixed broadband accesses stood at 50.2 per cent. (+17.0 percentage points year-on-year).

Pay-TV accesses stood at 2.2 million (+8.2 per cent. year-on-year) with net adds of 0.1 million accesses, mainly due to positive results in Peru (+13.3 per cent. year-on-year).

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 the Group's fixed and mobile network infrastructure and the services the Group develops around it, Telefónica can aid progress in the communities in which the Group 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 the Group's connectivity and which the Group develops through innovation: Big Data, the IoT, eHealth, digital education and eFinances.
- (3) Incorporating sustainability principles across all of the Group'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 Short Messaging Services ("SMS") and Multimedia Messaging Services ("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 e-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, El Salvador, Guatemala and Nicaragua.
- **Trunking and paging:** Telefónica provides digital mobile services for closed user groups of clients and paging services in Spain and most of the countries 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 an 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 in 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 (VPN) services; fiber optic 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; desktop services; 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 television. In some markets, advanced pay television 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), Catch-Up content, third party contents and Cloud Video Services (such as Last 7 days, RestartTV 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:** Telefónica's Global IoT portfolio includes:
 - **Smart Connectivity:** connectivity services for machines, mainly handled through the Smart platform.
 - **Smart Services:** end-to-end solutions that include "device + connectivity + application". These solutions are mainly aimed at (i) the mobility management of vehicles, assets and/or people, (ii) the efficient management of energy consumption and (iii) support to the retail sector.
 - **Consumer IoT:** products focused on the B2C 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 prepay 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 that allow enterprises of all sizes to manage IT infrastructure more effectively, supporting companies at every stage of the IT life cycle. The Group's approach is based on an end-to-end management, from the devices to the data source, Data Centre services and cloud-based applications, through best-in-class technology and quality. All of which is complemented by Telefónica's best corporate secure communications 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 the product families designed to help decision making in different industries such as retail, finance, transport, government, etc., based on customer data. There are three subgroups: (i) "business insights", that provides information for decision making based on advanced analytical products developed from data generated in the Group's network and systems; (ii) "consultancy and analytics", which includes professional services, expertise on strategy, data science and data engineering; and (iii) "tools and infrastructure", that provides advanced technology for data management, storage and exploitation.
- **Digital Telco Experience:** Includes "Novum", the global solution that aims to provide a E2E digital (end-to-end) experience to the Group's customers. Its main features include account Management, eCare, Cloud Phone and Aura interaction.

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 Group's Industry – The Company may not be able to adequately foresee and respond to technological changes and sector trends."

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 the Company's capital.

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

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 for the acquisition of additional shares by China United Network Communications Group Company Limited. 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 2017 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. Mr. César Alierta, former chairman of Telefónica, is a member of the Board of Directors of China Unicom while Mr. Wang Xiaochu, Chairman and Chief Executive Officer of China Unicom, continues to be a member of the Group's Board of Directors.

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, which is now a market leader of telco location-based big data services in the urban planning sector in China.

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 2017 are highlighted (see Note 17 to the 2017 Consolidated Financial Statements for details of tax-related cases):

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

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 Fund for Universal Access to Telecommunications Services ("FUST") – a fund which pays for the obligations to provide Universal Service -with retroactive application from 2000. On 13 March 2006, the Brasilia Regional Federal Court no. 1 granted a precautionary measure which stopped the application of ANATEL's decision. On 6 March 2007, a ruling in favor 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 Brasilia 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 Brasilia Federal Regional 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 are 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.

Public civil procedure by the São Paulo government against Telefônica Brasil for alleged reiterated malfunctioning in services provided

This proceeding was filed by the Public Ministry of the State of São Paulo for alleged reiterated malfunctioning in the services provided by Telefônica Brasil, seeking compensation for damages to the customers affected. A general claim was filed by the Public Ministry of the State of São Paulo, for 1,000 million Brazilian reais (approximately €225 million), calculated on the company's revenue base over the last five years.

In April 2010, a ruling against the Telefónica Group was issued in the first instance. The full impact of this proceeding will not be known until there is a final ruling, and the total amount of persons affected by and party to the proceeding is known. At that moment, the amount of the indemnity will be established, ranging between 1,000 million and 60 million reais (approximately, between €225 and €13 million), depending on the number of parties. On 5 May 2010, Telefônica Brasil filed an appeal before the São Paulo Court of Justice, suspending the effect of the ruling.

On 13 April 2015, the appeal was judged in favour of Telefónica, by unanimous vote, reversing the earlier decision in first instance.

The Public Prosecutor filed an extraordinary petition for review at the High Court of Brasilia which, on 15 March 2017 refused to consider the petition due to the lack of legal requirements.

Given that the Public Prosecutor did not appeal that refusal, the proceeding concluded in favour of Telefónica Brasil.

Appeal against the Decision of the EC 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 EC initiated formal proceedings to investigate whether Telefónica S.A. (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 EC passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of €67 million, as the EC 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 EC, in which the EC reaffirmed the main arguments of its ruling and, specially, that Clause Nine includes a competition restriction. On 30 September 2013, Telefónica filed its reply. On 18 December 2013, the EC 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 declared the existence of an infringement of competition law, it annulled Article 2 of the contested Decision and requires the EC to reassess the amount of the fine imposed. The General Court considers that the EC 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 the 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 EC filed its response against the Telefónica's appeal. On 30 January 2017 Telefónica, filed its response. On 9 March 2017, the EC filed its rejoinder.

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

Claim of consumers association "FACUA" against Telefónica de España in connection with the increase of the price of Movistar Fusión.

On 5 September 2016, notification was given to Telefónica de España of a claim filed against it by the consumers association ("FACUA").

Through such claim, the association exercises an action to protect consumers' and users' collective interests stipulated in articles 11 of the Civil Procedure Act (*Ley de Enjuiciamiento Civil*) and 24.1 of the Consumer and Users Protection Act (*Ley General de Defensa de los Consumidores y Usuarios*) on the basis of alleged disloyalty towards the consumers, arising from the raising of the prices of the product "Movistar Fusión" from 5 May 2015 by an amount of €5 per month.

The claim contains a declaratory statement stating that disloyalty arises from misleading advertising regarding the price rise and a prohibitory injunction, requesting that Telefónica de España be ordered not to apply such price rise and to prohibit its future application to all customers who became customers of Movistar Fusión prior to 5 May 2015. It contains, besides a third statement, requesting Telefónica de España to be condemned to repay the excess amounts collected as a result of the rise in prices for those customers who have chosen to maintain the service contracted, together with accrued interest on such amount.

The claim was filed for an undetermined amount, given the impossibility of determining a priori the total amount of the claim. On 28 October 2016, Telefónica de España filed its response.

On 5 April 2017, the Court ruled in favour of Telefónica de España, upholding the objection of unsuitable action and ordering the dismissal of the action. FACUA appealed that ruling.

On 21 September 2018, the Court of Appeal dismissed the appeal filed by FACUA, confirming the first instance resolution in favor of Telefónica.

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 €23 million) to Venten and 227 million Czech koruna (approximately €8 million) to Lexburg, in each case plus interest.

On 28 December 2016, the decision was notified to Telefónica. Telefónica has 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 unfavorable 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.

Claim by Entel against Telefónica de Argentina, SA

In 1999, Entel (the National Telecommunications Company of Argentina before its privatisation) sued Telefónica 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 for an amount of 1,689 million Argentine pesos (approximately €39 million).

The resolution of the Court of Appeals exhausted the ordinary remedies available to TASA. 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.

Other Proceedings

Telefónica is currently conducting internal investigations covering various countries regarding possible violations of applicable anti-corruption laws. Telefónica has been in contact with governmental authorities about these matters and intends to cooperate with those authorities as the investigations continue. It is not possible at this time to predict the scope or duration of these matters or their likely outcome.

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 the Company signing off a corporate income tax assessment of €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, the Company filed an appeal with the Central Economic-Administrative Court against these adjustments in May 2015, regarding the tax treatment of the "juros sobre el capital propio" (interest on own capital) as dividends.

In July 2015 tax inspections for all taxes for the years 2008 to 2011 were completed, with the Company signing off certain corporate income tax assessments and disputing others. This resulted in 2015 in an expense amounting to €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 the Company filed an appeal with the Central Economic-Administrative Court against the adjustments it disputes, regarding the tax treatment of the "juros sobre el capital propio" (interest on own capital) as dividends, and the criteria to use tax loss carryforwards in the years subject to settlement.

In June 2017 the Company 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 "Juros sobre el capital propio" (interest on own capital). 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 the Company brought a judicial appeal to the Audiencia Nacional, against the alleged dismissal of the claim in the absence of a reply from the authorities.

At 2017 year end, it is not expected that there is any need to recognise additional liabilities for the outcome of this litigation.

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), there is a pending case 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 18,968 million Brazilian reais (approximately €4,781 million, see Note 15 to the 2017 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 2011 and 2012 of the goodwill generated by Telefónica Brasil's acquisition and merger with Vivo. The tax inspections were conducted in 2016 and 2017 and the accumulated amount at 31 December 2017 is 4,744 million Brazilian reais (approximately €1,196 million). These proceedings are at the administrative stage and no provisions have been made since the potential risk associated to 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 favor 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 2000-2001 (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 the company have filed appeals against the decision in higher courts.

The settlements carried out by SUNAT for 2000 and 2001 are in the final stage of the legal process (under review by the Supreme Court) and a ruling has not yet been released as of the date of the Prospectus.

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.

In parallel to the aforementioned court proceedings, the tax authorities proceeded to collect corporate income tax due for the years 2000-2001 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. The company paid out 286 million Peruvian soles (approximately, €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 €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 2017, whilst in January 2018 the Tax Court suspended payment until the final ruling of the Supreme Court.

Given the sentences and rulings handed down in June and August 2015, the Group decided to recognise a provision in the 2015 consolidated financial statements, that at 31 December 2017 amounted to 1,653 million Peruvian soles (approximately €425 million) (see Note 15 to the 2017 Consolidated Financial Statements).

Tax deductibility of financial goodwill in Spain

Article 12.5 of the Spanish Corporate Income Tax Law (*ley del impuesto sobre sociedades*), 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 August 19, 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 Coltel (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 2017, was €1,226 million.

In relation to this tax incentive, the EC 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 EC 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 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 EC 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. The third decision is still pending a judgment at first instance. 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.

The Group has continued provisioning the amount of the goodwill amortised for tax purposes, corresponding to the purchase of certain companies, mainly Vivo, for a total amount of €266 million at 30 September 2018 (€215 million at 31 December 2017).

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, following the tax audit completed in 2015, the taxes from the last four years are open to inspection with respect to the main companies of the Spanish tax group.

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 thirteen years in Germany.
- The last nine years in United Kingdom.
- The last seven years in Argentina.
- The last six years in Ecuador.

- The last five years in Brazil, Mexico, Uruguay, Colombia and the Netherlands.
- The last four years in Venezuela, Peru, Guatemala, Nicaragua and Costa Rica.
- The last three years in Chile, 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's share capital is divided in 5,192,131,686 outstanding shares each having a nominal value of €1.00 per share. All outstanding shares have the same rights.

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	Number of Shares		Percentage of total
	Direct	Indirect	(per cent.)
Banco Bilbao Vizcaya Argentaria, S.A. ⁽¹⁾	268,230,302	—	5.17
CaixaBank, S.A. ⁽²⁾	259,611,788	342,072	5.01
Blackrock, Inc. ⁽³⁾	—	259,907,201	5.006

⁽¹⁾ Based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. as of 31 December 2017 for the 2017 Annual Report on Corporate Governance.

⁽²⁾ Based on information provided by CaixaBank, S.A. as of 31 December 2017 for the 2017 Annual Report on Corporate Governance. The indirect shareholding is held by VidaCaixa, S.A. de Seguros y Reaseguros shares.

⁽³⁾ According to the notification sent to the CNMV, dated 16 November 2018.

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, the Company has certain shareholders whose holdings are considered material.

Directors and Senior Management of Telefónica

During 2017, Telefónica's Board of Directors met 13 times. As at the date of this Prospectus, its Board of Directors had met 10 times during 2018. As at the date of this Prospectus, Telefónica's directors, their respective positions on its Board and the year they were first appointed as a director were as follows:

Name	Date of Birth	Age	First Appointed	Current Term Ends
Chairman				
Mr. José María Álvarez - Pallete López ⁽¹⁾	12/12/1963	54	2006	2021
Vice-Chairmen				
Mr. Isidro Fainé Casas ⁽¹⁾⁽²⁾	10/07/1942	76	1994	2020
Mr. José María Abril Pérez ⁽¹⁾⁽³⁾⁽⁶⁾	19/03/1952	66	2007	2022
Members				
Mr. Ángel Vilá Boix ⁽¹⁾	29/07/1964	54	2017	2022
Mr. Juan Ignacio Cirac Sasturain ⁽⁶⁾	11/10/1965	53	2016	2020
Mr. José Javier Echenique Landiribar ⁽¹⁾⁽⁴⁾⁽⁷⁾	20/11/1951	67	2016	2020
Mr. Peter Erskine ⁽¹⁾⁽⁶⁾⁽⁷⁾	10/11/1951	67	2006	2020
Ms. Sabina Fluxà Thienemann ⁽⁷⁾	26/04/1980	38	2016	2020
Mr. Luiz Fernando Furlán ⁽⁷⁾	29/07/1946	72	2008	2022
Ms. Carmen García de Andrés ⁽⁴⁾⁽⁸⁾	15/12/1962	55	2017	2021
Ms. María Luisa García Blanco ⁽⁵⁾⁽⁸⁾	25/10/1965	53	2018	2022
Mr. Jordi Gual Solé ⁽²⁾⁽⁵⁾⁽⁶⁾	12/06/1957	61	2018	2022
Mr. Peter Löscher ⁽⁶⁾⁽⁸⁾	17/09/1957	61	2016	2020
Mr. Ignacio Moreno Martínez ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁸⁾	30/07/1957	61	2011	2021
Mr. Francisco Javier de Paz Mancho ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	24/07/1958	60	2007	2022
Mr. Francisco José Riberas Mera	01/06/1964	54	2017	2021
Mr. Wang Xiaochu ⁽⁹⁾	24/08/1958	60	2015	2020

Notes

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

- (2) Nominated by CaixaBank, S.A.
(3) Nominated by 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 Service Quality and Customer Service Committee.
(9) Nominated by China Unicom (Hong Kong) Limited.

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

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
José María Álvarez- Pallette 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) 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 and Founder of the Circulo Financiero
José María Abril Pérez	Vice Chairman of Telefónica, S.A.	
Ángel Vilá Boix	Chief Operating Officer and Executive Director of Telefónica, S.A.	
Juan Ignacio Cirac Sasurain	Director of Telefónica, S.A.	Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University Director of International Max-Planck Research School Quantum Science and Technology Member of the Advisory Board of Annalen der Physik Member of the Advisory Board of the Institute for the Interdisciplinary Information Sciences, Tsinghua University Member of the Scientific Committee of BBVA Foundation
José Javier Echenique Landiribar	Director of Telefónica, S.A. Director of Telefónica Móviles México, S.A. de C.V. Director of Telefónica Audiovisual Digital, S.L.U.	Vice Chairman of Banco Sabadell, S.A. Director of ACS Actividades de Construcción y Servicios, S.A Director of ACS Servicios, Comunicaciones y Energía S.L. Director of Grupo Empresarial Ence, 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
Peter Erskine	Director of Telefónica, S.A. Member of the Supervisory Board of Telefónica Deutschland Holding AG	Chairman of the Henley Business School Strategy Board 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.	Vice President and CEO of Iberostar Group Member of the Regional Advisory Board of BBVA

Name	Principal activities inside the Group	Principal Activities outside the Group
		Member of the Board of Directors of APD Illes Balears Sponsor of Iberostar Foundation
Luiz Fernando Furlán	Director of Telefónica, S.A. Director of Telefônica Brasil, S.A	Member of the Board of Directors of Brasil Food, S.A. (BRF) Chairman of the Deliberative Council of SP Negocios (Brazil)
Carmen García de Andrés	Director of Telefónica, S.A	Chairwoman of Tomillo Foundation Member of the Trust of the Young Business Spain Foundation Treasurer of the Asociación Española de Fundaciones (AEF) Member of the Trust of Rais and Xavier de Salas Foundations Member of the Board of Directors of the collective initiative <i>Juntos por el Empleo de los más desfavorecidos</i>
Jordi Gual Solé	Director of Telefónica, S.A.	Chairman of CaixaBank, S.A. Member of the Supervisory Board of ERSTE Group Bank Member of the Market Monitoring Group of the Institute of International Finance (IIF) Member of the Board of the European Corporate Governance Institute Chairman of FEDEA Vice President of the Círculo de Economía Trustee of the CEDE Foundation Trustee of the Institución Cultural del CIC Trustee of the Real Instituto Elcano Member of the Board of Trustees of COTEC Foundation
Peter Löscher	Director of Telefónica, S.A.	Chairman of the Supervisory Board of Sulzer AG Chairman of the Supervisory Board of OMV Aktiengesellschaft Member of the Board of Directors of TBG AG, Switzerland
Ignacio Moreno Martínez	Director of Telefónica, S.A.	Chairman of TESTA Residencial, Socimi, S.A. Chairman of Metrovacesa Suelo y Promoción, S.A. Senior Advisor of BC Partners for Spain
Francisco Javier de Paz Mancho	Director of Telefónica, S.A. Director of Telefónica 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 of Gestamp Automoción, S.A. Member of the Board of Directors of Gonvarri Group Member of the Board of Directors of Acek Group Member of the Board of Directors of CIE Automotive Member of the Board of Directors of Global Dominion Access, S.A. Member of the Board of Directors of Sideacero Group Member of the of the Family Business Institute Member of the of Endeavor Foundation

<u>Name</u>	<u>Principal activities inside the Group</u>	<u>Principal Activities outside the Group</u>
Wang Xiaochu	Director of Telefónica, S.A.	Chairman of China United Network Communications Group Company Limited Chairman, Executive Director and CEO of China Unicom (Hong Kong) Limited

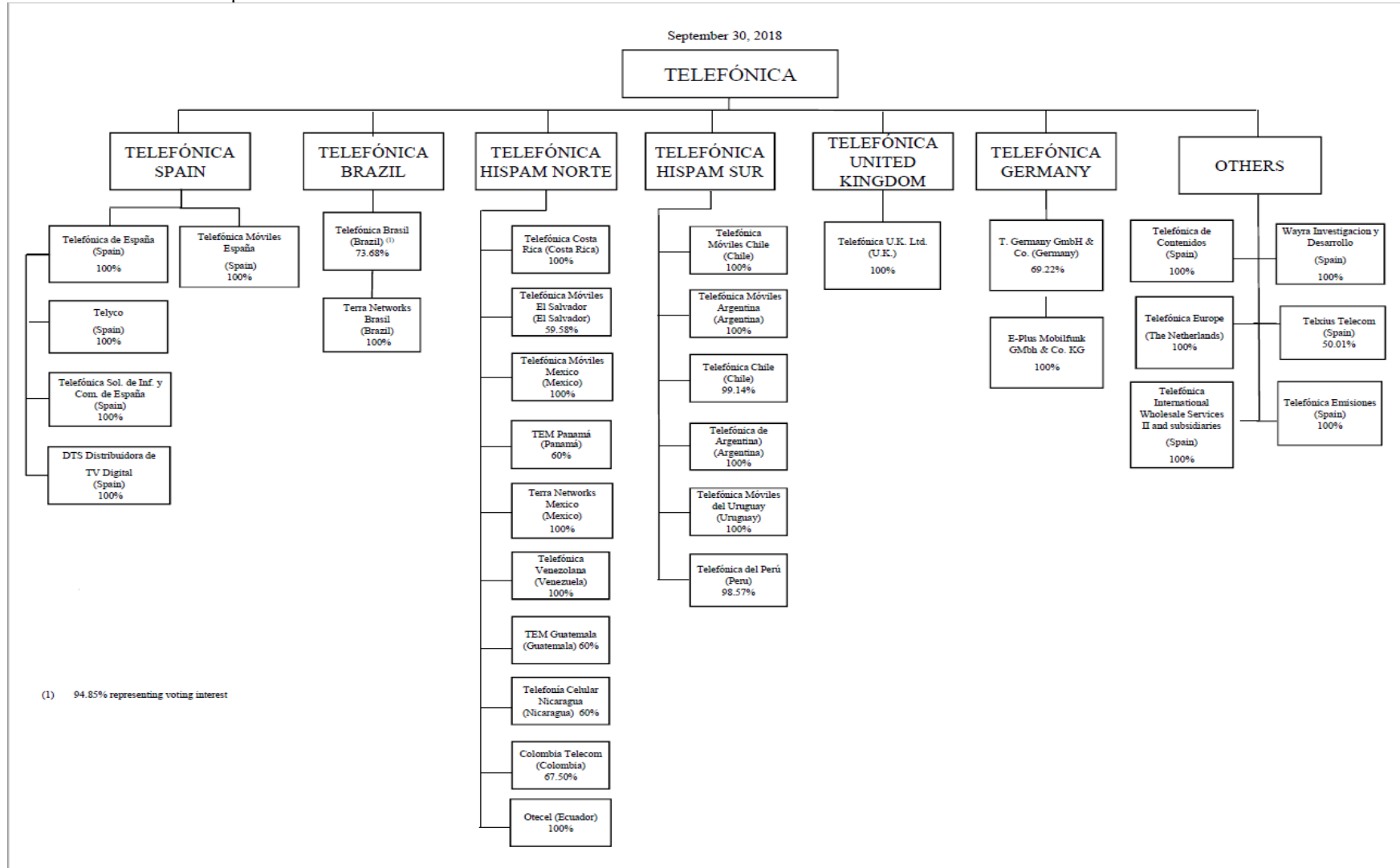
The business address of each of the directors of the Guarantor is Distrito Telefónica Ed. Central, Ronda de la Comunicación s/n, 28050 Madrid, España.

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 2018, including their jurisdictions of incorporation and Telefónica's ownership interest:



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.

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.

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 2018).

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 51.95 per cent. in 2018) 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 2018, the deemed return ranges from 2.02 per cent. to 5.38 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 a rate of 30 per cent.

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 Terms and Conditions of the relevant Securities) 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 abovementioned 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.

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 Terms and Conditions of the relevant Securities) 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 Terms and Conditions of the relevant 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

The joint bookrunners in respect of each series of Securities (the "**Joint Bookrunners**") have, in subscription agreements relating to the relevant series of Securities (each, a "**Subscription Agreement**") and made between the Issuer, the Guarantor and the relevant Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the relevant 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 Retail Investors

In respect of the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, 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. 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 2002/92/EC (as amended or superseded), 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 Netherlands

Each Joint Bookrunner has represented and agreed that the Securities are not, and may not be, offered to the public in the Netherlands other than to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

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 constitute a public offer of securities in Spain within the meaning of Article 35 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**"), Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005, de 4 de noviembre*), and supplemental rules enacted thereunder and only to professional clients (*clientes profesionales*) and eligible counterparties (*contrapartes elegibles*) as these terms are defined in 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.

In respect of the 2017 5.5 Year Non-Call Securities, the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities, 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. 16190 of 29 October 2007, 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 8 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 4 September 2013. The giving of the Guarantee of the 8 Year Non-Call Securities has been authorised by a resolution of the Board of Directors of the Guarantor dated 25 August 2013 and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013.

The creation and issue of the 7 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 12 November 2013. The giving of the Guarantee of the 7 Year Non-Call Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 11 October 2013, by a resolution of the Board of Directors of the Guarantor dated 31 May 2013, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013.

The creation and issue of the 6 Year Non-Call Securities and the 10 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 14 March 2014. The giving of the Guarantee of the 6 Year Non-Call Securities and the 10 Year Non-Call Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 14 March 2014, by a resolution of the Board of Directors of the Guarantor dated 31 May 2013, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 31 May 2013.

The creation and issue of the 5 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 21 November 2014. The giving of the Guarantee of the 5 Year Non-Call Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 14 November 2014, by a resolution of the Board of Directors of the Guarantor dated 30 May 2014, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 30 May 2014.

The creation and issue of the 2016 5.5 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 1 September 2016. The giving of the Guarantee of the 2016 5.5 Year Non-Call Securities has been authorised by a resolution of the Delegated Committee of the Board of Directors of the Guarantor dated 29 July 2015, by a resolution of the Board of Directors of the Guarantor dated 30 May 2014, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 30 May 2014.

The creation and issue of the 2017 5.5 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 17 November 2017. The giving of the Guarantee of the 2017 5.5 Year Non-Call Securities has been authorised by a resolution of the Executive Commission of the Board of Directors of the Guarantor dated 17 November 2017, by a resolution of the Board of Directors of the Guarantor dated 9 June 2017, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017.

The creation and issue of the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities has been authorised by a resolution of the Board of Managing Directors of the Issuer dated 1 March 2018. The giving of the Guarantee of the 5.7 Year Non-Call Securities and the 8.5 Year Non-Call Securities has been authorised by a resolution of the Board of Directors of the Guarantor dated 2 March 2018, by a resolution of the Board of Directors of the Guarantor dated 9 June 2017, and by a resolution of the shareholders acting through the General Shareholders' Meeting of the Guarantor dated 9 June 2017.

Legal and Arbitration Proceedings

2. Save as described in "*Risk Factors – Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings*" on page 17 of this Prospectus and under "*Description of the Guarantor – Legal Proceedings*" and "*Description of the Guarantor – Tax Proceedings*" on pages 232 through 239 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 2017 there has been no material adverse change in the prospects of the Issuer, and since 30 June 2018 there has been no significant change in the financial or trading position of the Issuer. Since 31 December 2017 there has been no material adverse change in the prospects of the Guarantor and the Group, and since 30 September 2018 there has been no significant change in the financial or trading position of the Guarantor and the Group, save for: (i) on 22 November 2018, O2 Telefónica Deutschland Finanzierungs GmbH redeemed €600 million of its notes issued on 22 November 2013; (ii) on 14 December 2018, Telefónica Emisiones, S.A.U. redeemed CHF 250 million of its notes issued on 14 December 2012; and (iii) on 20 December, 2018, Telxius Telecom, S.A. drew down an aggregate amount of 140 million euros of its bilateral loans signed on 20 December 2018 and maturing in 2023.

Auditors

4. The consolidated financial statements of the Guarantor have been audited without qualification for the year ended 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.

The consolidated financial statements of the Guarantor have been audited without qualification for the year ended 31 December 2016 by Ernst & Young, S.L. with its registered address at Plaza Pablo Ruiz Picasso, 1, 28020, Madrid, Spain, registered with the ROAC under number S0530.

The unconsolidated financial statements of the Issuer have been audited without qualification for the year ended 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 auditor's report on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

The unconsolidated financial statements of the Issuer have been audited without qualification for the year ended 31 December 2016 by Ernst & Young Accountants LLP with its registered address at Antonio Vivaldistraat 150, 1083 HP, Amsterdam, the Netherlands, registered in the Netherlands in the Chamber of Commerce, Rotterdam with registration number 24432944.

Documents on Display

5. Electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent and at the registered/head office of the Issuer and the Guarantor for so long as the Securities are listed:
 - (a) the articles of association of the Issuer (together with English translations thereof);
 - (b) the by-laws of the Guarantor (together with English translations thereof);
 - (c) the Fiscal Agency Agreement, the Deed of Covenant and the Deed of Guarantee in respect of each series of Securities;
 - (d) the audited unconsolidated financial statements of the Issuer for the years ended 31 December 2017 and 2016 and the unaudited and unreviewed interim unconsolidated financial statements of the Issuer for the six months ended 30 June 2018; and
 - (e) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2017 and 2016, the unaudited condensed consolidated financial statements of the Guarantor for the six months ended 30 June 2018 subject to limited review and the unaudited consolidated interim management statement of the Guarantor for the nine months ended 30 September 2018.

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.

Yield

6. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 8 Year Non-Call Securities will be 7.625 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 7 Year Non-Call Securities will be 6.75 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 6 Year Non-Call Securities will be 5.000 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 10 Year Non-Call Securities will be 5.875 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 5 Year Non-Call Securities will be 4.200 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 2016 5.5 Year Non-Call Securities will be 3.753 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 2017 5.5 Year Non-Call Securities will be 2.627 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 5.7 Year Non-Call Securities will be 3.002 per cent. per annum.

From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the 8.5 Year Non-Call Securities will be 3.878 per cent. per annum.

In each case, 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

7. 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."

Listing

8. It is expected that the listing of the Securities on the Official List and the admission of the Securities to trading on the Main Securities Market of Euronext Dublin will take place on or about 11 January 2019.
9. 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 Main Securities Market.

Fees

10. The estimated costs and expenses in relation to admission to trading are EUR 12,500.

Legal Entity Identifier

11. The Legal Entity Identifier (LEI) code of the Issuer is 7245007FZS0M65WUGP67.

ISIN and Common Code

12. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg.
The ISIN of the 8 Year Non-Call Securities is XS0972588643 and the common code is 097258864.
The ISIN of the 7 Year Non-Call Securities is XS0997326441 and the common code is 099732644.
The ISIN of the 6 Year Non-Call Securities is XS1050460739 and the common code is 105046073.
The ISIN of the 10 Year Non-Call Securities is XS1050461034 and the common code is 105046103.
The ISIN of the 5 Year Non-Call Securities is XS1148359356 and the common code is 114835935.
The ISIN of the 2016 5.5 Year Non-Call Securities is XS1490960942 and the common code is 149096094.
The ISIN of the 2017 5.5 Year Non-Call Securities is XS1731823255 and the common code is 173182325.
The ISIN of the 5.7 Year Non-Call Securities is XS1795406575 and the common code is 179540657.
The ISIN of the 8.5 Year Non-Call Securities is XS1795406658 and the common code is 179540665.

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