

Rating object	Rating information	
<p><b>Long-Term Local Currency Senior Unsecured Issues</b></p> <p>Type of issues: Long-term local currency senior unsecured issues                      Home Markets: London Stock Exchange                      Issuer: Telefónica Emisiones, S.A.U.                      Guarantor: Telefónica, S.A.</p>	<p>Corporate Issuer Rating:  <b>BBB- / stable</b></p> <p>LT Senior Unsecured Issues, LC:  <b>BBB-</b></p> <p>Rating Date: 20 August 2018                      Monitoring until: withdrawal of the rating                      Publication Date: 27 August 2018                      Rating methodology: CRA „Corporate Issue Ratings“                      Rating history: www.creditreform-rating.de</p>	<p>Type:                      Initial rating                      Unsolicited</p> <p>Other:  <b>n.r.</b></p>

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## Transaction summary

Object of this rating are the long-term (“LT”) local currency (“LC”) senior unsecured issues (“Notes”) issued by Telefónica Emisiones, S.A.U. (“Telefónica Emisiones”), a fully-owned subsidiary of Telefónica, S.A. – the parent company of Telefónica, S.A. (Group). The Notes have been issued within the framework of a Debt Issuance Programme (“DIP”) (last base prospectus dated 19 June 2018). The Notes are unsecured and are issued in Series from time to time with different interest payments and maturities. They are unconditionally and irrevocably guaranteed by Telefónica, S.A. The issues proceeds serve either to meet part of the general financing requirements of the issuer or to a particular use, identified in the final terms of each Note.

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

In accordance with CRA methods, this unsolicited corporate issue rating is derived from Telefónica Emisiones, S.A.U.’s unsolicited corporate issuer rating, which was first prepared on 18 April 2018 (initial rating). Since that date, the rating has been subject to an ongoing monitoring. There have been no changes in our rating assessment so far. Information about the current unsolicited corporate issuer ratings of Telefónica Emisiones, S.A.U. and Telefónica, S.A. and their respective rating reports are available on the website of Creditreform Rating AG.

## Issue rating details

### Issuer

Telefónica Emisiones, S.A.U. is a special purpose entity that raises capital to be used for general corporate purposes by Telefónica, S.A. (Group). All debt securities issued by Telefónica Emisiones, S.A.U. are fully and unconditionally guaranteed by Telefónica, S.A.

Given the fact that Telefónica Emisiones, S.A.U. is a fully-owned subsidiary of Telefónica, S.A. and based on the financial relations between the companies and the existence of the guarantee, we derived the rating of Telefónica Emisiones, S.A.U from the corporate issuer rating of Telefónica, S.A. and assign to both companies the same corporate issuer rating.

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.

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In 2017, the Group achieved with an average of 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´ 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 %

Regarding the business development and outlook of the issuer, we refer to the report on the unsolicited corporate issuer rating of Telefónica Emisiones, S.A.U. based on 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. The report can be found on the website of CRA. As mentioned above, the rating is monitored on an ongoing basis.

### Rating object

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in EUR, issued by Telefónica Emisiones, S.A.U. The Notes have been within the framework of a Debt Issuance Programme, of which the latest prospectus dates 19 June 2017. The current 2018-DIP amounts to maximum EUR 40 bn. Following the documentation on the DIP (prospectus and supplement), all issues under the Programme are unconditionally and irrevocably guaranteed by Telefónica, S.A. The guarantor is the parent company of the issuer. Furthermore, the Notes issued under the DIP Programme benefit from a negative pledge provision and a cross-default mechanism.

### Rating result

We assign a rating of BBB- to the long-term local currency senior unsecured debt securities issued by Telefónica Emisiones, S.A.U. The decision is derived from the corporate issuer rating and its outlook, taking into account the specific credit enhancement of the Programme, namely the 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 following tables gives overviews of the ratings attributed by CRA as well as of the current DIP.

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 2018 Debt Issuance Programme | Source: Telefónica, S.A. prospectus dated 19 June 2018

Overview 2018 DIP			
Programme Volume	EUR 40,000,000,000	Maturity	Depending on the respective Notes
Issuer	Telefónica Emisiones, S.A.U.	Coupon	Depending on the respective Notes
Arranger	BNP Paribas	Currency	Depending on the respective Notes
Credit Enhancement	Guarantee from Telefónica, S.A.	ISIN	Depending on the respective Notes

At the time of the rating, the following EUR-Notes are rated by Creditreform Rating AG:

Table 4: Unsolicited ratings of Telefónica Emisiones' long-term LC senior unsecured issues | Source: CRA, 30 July 2018

ISIN	EUR	Issue date	Maturity	Unsolicited Rating
XS1550951211	1,250,000,000	17.01.2017	17.01.2025	BBB-
XS0842214818	1,200,000,000	19.10.2012	20.01.2020	BBB-
XS1505554771	750,000,000	17.10.2016	17.10.2031	BBB-
XS1262975995	67,000,000	21.07.2015	21.07.2022	BBB-
XS1290729208	1,000,000,000	14.09.2015	14.09.2021	BBB-
XS1069430368	1,250,000,000	27.05.2014	27.05.2022	BBB-
XS1394764689	1,350,000,000	13.04.2016	13.04.2026	BBB-
XS0934042549	750,000,000	29.05.2013	29.05.2019	BBB-
XS0462999573	1,750,000,000	10.11.2009	11.11.2019	BBB-
XS1756296965	1,000,000,000	22.01.2018	22.01.2027	BBB-
XS1681521081	1,250,000,000	12.09.2017	12.01.2028	BBB-
XS1542177545	150,000,000	28.12.2016	28.12.2051	BBB-
XS1550951138	700,000,000	17.01.2017	17.10.2028	BBB-
XS1505554698	1,250,000,000	17.10.2016	17.10.2020	BBB-
XS1120892507	800,000,000	17.10.2014	17.10.2029	BBB-

XS1555704078	150,000,000	25.01.2017	25.01.2019	BBB-
XS0874864860	1,500,000,000	22.01.2013	23.01.2023	BBB-
XS1394777665	1,400,000,000	13.04.2016	13.04.2022	BBB-
XS0907289978	1,000,000,000	27.03.2013	26.03.2021	BBB-

All future LT LC senior unsecured Notes that will be issued by Telefónica Emisiones, S.A.U. under the current DIP, denominated in euro will, until further notice, receive the same ratings than the current LT LC senior unsecured Notes issued under the 2018-DIP. Notes issued under the Programme in another currency than euro or other types of debt instruments have not been rated by CRA so far. The current ratings and information can be seen on the website of Creditreform Rating AG.

### 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 debt securities is linked to the rating of the issuer, we refer to the report on the unsolicited corporate issuer rating of Telefónica Emisiones, S.A.U., based on the rating of Telefónica, S.A. (Group) as of 18 April 2018 (BBB- / stable).

### Worst-case scenario

#### 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.

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

## Appendix

### Rating history

Table 5: Corporate issuer Telefónica Emisiones, S.A.U. | 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 6: 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 7: LT LC senior unsecured issues issued by Telefónica Emisiones, S.A.U. | 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 base prospectus-

es 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](http://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/](http://www.creditreform-rating.de/en/regulatory-requirements/)

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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.).

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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

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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".

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