

Creditreform Corporate Issuer / Issue Rating

Telefónica Europe B.V.

Creditreform Rating
www.creditreform-rating.de

Rating object	Rating information	
Telefónica Europe B.V. Creditreform ID: 12436 Incorporation: 1996 (Main) Industry: fund raising in capital markets for the account of Telefónica, S.A. CEO: José María Álvarez-Pallete López <u>List of rating objects:</u> Long-term Corporate Issuer: Telefónica Europe B.V. Long-term Local Currency (LC) Senior Unsecured Issues	Corporate Issuer Rating: BBB- / stable	Type: Initial rating Unsolicited
	Senior unsecured issues, LC (DIP): BBB-	Other: n.r.
	Prepared on: 20 August 2018 Monitoring until: withdrawal of the rating Publication: 27 August 2018 Rating methodology: CRA "Corporate Issuer Ratings" CRA "Corporate Issue Ratings" Rating history: www.creditreform-rating.de	

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Issuer rating

Company

Telefónica Europe B.V. is a private company with limited liability company incorporated in the Netherlands (Rotterdam) in 1996. The company is a special purpose entity that raises capital for the account of Telefónica, S.A. ("Telefónica"). All debt securities issued by Telefónica Europe B.V. are unconditionally and irrevocably guaranteed by Telefónica, S.A.

Telefónica, S.A. (Group) is a leading multinational telecommunications group, headquartered in Madrid, Spain. The Group offers a broad range of fixed and mobile telecommunication services to 346 million customers in 21 countries mainly in Europe and Latin America. The Group is active in the following businesses: wireless and wireline telephony, broadband, internet, data traffic, pay TV and other digital services. The group operates under its main brand names: Telefónica, Movistar, O2, and Vivo.

In 2017, the Group achieved with an average 125,371 employees revenues amounting to EUR 52,008 million (2016: EUR 52,036 million), an EBITDA of EUR 16,278 million (2016: EUR 15,605 million) and an EAT of EUR 3,132 million (2016: EUR 2,399 million).

Table 1: Financials of Telefónica S.A. | Source: Telefónica S.A. (Group) annual report 2017, standardized by CRA

Financial ratios ¹ extract Basis: consolidated annual statement per 31.12 (IFRS)	Standardized balance sheet	
	2016	2017
Revenues	EUR 52,036 million	EUR 52,008 million
EBITDA	EUR 15,605 million	EUR 16,278 million
EBIT	EUR 5,956 million	EUR 6,882 million
EAT	EUR 2,399 million	EUR 3,132 million
Total assets adj.	EUR 99,311 million	EUR 92,731 million
Equity ratio adj.	6.5 %	6.9 %
Capital lock-up period	57,0 days	56,4 days
Short-term capital lock-up	44.4 %	32.7 %
Return on investment	5.1 %	6.1 %
Net debt / EBITDA adj.	5.5	4.6
Ratio of interest expenses to debt	4.8 %	3.9 %

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Regarding the business development and outlook of the issuer, we refer to the report on the unsolicited corporate issuer rating of Telefónica S.A. (Group) as of 18 April 2018 (BBB- / stable) and the

information published by the Group since then and, among other things, to the half-year 2018 report of Telefónica, S.A. (Group). The company faces specific structural risks, business risks and financial risks that are described in detail in the rating report. Since that date, the rating has been subject to an ongoing monitoring. There have been no changes in our rating assessment so far. The report can be found on the website of CRA.

Rating result

Given the fact that Telefónica Europe B.V. is a fully-owned subsidiary of Telefónica, S.A. and based on the financial relations between the companies and the existence of the unconditional and irrevocable guarantee, we derive the rating of Telefónica Europe B.V. from the corporate issuer rating of Telefónica, S.A. (Group) and assign to both companies the same corporate issuer rating.

The current unsolicited corporate issuer rating of BBB- attests a good level of creditworthiness to Telefónica Europe B.V., which represents a low to medium default risk in comparison with the sector and the overall economy.

Best-case scenario

Best-case scenario: BBB
Worst-case scenario: BB+

In our best-case scenario for one year, we assume a rating of BBB. As the rating of the issuer is linked to the rating of Telefónica, S.A. (Group), we refer to the report on the unsolicited corporate issuer rating of Telefónica, S.A. (Group), as of 18 April 2018 (BBB- / stable).

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of BB+. As the rating of the issuer is linked to the rating of Telefónica, S.A. (Group), we refer to the report on the unsolicited corporate issuer rating of Telefónica, S.A. (Group), as of 18 April 2018 (BBB- / stable).

Note:

The scenarios are based on the information available at the time of the rating. Within the forecast horizon, some circumstances could occur that would lead to a rating change out of the indicated range.

Issue rating

Rating object

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in EUR, issued by Telefónica Europe B.V. There is currently only one bond of that type, which has been issued by Telefónica: ISIN XS0162869076 (issue document dated 13 February 2003). Telefónica, S.A., the parent company of the issuer, has granted a full and unconditional guarantee on issues made by Telefónica Europe B.V.

Rating result

We assign a rating of BBB- to the long-term local currency senior unsecured debt securities issued by Telefónica Europe B.V. The decision is derived from the corporate issuer rating and its outlook, taking into account the specific credit enhancement of the issue, namely the unconditional and irrevocable guarantee of the parent company. Given the fact that the corporate issuer rating already derives from the corporate issuer rating of Telefónica, S.A., the guarantee does not lead to an upgrade of the rating but has rather a stabilizing effect on the rating.

The rating of BBB- represents a highly satisfactory level of credit quality with a low to medium investment risk.

The following tables gives overviews of the ratings attributed by CRA as well as of the current long-term local currency senior unsecured issue of Telefónica Europe B.V.

Table 2: Summary of CRA ratings | Source: CRA

Rating objects	Detail information	
	Date	Rating
Telefónica, S.A.	18.04.2018	BBB-/stable
Telefónica Emisiones, S.A.U.	18.04.2018	BBB-/stable
Telefónica Europe B.V.	17.08.2018	BBB-/stable
Long-term LC senior unsecured issues of Telefónica Emisiones, S.A.U.	17.08.2018	BBB-
Long-term LC senior unsecured issues of Telefónica Europe B.V.	17.08.2018	BBB-
Other	--	n.r.

Table 3: Overview of Telefónica Europe B.V.'s Medium Term Note | Source: Telefónica

Bond overview			
Volume	500,000,000	Maturity	14 February 2033
Issuer	Telefónica Europe B.V.	Coupon	5.875%
Country	The Netherlands	Currency	EUR
Credit Enhancement	Guarantee from Telefónica, S.A.	ISIN	XS0162869076

All future LT LC senior unsecured issues that will be issued by Telefónica Europe B.V. denominated in euro will, until further notice, receive the same ratings than the current LT LC senior unsecured issue. Issues in other currencies than euro or other types of debt instruments (e.g. commercial paper or hybrid instruments such as undated deeply subordinated securities) have not been rated by CRA. The current ratings and information can be seen on the website of Creditreform Rating AG.

Appendix

Rating history

Table 4: Corporate issuer Telefónica, S.A. (Group) | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	18.04.2018	27.04.2016	Withdrawal of the rating	BBB- / stable

Table 5: Corporate issuer Telefónica Europe B.V. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	20.08.2018	27.08.2018	Withdrawal of the rating	BBB- / stable

Table 6: LT LC senior unsecured issues issued by Telefónica Europe B.V. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	20.08.2018	27.08.2018	Withdrawal of the rating	BBB-

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the issuer, the final terms of the issue and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology and the "Corporate Issuer Rating" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Marie Watelet (m.watelet@creditreform-rating.de) and Christian Konieczny (c.konieczny@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 20 August 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to non-rated (n.r.).

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Please note:

This report exists in an English version only. This is the only binding version.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore, CRA considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The 'Basic Data' information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the 'Basic Data' card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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