

Telefonica Emisiones, S.A.U.
Form 424B5
February 26, 2019
Table of Contents

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The information in this Preliminary Prospectus Supplement is not complete and may be changed. This Preliminary Prospectus Supplement and the accompanying Prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUPPLEMENT DATED FEBRUARY 26, 2019 (SUBJECT TO COMPLETION)

(TO PROSPECTUS DATED APRIL 20, 2018)

TELEFÓNICA EMISIONES, S.A.U.

(incorporated with limited liability in the Kingdom of Spain)

\$ FIXED RATE SENIOR NOTES DUE

\$ FIXED RATE SENIOR NOTES DUE

guaranteed by:

TELEFÓNICA, S.A.

(incorporated with limited liability in the Kingdom of Spain)

The \$ fixed rate senior notes due (the **Fixed Rate Notes**) will bear interest at % per year. The \$ fixed rate senior notes due (the **Fixed Rate Notes** , and together with the Fixed Rate Notes, the **Notes**) will bear interest at % per year. Interest on the Fixed Rate Notes will be payable on and of each year, beginning on , 2019, until (the **Fixed Rate Note Maturity Date**), and on the Fixed Rate Note Maturity Date. Interest on the Fixed Rate Notes will be payable on and of each year, beginning on , 2019, until (the **Fixed Rate Note Maturity Date** , and each of the Fixed Rate Note Maturity Date and the Fixed Rate Note Maturity Date is referred to as a **Maturity Date**), and on the Fixed Rate Note Maturity Date. The Fixed Rate Notes will mature at 100% of their principal amount on the Fixed Rate Note Maturity Date. The Fixed Rate Notes will mature at 100% of their principal amount on the Fixed Rate Note Maturity Date. The Fixed Rate Notes and the Fixed Rate Notes constitute separate series of securities issued under the Indenture (as

defined herein).

Subject to applicable law, the Notes of each series will be unsecured and will rank equally in right of payment with other unsecured unsubordinated indebtedness of Telefónica Emisiones, S.A.U. (the **Issuer**). The Guarantee (as defined herein) as to the payment of principal, interest and Additional Amounts (as defined herein) will be a direct, unconditional, unsecured and unsubordinated obligation of our parent, Telefónica, S.A. (the **Guarantor**), and, subject to applicable law, will rank equally in right of payment with its other unsecured unsubordinated indebtedness.

For a more detailed description of the Notes of each series and the Guarantee, see Description of the Notes and the Guarantee beginning on S-19.

Investing in the Notes involves risks. See Risk Factors beginning on S-14.

| | | Price to Public | Underwriting Discounts(1) | Proceeds, Before Expenses, to the Issuer |
|-----------|------------------|-----------------|---------------------------|--|
| Per | Fixed Rate Note | % | % | % |
| Total for | Fixed Rate Notes | \$ | \$ | \$ |
| Per | Fixed Rate Note | % | % | % |
| Total for | Fixed Rate Notes | \$ | \$ | \$ |

(1) Before reimbursement of certain expenses in connection with this offering, which the underwriters have agreed to make to the Issuer. See Underwriting beginning on page S-46.

Potential investors should review the summary set forth in Taxation , beginning on S-37, regarding the tax treatment in Spain of income obtained in respect of the Notes. In particular, income obtained in respect of the Notes will be exempt from Spanish withholding tax provided certain requirements are met, including that the Paying Agent (as defined herein) provides us and the Guarantor with certain documentation in a timely manner.

None of the U.S. Securities and Exchange Commission (the SEC), any state securities commission or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Notes to purchasers in registered book entry form through the facilities of The Depository Trust Company (**DTC**) for credit to accounts of direct or indirect participants in DTC, including Clearstream Banking, société anonyme, Luxembourg, and Euroclear Bank S.A./N.V., on or about March , 2019, which will be the third Business Day (as defined herein) following the date of pricing of the Notes (such settlement period being referred to as **T+3**). Pursuant to Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), trades in the secondary market are generally required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Prospectus Supplement will be required to specify alternative settlement arrangements to prevent a failed settlement. Such purchasers should consult their own advisors. Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Application will be made for the Notes described in this Prospectus Supplement to be listed on the New York Stock Exchange (the **NYSE**).

Joint Book-Running Managers

**Barclays
Credit Suisse
J.P. Morgan**

**BofA Merrill Lynch
Deutsche Bank Securities
Mizuho Securities**

**COMMERZBANK
Goldman Sachs & Co. LLC
Morgan Stanley**

The date of this Prospectus Supplement is _____, 2019.

Table of Contents

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

| | Page |
|--|-------------|
| <u>IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS</u> | S-1 |
| <u>SUMMARY</u> | S-2 |
| <u>THE OFFERING</u> | S-3 |
| <u>SELECTED CONSOLIDATED FINANCIAL INFORMATION</u> | S-8 |
| <u>RISK FACTORS</u> | S-14 |
| <u>USE OF PROCEEDS</u> | S-17 |
| <u>CAPITALIZATION AND INDEBTEDNESS</u> | S-18 |
| <u>DESCRIPTION OF THE NOTES AND THE GUARANTEE</u> | S-19 |
| <u>TAXATION</u> | S-37 |
| <u>UNDERWRITING</u> | S-46 |
| <u>VALIDITY OF THE NOTES</u> | S-52 |
| <u>EXPERTS</u> | S-52 |
| <u>INCORPORATION BY REFERENCE</u> | S-52 |
| <u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u> | S-54 |
| <u>CURRENCY OF PRESENTATION</u> | S-55 |
| <u>ANNEX A DIRECT REFUND FROM SPANISH TAX AUTHORITIES PROCEDURES</u> | A-1 |
| <u>ANNEX B ANEXO AL REGLAMENTO GENERAL DE LAS ACTUACIONES Y LOS PROCEDIMIENTOS DE GESTIÓN E INSPECCIÓN TRIBUTARIA Y DE DESARROLLO DE LAS NORMAS COMUNES DE LOS PROCEDIMIENTOS DE APLICACIÓN DE LOS TRIBUTOS, APROBADO POR REAL DECRETO 1065/2007</u> | B-1 |

PROSPECTUS

| | Page |
|---|-------------|
| <u>About This Prospectus</u> | 1 |
| <u>Incorporation by Reference</u> | 2 |
| <u>Where You Can Find More Information</u> | 3 |
| <u>The Telefónica Group</u> | 4 |
| <u>Telefónica Emisiones, S.A.U.</u> | 4 |
| <u>Risk Factors</u> | 5 |
| <u>Ratio of Earnings to Fixed Charges</u> | 6 |
| <u>Description of Telefónica's Ordinary Shares</u> | 7 |
| <u>Description of American Depositary Shares</u> | 18 |
| <u>Description of Rights to Subscribe for Ordinary Shares</u> | 19 |
| <u>Description of Debt Securities and Guarantees</u> | 20 |
| <u>Enforceability of Certain Civil Liabilities</u> | 22 |
| <u>Legal Matters</u> | 22 |
| <u>Experts</u> | 22 |

Table of Contents

**IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT
AND THE ACCOMPANYING PROSPECTUS**

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of this offering of the Notes and also adds to and updates information contained in the accompanying Prospectus and the documents incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The second part is the accompanying Prospectus which gives more general information, some of which does not apply to this offering.

If the description of this offering varies between this Prospectus Supplement and the accompanying Prospectus, you should rely on the information contained in or incorporated by reference in this Prospectus Supplement.

In this Prospectus Supplement and any other prospectus supplements, the **Issuer** , **we** , **us** and **our** refer to Telefónica Emisiones, S.A.U., **Telefónica** or the **Guarantor** refer to Telefónica, S.A. and the **Telefónica Group** refers to Telefónica and its consolidated subsidiaries, in each case except as otherwise indicated or the context otherwise requires. We use the word **you** to refer to prospective investors in the securities.

S-1

Table of Contents

SUMMARY

The following brief summary is not intended to be nor is it complete and is provided solely for your convenience. It is qualified in its entirety by the full text and more detailed information contained elsewhere in this Prospectus Supplement, the accompanying Prospectus, any amendments or supplements to this Prospectus Supplement and the accompanying Prospectus and the documents that are incorporated by reference into this Prospectus Supplement and the accompanying Prospectus. You are urged to read this Prospectus Supplement and the other documents mentioned above in their entirety.

The Telefónica Group

Telefónica, S.A., the Guarantor, is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. 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;

is focused on providing telecommunications services; and

operates principally in Europe and Latin America.

Telefónica, S.A.'s principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and its registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Its telephone number is +34 900 111 004.

Telefónica Emisiones, S.A.U.

We are a wholly-owned subsidiary of the Guarantor. We were incorporated on November 29, 2004, as a company with unlimited duration and with limited liability and a sole shareholder under the laws of the Kingdom of Spain (*sociedad anónima unipersonal*). Our share capital is 62,000 divided into 62,000 ordinary shares of par value 1 each, all of them duly authorized, validly issued and fully paid and each of a single class. We are a financing vehicle for the Telefónica Group. We have no material assets. Spanish reserve requirements must be met prior to the payment of dividends, and dividends may only be distributed out of income for the previous year or out of unrestricted reserves, and our net worth must not, as a result of the distribution, fall below our paid-in share capital (*capital social*). There are no other restrictions on Telefónica's ability to obtain funds from us through dividends, loans or otherwise.

At December 31, 2018, we had no outstanding secured indebtedness and approximately 34 billion of outstanding unsecured indebtedness and the Guarantor had no outstanding consolidated secured indebtedness and approximately 55 billion of outstanding consolidated unsecured indebtedness. For additional information about the principal transactions of the Guarantor since December 31, 2018, see Capitalization and Indebtedness.

Our principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

S-2

subdivision thereof or any authority or agency therein or thereof having power to tax, or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issuance of the Notes of such series, (x) we or the Guarantor, as the case may be, are or would be required to pay any Additional Amounts or (y) the Guarantor is or would be required to deduct or withhold tax on any payment to us to enable us to make any payment of principal, premium, if any, or interest on the Notes of such series, provided that such payment cannot with reasonable effort by the Guarantor be structured to avoid such deduction or withholding and (ii) such circumstances are evidenced by the delivery by us or the Guarantor, as the case may be, to the Trustee of a certificate signed by an

S-3

Table of Contents

authorized officer or director of the Issuer or the Guarantor, as the case may be, stating that such circumstances prevail and describing the facts leading to such circumstances, together with an opinion of independent legal advisers of recognized standing to the effect that such circumstances prevail, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 30 nor more than 60 days notice (ending on a day upon which interest is payable) to the holders of the Notes of such series (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. No such notice of redemption may be given earlier than 90 days prior to the date on which we or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes of such series then due.

In addition, if any series of Notes is not listed on a regulated market, multilateral trading facility or other organized market no later than 45 days prior to the first Interest Payment Date (as defined herein) on such series of Notes, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 15 days notice (ending on a day which is no later than the Business Day immediately preceding such first Interest Payment Date) to the holders of the Notes of such series (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date (any such redemption, a **Redemption for Failure to List**); *provided* that from and including the issue date of the Notes of such series to and including such Interest Payment Date, we will use our reasonable best efforts to obtain or maintain such listing, as applicable.

In the event of a Redemption for Failure to List of a series of Notes, we or the Guarantor, as the case may be, will be required to withhold tax and will pay any income (as such term is defined under Spanish Tax Law Requirements below) in respect of the Notes redeemed net of the Spanish withholding tax applicable to such payments (currently 19%). If this were to occur, beneficial owners would have to follow the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled. See Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or other Organized Market .

Optional Redemption of the Notes

We may redeem all or a portion of any series of Notes at our election at any time from time to time by giving not less than 15 nor more than 60

days notice to the holders of such series of Notes (which notice shall be irrevocable), at a redemption price determined in the manner set forth in this Prospectus Supplement. See

S-4

Table of Contents

Description of the Notes and the Guarantee Redemption and Purchase Optional Redemption of Notes .

Status of the Notes

The Notes of each series will constitute our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally in the Kingdom of Spain. See Description of the Notes and the Guarantee Status of the Notes .

Form of Notes

The Notes of each series will be initially represented by one or more global security certificates (each, a **Global Certificate**) which will be deposited with a custodian for DTC and Notes represented thereby will be registered in the name of Cede & Co., as nominee of DTC, for the accounts of DTC participants. Beneficial owners will not receive Certificated Notes (as defined herein) unless one of the events described under the heading Description of the Notes and the Guarantee Form, Transfer and Registration occurs.

A beneficial owner may hold beneficial interests in the Notes of a series represented by a Global Certificate directly through DTC if such beneficial owner is a DTC participant or indirectly through organizations that are DTC participants or that have accounts with DTC. In order to confirm any position that is held through an indirect participant of a clearing system, the direct participant holding the Notes directly through the relevant clearing system must confirm their indirect participant's downstream position.

See Description of the Notes and the Guarantee Form, Transfer and Registration .

Status of the Guarantee

Pursuant to the Guarantee, Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis. The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes

of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; *provided* that the obligations of the Guarantor under the Guarantee in respect of the Notes of each series will be effectively subordinated to those

S-5

Table of Contents

obligations that are preferred under Law 22/2003 (*Ley Concursal*) dated July 9, 2003 regulating insolvency proceedings in Spain (the **Insolvency Law**). See Description of the Notes and the Guarantee The Guarantee .

At December 31, 2018, the Guarantor had no outstanding consolidated secured indebtedness and approximately 55 billion of outstanding consolidated unsecured indebtedness. For additional information about the Guarantor's principal transactions since December 31, 2018, see Capitalization and Indebtedness .

Spanish Tax Law Requirements

Under Spanish Law 10/2014 and Royal Decree 1065/2007, each as amended, income obtained in respect of the Notes will not be subject to withholding tax in Spain (other than in the event of a Redemption for Failure to List) provided certain requirements are met, including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement. See Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments . For these purposes, income means interest paid on an Interest Payment Date or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Notes of a series (or a portion thereof) and the aggregate principal amount of such Notes, as applicable.

The Payment Statement shall contain certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain.

The supplemental indenture to be entered into in respect of each series of Notes will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See Description of the Notes and the Guarantee Maintenance of Tax Procedures .

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of the Spanish withholding tax applicable to such payments (currently 19%). If this were to occur due to any failure

by the Paying Agent to deliver a duly executed and completed Payment Statement, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to us and the Guarantor no later than the 10th calendar day of the month immediately following the relevant

S-6

Table of Contents

payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto. **Neither we nor the Guarantor will pay Additional Amounts in respect of any such withholding tax.**

Listing

Application will be made to list the Notes of each series on the NYSE. Trading on the NYSE is expected to begin within 30 days after delivery of the Notes.

Governing Law

Pursuant to Section 5-1401 of the General Obligations Law of the State of New York, the Indenture, the Notes and the Guarantee shall be governed by, and shall be construed in accordance with, the laws of the State of New York.

Use of Proceeds

We expect that the net proceeds from this offering, after deducting the underwriting discount but before expenses, will be approximately \$. We will deposit the net proceeds on a permanent basis with the Guarantor. The Guarantor will use such net proceeds for general corporate purposes. See Use of Proceeds .

Denomination and Minimum Purchase Amount

The Notes will be issued in denominations of \$1,000 and integral multiples thereof. The minimum purchase amount of the Notes is \$150,000.

Settlement

The underwriters expect to deliver the Notes to purchasers in registered form through DTC on or about March , 2019, which will be the third Business Day following the date of pricing of the Notes.

Trustee, Transfer Agent, Registrar and Paying Agent

The Bank of New York Mellon will be acting as the Trustee, Transfer Agent, Registrar and Paying Agent with respect to the Notes.

Risk Factors

Investing in the Notes involves risks.

Beneficial owners should carefully consider the risk factors in the Risk Factors section in this Prospectus Supplement and in Item 3.D. in Telefónica's Form 20-F for the year ended December 31, 2018 filed with the SEC on February 21, 2019 (the **Form 20-F**).

S-7

Table of Contents

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Telefónica, S.A.

The following tables present certain selected historical consolidated financial information of Telefónica, S.A. and its subsidiaries and investees. You should read these tables in conjunction with Item 5. Operating and Financial Review and Prospects, Item 4. Information on the Company Business Overview and the Guarantor's consolidated financial statements (including the notes thereto) as of December 31, 2018 and 2017 and for each of the three years ended December 31, 2018 included in the Form 20-F (the **Consolidated Financial Statements**). The consolidated income statement and the consolidated statements of cash flow data for the years ended December 31, 2018, 2017 and 2016 and the consolidated statement of financial position as of December 31, 2018 and 2017 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements included in the Form 20-F, which is incorporated herein by reference.

The selected consolidated financial data as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and 2014 may differ from previously reported financial information as of such dates and for such periods, mainly as a result of the retrospective revisions referred to below:

The consolidated income statement and the consolidated statement of cash flow data for the year ended December 31, 2015 set forth below was retrospectively amended in 2016 to show the reclassification of the results attributable to Telefónica, S.A.'s operations in the United Kingdom as continuing operations and is not derived from Telefónica, S.A.'s consolidated financial statements presented for such year, which are not included or incorporated by reference herein.

The consolidated statement of financial position data as of December 31, 2014 set forth below was retrospectively amended in 2016 to show the finalization of the purchase price allocation for the acquisition of E-Plus and is not derived from Telefónica, S.A.'s consolidated financial statements presented for such year, which are not included or incorporated by reference herein.

You should not rely solely on the summarized information in this section of this Prospectus Supplement.

Table of Contents

The basis of presentation and principles of consolidation of the information below are described in detail in Note 2 to the Consolidated Financial Statements. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**), which do not differ for the purposes of the Telefónica Group from IFRS as adopted by the European Union.

| | For the year ended December 31, | | | | |
|--|--|--------------|--------------|--------------|--------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | (in millions of euros, except share and per share data) | | | | |
| Consolidated Income Statement Data of the Guarantor | | | | | |
| Revenues | 50,377 | 54,916 | 52,036 | 52,008 | 48,693 |
| Other income | 1,707 | 2,011 | 1,763 | 1,489 | 1,622 |
| Supplies | (15,182) | (16,547) | (15,242) | (15,022) | (14,013) |
| Personnel expenses | (7,098) | (10,349) | (8,098) | (6,862) | (6,332) |
| Other expenses | (14,289) | (16,802) | (15,341) | (15,426) | (14,399) |
| Depreciation and amortization | (8,548) | (9,704) | (9,649) | (9,396) | (9,049) |
| OPERATING INCOME | 6,967 | 3,525 | 5,469 | 6,791 | 6,522 |
| Share of (loss) income of investments accounted for by the equity method | (510) | (10) | (5) | 5 | 4 |
| Net finance expense | (2,519) | (2,341) | (2,706) | (2,290) | (1,232) |
| Net exchange differences | (303) | (268) | 487 | 91 | 277 |
| Net financial expense | (2,822) | (2,609) | (2,219) | (2,199) | (955) |
| PROFIT BEFORE TAX | 3,635 | 906 | 3,245 | 4,597 | 5,571 |
| Corporate income tax | (383) | (155) | (846) | (1,219) | (1,621) |
| PROFIT FOR THE YEAR | 3,252 | 751 | 2,399 | 3,378 | 3,950 |
| Attributable to equity holders of the Parent | 3,001 | 616 | 2,369 | 3,132 | 3,331 |
| Attributable to non-controlling interests | 251 | 135 | 30 | 246 | 619 |
| Weighted average number of shares-Basic (thousands)(1) | 4,850,311 | 5,070,588 | 5,060,519 | 5,110,188 | 5,126,575 |
| Basic and diluted earnings per share attributable to equity holders of the parent (euros)(1) | 0.58 | 0.07 | 0.42 | 0.56 | 0.57 |
| Basic and diluted earnings per ADS (euros)(1) | 0.58 | 0.07 | 0.42 | 0.56 | 0.57 |
| Weighted average number of ADS-Basic (thousands)(1) | 4,850,311 | 5,070,588 | 5,060,519 | 5,110,188 | 5,126,575 |
| Dividends per ordinary share (cash and scrip) (euros) | 0.75 | 0.75 | 0.75 | 0.40 | 0.40 |
| Dividends per ordinary share (cash and scrip) (\$)(2) | 0.98 | 0.83 | 0.82 | 0.46 | 0.46 |

| | For the year ended December 31, | | | | |
|--|--|-------------|-------------|-------------|-------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | (in millions of euros) | | | | |
| Consolidated OIBDA Data of the Guarantor | | | | | |
| Operating income before depreciation and amortization (OIBDA)(3) | 15,515 | 13,229 | 15,118 | 16,187 | 15,571 |

S-9

Table of Contents

| | 2014 | At December 31, | | | 2018 |
|---|---------|-----------------|---------|---------|---------|
| | | 2015 | 2016 | 2017 | |
| (in millions of euros) | | | | | |
| Consolidated Statement of Financial Position | | | | | |
| Data of the Guarantor | | | | | |
| Cash and cash equivalents | 6,529 | 2,615 | 3,736 | 5,192 | 5,692 |
| Property, plant and equipment | 33,156 | 33,910 | 36,393 | 34,225 | 33,295 |
| Total assets | 122,348 | 120,329 | 123,641 | 115,066 | 114,047 |
| Non-current liabilities | 62,318 | 60,509 | 59,805 | 59,382 | 57,418 |
| Equity | 30,321 | 25,436 | 28,385 | 26,618 | 26,980 |
| Capital stock | 4,657 | 4,975 | 5,038 | 5,192 | 5,192 |

| | 2014 | For the year ended December 31, | | | 2018 |
|---|--------|---------------------------------|--------|--------|--------|
| | | 2015 | 2016 | 2017 | |
| Financial Ratios of the Guarantor | | | | | |
| Operating income/revenues from operations (ROS) (%) | 13.83% | 6.42% | 10.51% | 13.06% | 13.39% |

| | 2014 | For the year ended December 31, | | | 2018 |
|---|---------|---------------------------------|---------|----------|---------|
| | | 2015 | 2016 | 2017 | |
| (in millions of euros) | | | | | |
| Consolidated Cash Flow Data of the Guarantor | | | | | |
| Net cash from operating activities | 12,193 | 13,615 | 13,338 | 13,796 | 13,423 |
| Net cash used in investing activities | (9,968) | (12,917) | (8,208) | (10,245) | (8,685) |
| Net cash used in financing activities | (4,041) | (3,612) | (4,220) | (1,752) | (3,880) |

| | At December 31, | | |
|--|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 |
| (in thousands) | | | |
| Statistical Data of the Guarantor | | | |
| Fixed telephony accesses(4) | 38,280.1 | 36,898.6 | 34,941.4 |
| Internet and data accesses(5) | 21,652.1 | 21,864.6 | 22,087.5 |
| Broadband(6) | 21,194.9 | 21,417.5 | 21,645.2 |
| FTTx/Cable | 9,137.6 | 10,961.6 | 13,213.1 |
| Mobile accesses | 276,450.0 | 271,766.9 | 270,814.9 |
| Prepay | 165,663.2 | 155,868.5 | 147,062.0 |
| Contract | 110,786.8 | 115,898.4 | 123,752.9 |
| M2M | 14,002.0 | 16,137.2 | 19,483.0 |
| Pay TV | 8,289.0 | 8,467.7 | 8,875.4 |
| Final clients accesses | 344,671.1 | 338,997.9 | 336,719.3 |
| Wholesale accesses | 5,300.9 | 19,124.9 | 19,520.0 |
| Fixed wholesale accesses | 5,300.9 | 4,460.2 | 3,951.5 |
| Mobile wholesale accesses(7) | | 14,664.7 | 15,568.5 |
| Total accesses | 349,972.1 | 358,122.8 | 356,239.4 |

S-10

Table of Contents

| | At December 31, | |
|--|-------------------------------|---------------|
| | 2017 | 2018 |
| | (in millions of euros) | |
| Consolidated Net Financial Debt and Net Financial Debt plus Commitments of the Guarantor(8) | | |
| Non-current financial liabilities | 46,332 | 45,334 |
| Current financial liabilities | 9,414 | 9,368 |
| Gross financial debt | 55,746 | 54,702 |
| Cash and equivalents | (5,192) | (5,692) |
| Other current financial assets | (2,154) | (2,209) |
| Cash and other current financial assets included in Non-current assets classified as held for sale (9) | | (165) |
| Positive mark-to-market value of long-term derivative instruments | (2,812) | (2,776) |
| Other liabilities included in Payables and other non-current liabilities | 708 | 800 |
| Other liabilities included in Payables and other current liabilities | 111 | 111 |
| Other assets included in Financial assets and other non-current assets | (1,516) | (1,593) |
| Other assets included in Receivables and other current assets | (661) | (867) |
| Other current assets included in Tax receivables | | (568) |
| Financial liabilities included in Liabilities associated with non-current assets classified as held for sale (9) | | 42 |
| Net financial debt | 44,230 | 41,785 |
| Gross commitments related to employee benefits | 6,578 | 5,940 |
| Value of associated long-term assets | (749) | (704) |
| Tax benefits | (1,533) | (1,390) |
| Net commitments related to employee benefits | 4,296 | 3,846 |
| Net financial debt plus commitments(10) | 48,526 | 45,631 |

- (1) The per share and per ADS computations for all periods presented have been reported using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented and have also been adjusted for mandatorily convertible notes issued in 2014. In accordance with IAS 33 (Earnings per share), the weighted average number of ordinary shares and ADSs outstanding for each of the periods covered has been restated to reflect the issuance of shares pursuant to Telefónica s scrip dividend in December 2014, December 2015 and December 2016. As a consequence, basic and diluted earnings per share have also been restated for 2014 and 2015.
- (2) Quantities in U.S. dollars are calculated in accordance with the conversion rate published by the Depositary (Citibank, N.A.) in connection with each dividend payment.
- (3) Operating income before depreciation and amortization (OIBDA) is calculated by excluding solely depreciation and amortization from operating income. OIBDA is used to track the performance of the business and to establish operating and strategic targets of Telefónica Group companies. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although

not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as a substitute for operating income.

S-11

Table of Contents

The following table provides a reconciliation of OIBDA to operating income for the Guarantor for the periods indicated.

| | 2014 | For the year ended December 31, | | | 2018 |
|---|--------------|---------------------------------|--------------|--------------|--------------|
| | | 2015 | 2016 | 2017 | |
| | | (in millions of euros) | | | |
| Operating income before depreciation and amortization (OIBDA) | 15,515 | 13,229 | 15,118 | 16,187 | 15,571 |
| Depreciation and amortization | (8,548) | (9,704) | (9,649) | (9,396) | (9,049) |
| Operating income | 6,967 | 3,525 | 5,469 | 6,791 | 6,522 |

- (4) Includes fixed wireless and Voice over IP accesses.
- (5) Also referred to as fixed broadband accesses.
- (6) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.
- (7) Mobile wholesale accesses information has been included in total accesses since the first quarter 2018. 2017 figures have been revised accordingly for comparative purposes.
- (8) This information provides a reconciliation of net financial debt and net financial debt plus commitments to gross financial debt for the Guarantor as at the dates indicated. As calculated by the Guarantor, net financial debt includes: (i) current and non-current financial liabilities in its consolidated statement of financial position (including liability derivatives), and (ii) other current and non-current liabilities included in Payables and other non-current liabilities and Payables and other current liabilities (mainly corresponding to payables for deferred payment of radio spectrum that have a financial component). From these liabilities, the following are subtracted: (i) cash and cash equivalents; (ii) other current financial assets (which include short-term derivatives); (iii) the positive mark-to-market value of derivatives with a maturity beyond one year; and (iv) other interest-bearing assets (components of Receivables and other current assets, Tax receivables and Financial assets and other non-current assets in Telefónica's consolidated statement of financial position). The accounts included in the net financial debt calculation recorded in Payables and other non-current liabilities or Financial assets and other non-current assets have a maturity beyond one year and a financial component. In Receivables and other current assets Telefónica includes the customer financing of handset sales classified as short term, and in Financial assets and other non-current assets Telefónica includes derivatives, installments for the long-term sales of handsets to customers and other long-term financial assets.

Telefónica calculates net financial debt plus commitments by adding gross commitments related to employee benefits to net financial debt, and deducting the value of long-term assets associated with those commitments and the tax benefits arising from the future payments thereof. Gross commitments related to employee benefits are current and non-current provisions recorded for certain employee benefits such as termination plans, post-employment defined benefit plans and other benefits.

Telefónica believes that net financial debt and net financial debt plus commitments are meaningful for investors and analysts because they provide an analysis of its solvency using the same measures used by its management. Nevertheless, neither net financial debt nor net financial debt plus commitments as calculated by Telefónica should be considered as a substitute for gross financial debt as presented in the consolidated statement of financial position.

(9) See Note 28 to the Consolidated Financial Statements.

S-12

Table of Contents

(10) Includes assets and liabilities considered to be net financial debt plus commitments for Antares (see Note 21 to the Consolidated Financial Statements), Guatemala and El Salvador, which are classified as Non-current assets classified as held for sale and Liabilities associated with non-current assets classified as held for sale .

S-13

Table of Contents

RISK FACTORS

In addition to the other information contained in or incorporated into this Prospectus Supplement and the accompanying Prospectus, prospective investors should carefully consider the risks described below as well as those described in Item 3.D. in the Form 20-F before making any investment decisions. The risks described below are not the only ones that we or the Guarantor face. Additional risks not currently known to us or the Guarantor or that we or the Guarantor currently deem immaterial may also impair our, or the Guarantor's, business and results of operations. Our, or the Guarantor's, business, financial condition and results of operations could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

Risks Relating to the Guarantor, the Issuer and the Notes

We will have to withhold Spanish withholding tax from any income payment on the Notes unless certain requirements are met.

Under the regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain provided certain requirements are met, including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement. See **Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments**. The supplemental indenture to be entered into in respect of each series of Notes will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See **Description of the Notes and the Guarantee Maintenance of Tax Procedures**. However, these procedures may prove ineffective. Furthermore, changes in Spanish tax laws or regulations or in the administrative interpretation thereof may render these procedures inadequate or insufficient to allow payments of income under the Notes to be made free and clear of Spanish withholding tax. Prospective investors should note that none of the Issuer, the Guarantor or the underwriters accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer, the Guarantor or the underwriters will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax (currently at the rate of 19%) because these procedures prove ineffective. Moreover, none of the Issuer or the Guarantor will pay any Additional Amounts with respect to any such withholding. If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, beneficial owners may have to apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto.

If the Notes of a series are not listed on a regulated market, multilateral trading facility or other organized market no later than 45 days prior to the first Interest Payment Date for the Notes of such series, we or the Guarantor, as the case may be, may, at our respective option, redeem such series of Notes without penalty or premium. We may also redeem all or a portion of any series of Notes at our election without penalty or premium if such redemption takes place on or after the Par Call Date.

If any series of Notes is not listed on a regulated market, multilateral trading facility or other organized market no later than 45 days prior to the first Interest Payment Date for such series of Notes, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 15 days' notice (ending on a day which is no later than the

Business Day immediately preceding such first Interest Payment Date) to the holders of the Notes of such series (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount (without any penalty or premium in

S-14

Table of Contents

respect thereof), together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. In the event of a Redemption for Failure to List of a series of Notes, we or the Guarantor, as the case may be, will be required to withhold tax and will pay any income (as such term is defined under Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments) in respect of the Notes redeemed net of the Spanish withholding tax applicable to such payments (currently 19%). If this were to occur, beneficial owners would have to follow the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled. We have committed to use reasonable best efforts to make an application to list the Notes on the NYSE; however, no such listing can be assured. See Description of the Notes and the Guarantee Redemption and Purchase Early Redemption for Taxation or Listing Reasons . For a description of the Spanish tax treatment applicable to the income, if any, paid on the Notes upon an early redemption of such Notes as a result of such Notes not being listed on a regulated market, multilateral trading facility or other organized market, see Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market .

We may redeem all or a portion of any series of the Notes at our election at any time or from time to time as set forth in Description of the Notes and the Guarantee Redemption and Purchase Optional Redemption of the Notes . If we elect to redeem all or a portion of any series of Notes on or after the applicable Par Call Date (as defined herein), we will pay a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date.

If a public market for the Notes does not develop, your ability to resell the Notes and the market price of the Notes may be adversely affected.

Each series of Notes is a new issue of securities for which a public market may not develop. If the Notes of a series are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, general economic conditions, our performance and other factors. Although applications will be made for the Notes of each series to be admitted to listing on the NYSE, there is no assurance that such applications will be accepted or that the Notes will be so admitted. We have been advised by the underwriters that they intend to make a market in the Notes after the completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Your right to receive payments of interest and principal on the Notes and the Guarantee is effectively junior to certain other obligations of the Issuer and the Guarantor.

The Notes of each series will constitute our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally in the Kingdom of Spain. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis. The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor under the Guarantee and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and

monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; provided that the obligations of the Guarantor under the Guarantee in respect of the Notes of such series will be effectively subordinated to those obligations

S-15

Table of Contents

that are preferred under the Insolvency Law. However, the Notes and the Guarantee will be effectively subordinated to all of, respectively, our and the Guarantor's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other obligations that rank senior under Spanish law. At December 31, 2018, we had no outstanding secured indebtedness and approximately 34 billion of outstanding unsecured indebtedness and the Guarantor had no outstanding consolidated secured indebtedness and approximately 55 billion of outstanding consolidated unsecured indebtedness. The Guarantor is a holding company and conducts substantially all of its operations through its subsidiaries. As a result, the Guarantee is also structurally subordinated to all indebtedness of subsidiaries of Telefónica insofar as any right of Telefónica to receive any assets of any of its subsidiaries or equity affiliates upon Telefónica's liquidation, dissolution, winding up, receivership, reorganization or any bankruptcy, insolvency or similar proceedings (and the consequent right of the holders of the Guarantee to participate in the distribution of, or to realize proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's or equity affiliate's creditors (including trade creditors and holders of debt or guarantees issued by such subsidiary).

You may be unable to enforce judgments obtained in U.S. courts against us or the Guarantor.

All of our directors and all the directors and executive officers of the Guarantor are not residents of the United States, and substantially all the assets of these companies are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and executive officers in the United States or to enforce judgments against them outside of the United States. We have been advised by our Spanish counsel, Uría Menéndez Abogados, S.L.P., that there is doubt as to whether a Spanish court would enforce a judgment of liability obtained in the United States against us or the Guarantor predicated solely upon the securities laws of the United States. See "Enforceability of Certain Civil Liabilities" in the accompanying Prospectus.

Table of Contents

USE OF PROCEEDS

We expect that the net proceeds from this offering, after deducting the underwriting discount but before expenses, will be approximately \$. We will deposit the net proceeds on a permanent basis with the Guarantor. The Guarantor will use such net proceeds for general corporate purposes.

S-17

Table of Contents**CAPITALIZATION AND INDEBTEDNESS**

The following table sets forth the cash and cash equivalents and the capitalization and indebtedness of the Guarantor on a consolidated basis in accordance with IFRS as issued by the IASB at December 31, 2018 and as adjusted to reflect the issuance of \$ aggregate principal amount of Notes (converted into euros at the European Central Bank buying rate for euros at December 31, 2018 of \$1.1450 per 1.00) and the application of the net proceeds thereof as described in Use of Proceeds . The European Central Bank buying rate for euros at February 22, 2019 was \$1.1325 per 1.00.

| | At December 31, 2018 | |
|--|-------------------------------|-----------------------|
| | Actual | As adjusted(1) |
| | (in millions of euros) | |
| | (unaudited) | |
| Cash and cash equivalents | 5,692 | |
| Equity | 26,980 | 26,980 |
| Equity attributable to equityholders of the parent and other holders of equity instruments | 17,947 | 17,947 |
| Non-controlling interests | 9,033 | 9,033 |
| Outstanding indebtedness | 54,702 | |
| Long-term debt | 45,334 | |
| Short-term debt including current maturities | 9,368 | |
| Total capitalization and indebtedness | 81,682 | |

(1) Reflects the issuance of \$ million aggregate principal amount of Notes and the application of the net proceeds thereof (after deducting the underwriting discount but before expenses). The net proceeds of this offering (after deducting the underwriting discount but before expenses) are included under Cash and cash equivalents pending the application thereof.

The following reflects the issuances of securities by the Telefónica Group and the other principal transactions affecting the capitalization of the Guarantor (on a consolidated basis) after December 31, 2018, none of which are reflected in the table above:

On February 5, 2019, the Issuer issued notes under its Guaranteed Euro Program for the Issuance of Debt Instruments in an aggregate nominal amount of 1,000 million. The notes are due on February 5, 2024, pay an annual coupon of 1.069% and are guaranteed by the Guarantor.

The Telefónica Group intends to continue to access the capital markets from time to time as market and other conditions permit and may make one or more additional offerings of securities outside the United States around the time of this offering.

Table of Contents

DESCRIPTION OF THE NOTES AND THE GUARANTEE

The following is a summary of the terms of the Notes. Each series of Notes will be issued under an indenture (the **Base Indenture**), dated April 20, 2018 among us, Telefónica and The Bank of New York Mellon, a New York banking corporation, as trustee (in such capacity, the **Trustee**), as supplemented, with respect to the Fixed Rate Notes, by the Supplemental Indenture, and with respect to the Fixed Rate Notes, by the Supplemental Indenture, each to be dated as of or around , 2019, among us, Telefónica and The Bank of New York Mellon, as Trustee, Transfer Agent, Registrar and Paying Agent (the Base Indenture, as supplemented, the **Indenture**). Each series of Notes will be issued pursuant to the resolutions adopted by our sole shareholder on April 13, 2018 and reflected in an executed public deed of issuance that will be registered with the Mercantile Registry of Madrid (the **Public Deed of Issuance**). The Fixed Rate Notes and the Fixed Rate Notes shall be designated as our Series and Series debt securities, respectively in the Public Deed of Issuance.

The following summary of material provisions of each series of Notes, the Guarantee and the Indenture does not purport to be complete and is subject, and is qualified in its entirety by reference, to all of the provisions of the Notes, the Guarantee and the Indenture, including the definitions of the terms provided therein. Upon request, you may obtain a copy of the Public Deed of Issuance and the Indenture from the Trustee.

General

The Fixed Rate Notes will be issued in \$ aggregate principal amount and will mature at 100% of their principal amount on the Fixed Rate Note Maturity Date. The Fixed Rate Notes will be issued in \$ aggregate principal amount and will mature at 100% of their principal amount on the Fixed Rate Note Maturity Date. The Notes may be offered and sold in multiple series with different maturities, interest rates and other terms. The Notes of each series will be issued only in registered form in denominations of \$1,000 and integral multiples thereof. No series of Notes will be entitled to the benefit of any sinking fund or similar custodial arrangement.

The Fixed Rate Notes and the Fixed Rate Notes constitute separate series of securities issued under the Indenture. The Indenture provides that, in addition to the Fixed Rate Notes and the Fixed Rate Notes, notes, bonds and other evidences of indebtedness of other series may in the future be issued thereunder without limitation as to aggregate principal amount. Unless otherwise provided pursuant to the Indenture for a series of Notes, we may from time to time, without the consent of the holders of Notes of such series, create and issue further Notes having the same terms and conditions as the previously issued Notes of such series in all respects (or in all respects except for the issue date, the first Interest Payment Date and/or the issue price), so that such further issue shall be consolidated and form a single series with the outstanding Notes of such series; *provided, however*, that any such further issuance will only be made if either such additional Notes are issued with no more than *de minimis* original issue discount for U.S. federal income tax purposes or such further issuance is a qualified reopening as such term is defined under U.S. Treasury Regulations Section 1.1275-2(k)(3) promulgated under the U.S. Internal Revenue Code of 1986, as amended (the **Code**).

Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis.

Payment of Interest

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The Notes of each series will bear interest from March , 2019 or from the most recent date through which we have paid or provided for interest on the Notes of such series.

The Fixed Rate Notes will bear interest at an annual rate of %. The Fixed Rate Notes will bear interest at an annual rate of %. We or the Guarantor, as the case may be, will pay interest (i) on

S-19

Table of Contents

the Fixed Rate Notes semi-annually on and of each year, beginning on , 2019, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date and (ii) on the Fixed Rate Notes semi-annually on and of each year, beginning on , 2019, until the Fixed Rate Note Maturity Date, and on the Fixed Rate Note Maturity Date. Each such date is referred to as an **Interest Payment Date** . Interest on the Notes of each series will be computed on the basis of a 360-day year of twelve 30-day months. Except as described below for the first Interest Payment Date for the Notes of each series, on each Interest Payment Date for such Notes, we or the Guarantor, as the case may be, will pay interest on the Notes of each series for the period commencing on and including the immediately preceding Interest Payment Date for such Notes and ending on and including the day immediately preceding that Interest Payment Date. On the first Interest Payment Date for the Notes of each series, we or the Guarantor, as the case may be, will pay interest for the period beginning on and including the issuance date thereof and ending on and including , 2019. Interest payments in respect of the Notes will be exempt from Spanish withholding tax, provided certain requirements are met (including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement). See Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments .

If any Interest Payment Date for any series of Notes falls on a day that is not a Fixed Rate Business Day, the interest payment shall be postponed to the next day that is a Fixed Rate Business Day, and no interest on such payment shall accrue for the period from and after such Interest Payment Date. For the purposes of this Prospectus Supplement, a **Fixed Rate Business Day** is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York, London, England or the city of Madrid, Spain are authorized or required by law or executive order to close.

If the Maturity Date of any series of Notes is not a Fixed Rate Business Day, payment of principal and interest on the applicable series of Notes will be made on the next succeeding day that is a Fixed Rate Business Day, and no interest will accrue for the period from and after such Maturity Date.

Interest on each Note will be paid only to the person in whose name such Note was registered at the close of business on the tenth New York Business Day prior to the applicable Interest Payment Date (each such date, a **Regular Record Date**). Notwithstanding the Regular Record Dates established in the terms of the Notes, we understand that, through their accounting and payment procedures, DTC will, in accordance with their customary procedures, credit interest payments received by DTC on any date on which interest is paid based on DTC participant holdings of the Notes of the applicable series on the close of business on the New York Business Day immediately preceding each such date. A **New York Business Day** means a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorized or required by law or executive order to close. A **Business Day** means a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York or the city of Madrid, Spain, are authorized or required by law or executive order to close.

Payments of Additional Amounts

All amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes of a series and the Guarantee by us or the Guarantor will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Subject to the following paragraph, in the event that such withholding or deduction is required by law, we or the Guarantor shall pay such additional amounts (**Additional Amounts**) as will result in receipt by the holders of such series of Notes of such amounts as would have been received

by them had no such withholding or deduction been required.

S-20

Table of Contents

However, we and the Guarantor will not be required to pay any Additional Amounts in respect of any Note of a series:

- i. in respect of which the holder (or the beneficial owner for whose benefit it holds such Note) is liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of it (or the beneficial owner for whose benefit it holds such Note) having some connection with the Kingdom of Spain other than (a) the mere holding of such Note (or such beneficial interest) or (b) the receipt of principal, redemption amount, interest or other amount in respect of such Note;
- ii. in respect of which we or the Guarantor have not received such documentation or information as may be necessary to allow payments on such Note to be made free and clear of Spanish withholding tax or deduction on account of Spanish taxes, including a duly executed and completed Payment Statement from the Paying Agent, pursuant to Law 10/2014 of June 26 and Royal Decree 1065/2007 of July 27, each as amended, and any implementing legislation or regulation, or pursuant to any other law or regulation substituting or amending such law or regulation;
- iii. in relation to any estate, inheritance, gift, sales, transfer or similar taxes;
- iv. presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such Additional Amounts on presenting the same for payment on the expiry of such period of 30 days;
- v. presented for payment (where presentation is required) by or on behalf of a holder (or beneficial owner) who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent;
- vi. in the event that such Note is redeemed pursuant to a Redemption for Failure to List; or
- vii. in respect of any withholding or deduction that is imposed pursuant to Sections 1471 through 1474 of the Code and the U.S. Treasury regulations thereunder (**FATCA**), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA, any law, regulation, guidance or interpretations enacted or issued in any jurisdiction with respect thereto, or any agreements entered into in connection with the implementation thereof,
provided further that Additional Amounts in respect of the Notes in a series will also not be paid with respect to any payment to a holder of such Notes of such series who is a fiduciary, a partnership, a limited liability company or anything other than the sole beneficial owner of that payment, to the extent to which that payment would be required by the laws of the Kingdom of Spain (or any political subdivision thereof or any authority or agency therein or thereof having power to tax) 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 any Additional Amounts had it been the holder.

For the purposes of (iv) above, the **Relevant Date** means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Paying Agent on or prior to such due date, it means the first date on which the full amount of such moneys having been so received and being available for payment to holders, notice to that effect is duly given to the holders in accordance with the Indenture.

Any reference to principal, interest or premium shall be deemed to include Additional Amounts to the extent payable in respect thereof.

Form, Transfer and Registration

The Notes of each series will be initially represented by one or more Global Certificates which will be deposited with a custodian for DTC, and Notes represented thereby will be registered in the name of Cede & Co.,

Table of Contents

as nominee of DTC, for the accounts of DTC participants. Except as provided below with respect to exchanges of beneficial interests in Notes represented by a Global Certificate for Certificated Notes (as defined below), Notes of a series represented by a Global Certificate may not be transferred except as a whole by DTC as the depository for such Global Certificate to a nominee of DTC, by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor of DTC or a nominee of such successor.

Ownership of beneficial interests in a Note represented by a Global Certificate will be limited to persons, called participants, that have accounts with DTC or persons that may hold interests through DTC participants.

Upon the issuance of the Notes of a series represented by a Global Certificate, DTC will credit, on its book-entry registration and transfer system, the applicable participants' accounts with the respective principal or face amounts of such Notes beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of such Notes will designate the accounts to be credited. Ownership of beneficial interests in a Note represented by a Global Certificate will be shown on, and the transfer of ownership interests will be effected only through, records maintained by DTC, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants.

So long as the Notes of a series are represented by a Global Certificate, DTC or its nominee, as the case may be, will be considered the sole holder of the Notes represented by such Global Certificate for all purposes under the Indenture. Except as described below, owners of beneficial interests in a Note represented by a Global Certificate will not be entitled to have the Notes represented by such Global Certificate registered in their names, will not receive or be entitled to receive physical delivery of Certificated Notes and will not be considered the holders of such Notes under the Indenture. Accordingly, each person owning a beneficial interest in a Note represented by a Global Certificate must rely on the procedures of DTC and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a beneficial owner under the Indenture.

To facilitate subsequent transfers, all Notes of a series represented by a Global Certificate will be registered in the name of DTC's nominee, Cede & Co. The deposit of the Notes of each series with a custodian for DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of such Notes. DTC's records reflect only the identity of the direct participants to whose accounts beneficial interests in such Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

We or the Guarantor, as the case may be, will make payments due on the Notes of each series represented by a Global Certificate to Cede & Co., as nominee of DTC, in immediately available funds. DTC's practice upon timely receipt of any payment of principal, interest or other distribution in respect of the Notes represented by a Global Certificate is to credit participants' accounts in amounts proportionate to their respective beneficial interests in such Notes represented by a Global Certificate as shown on the records of DTC. Payments by participants to owners of beneficial interests in any Notes of a series represented by a Global Certificate held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in street name, and will be the responsibility of those participants. Payment to Cede & Co. is the responsibility of the Issuer or the Guarantor, as the case may be. Disbursement of such payments to direct participants is the responsibility of Cede & Co. Disbursement of such payments to beneficial owners of Notes of the applicable series is the responsibility of direct and indirect participants. None of us, the Guarantor, the Trustee or any of our respective agents will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial interests in any Notes represented by a Global Certificate or for maintaining, supervising or reviewing any records relating to those beneficial interests.

Transfers between DTC participants will be reflected in accordance with DTC's procedures.

S-22

Table of Contents

We and the Guarantor expect that DTC will take any action permitted to be taken by a holder only at the direction of one or more participants to whose account the DTC interests in any Notes represented by the applicable Global Certificate are credited and only in respect of such portion of the aggregate principal amount of the Notes of the applicable series as to which such participant or participants has or have given such direction.

Beneficial interests in Notes of any series represented by a Global Certificate will be exchangeable for Notes of such series represented by individual security certificates (**Definitive Certificates**) and registered in the name or names of owners of such beneficial interests as specified in instructions provided by DTC to the Trustee (**Certificated Notes**) only if: (i) DTC notifies us that it is unwilling or unable to continue to act as depository or that it is no longer a clearing agency registered under the Exchange Act and, in either case, a successor depository is not appointed by us within 120 days after the date of such notice from DTC, (ii) we notify the Trustee in writing that we have reasonably elected to cause the issuance of Certificated Notes of such series or (iii) there shall have occurred and be continuing an Event of Default (as defined below) with respect to the Notes of such series and the Notes of such series will be accelerated in accordance with their terms and the terms of the Indenture.

In any such instance, an owner of a beneficial interest in the Notes of a series represented by a Global Certificate would be entitled to delivery of Certificated Notes of such series equal in principal amount to that beneficial interest and to have those Certificated Notes registered in its name. Certificated Notes of such series so issued would be issued as registered notes in authorized denominations. Certificated Notes of a series, if issued, could be transferred by presentation of Definitive Certificates representing such Certificated Notes for registration to the Trustee at its offices in the Borough of Manhattan, the City of New York and such Definitive Certificates would need to be duly endorsed by the applicable holder or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee duly executed by the holder or his attorney duly authorized in writing.

Although we and the Guarantor expect that DTC will continue to perform the foregoing procedures in order to facilitate transfers of interests in each Note of a series represented by a Global Certificate among DTC participants, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of us, the Guarantor, the underwriters or the Trustee will have any responsibility for the performance by DTC or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants deposit with DTC. DTC also facilitates the post-trade settlement among its participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between its participants' accounts. This eliminates the need for physical movement of securities certificates. DTC's participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. The DTC Rules applicable to its participants are on file with the SEC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we and the Guarantor believe to be reliable, but none of us, the Guarantor or the underwriters takes

S-23

Table of Contents

any responsibility for its accuracy or completeness. As stated above, we, the Guarantor, the underwriters and the Trustee assume no responsibility for the performance by DTC or its direct or indirect participants of their respective obligations, including obligations that DTC or its direct or indirect participants have under the rules and procedures that govern DTC's operations.

Status of the Notes

The Notes of each series will constitute our direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally in the Kingdom of Spain.

The Guarantee

Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis, pursuant to a guarantee to be dated as of or around [redacted], 2019 (the "**Guarantee**"). Amounts to be paid by the Guarantor under the Guarantee shall be paid without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Guarantor will pay such Additional Amounts as will result in receipt by the holders of such series of Notes of such amounts as would have been received by them had no such withholding or deduction been required, subject to the exceptions described under "Payments of Additional Amounts" above. The obligations of the Guarantor under the Guarantee are unaffected by any invalidity, irregularity or unenforceability of the Notes of the applicable series or the Indenture, any failure to enforce the provisions of such Notes or the Indenture, or any waivers, modification or indulgence granted to us in respect thereof by the holders of such series of Notes or the Trustee, or any other circumstance which may otherwise constitute a legal or equitable discharge of a surety or guarantee.

Under the Guarantee, the Guarantor will waive diligence, presentment, demand of payment, filing of claims with a court in the event of our merger or bankruptcy, the benefits of *orden*, *división* and *excusión* under Spanish law, any right to require a proceeding first against us, protest or notice with respect to the Notes of the applicable series, or the indebtedness evidenced thereby and all demands whatsoever, and will covenant that the Guarantee will not be discharged except by payment in full of the principal of, premium, if any, and interest (including Additional Amounts, if any), on such Notes of the applicable series and the Guarantor shall have fully performed all its obligations in accordance with the provisions of the Notes of such series, the Guarantee and the Indenture.

The Guarantor shall be subrogated to all rights of the holders of the applicable series of Notes and the Trustee against us in respect of any amounts paid to such holders by the Guarantor.

The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; provided that the obligations of the Guarantor under the Guarantee in respect of the Notes of each series will be effectively subordinated to those

obligations that are preferred under the Insolvency Law.

At December 31, 2018, the Guarantor had no outstanding consolidated secured indebtedness and approximately 55 billion of outstanding consolidated unsecured indebtedness. For additional information about the Guarantor's principal transactions since December 31, 2018, see Capitalization and Indebtedness .

S-24

Table of Contents

Consolidation, Merger, Etc.; Assumption

Neither we nor the Guarantor shall consolidate with or merge (which term shall include for the avoidance of doubt a scheme of arrangement) into any other person or convey, transfer or lease all or substantially all of our respective assets to any person, and neither we nor the Guarantor shall permit any person to consolidate with or merge into us or the Guarantor, convey, transfer or lease all or substantially all of its assets to us or the Guarantor, unless:

- i. in the case we or the Guarantor shall consolidate with or merge into another person or convey, transfer or lease all or substantially all of its respective assets to any person, the person formed by such consolidation or into which we or the Guarantor are merged or the person which acquires by conveyance or transfer, or which leases, all or substantially all of our assets or the assets of the Guarantor shall be a corporation, partnership or trust, shall be organized and validly existing, under the laws of the Kingdom of Spain or a member of the European Union or an OECD country and shall expressly assume, by a supplemental indenture that complies with the U.S. Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**), executed and delivered to the Trustee in form and substance reasonably satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional sums payable pursuant to paragraph (ii) below) (a) in our case, on all the Notes of each series and (b) in the case of the Guarantor, under the Guarantee, and the performance or observance of every covenant of the Indenture relating thereto on our part to be performed or observed and, in the case of the Guarantor, the due and punctual payment of the principal of and any premium and interest (including all Additional Amounts and any additional sums payable pursuant to paragraph (ii) below) on all the Notes of each series and the performance or observance of every covenant of the Indenture and the Guarantee relating thereto on the part of the Guarantor to be performed or observed;
- ii. if the person formed by such consolidation or into which we or the Guarantor are merged or to whom we or the Guarantor have conveyed, transferred or leased our respective properties or assets is a person organized and validly existing under the laws of a jurisdiction other than the Kingdom of Spain such person agrees to indemnify the holder of each Note of each series against any costs or expenses of the act of such consolidation, merger, conveyance, transfer or lease;
- iii. immediately prior to the consummation of such transaction, no Event of Default with respect to a series of Notes, shall have occurred;
- iv. the consummation of such transaction must not cause an Event of Default under the Notes of any series or the Guarantee which we or the Guarantor, as the case may be, do not reasonably believe can be cured within 90 days from the date of such transaction; and
- v. we or the Guarantor have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the applicable provisions of the Indenture and that all conditions precedent herein provided for relating to such transaction have been complied with.

No vote by the holders of the Notes of any series is required for any such consolidation, merger, conveyance, transfer or lease, unless as part of the transaction we or the Guarantor, as applicable, make changes to the Indenture requiring holder approval, as described later under **Modification and Waiver** . We and the Guarantor may take these actions as part of a transaction involving outside third parties or as part of an internal corporate reorganization. We and the Guarantor may take these actions even if they result in:

a lower credit rating being assigned to the Notes; or

Additional Amounts becoming payable in respect of withholding tax and, as a result, the Notes being subject to redemption at our option or at the option of the Guarantor, as the case may be, as described later under **Redemption and Purchase Early Redemption for Taxation or Listing Reasons** .

S-25

Table of Contents

We and the Guarantor have no obligation under the Indenture to seek to avoid these results, or any other legal or financial effects that are disadvantageous to holders of the Notes of any series, in connection with a merger, consolidation, sale conveyance or lease of assets that is permitted under the Indenture.

Upon any consolidation of the Issuer or the Guarantor with, or merger of the Issuer or the Guarantor into, any other person or any conveyance, transfer or lease of all or substantially all of the assets of the Issuer or the Guarantor in accordance with the provisions described above, the successor person formed by such consolidation or into which the Issuer or the Guarantor is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Guarantor, as the case may be, under the Indenture with the same effect as if such successor person had been named as the Issuer or the Guarantor therein, as the case may be, and thereafter, except in the case of a lease, the predecessor person shall be relieved of all obligations and covenants under the Indenture and the Notes of each series or Guarantee, as the case may be.

In the case of any such consolidation, merger, conveyance, transfer or lease, if the acquiring or resulting entity's jurisdiction of incorporation or residence for tax purposes (the **Taxing Jurisdiction**) is not the Kingdom of Spain, Additional Amounts will be payable under the Notes or the Guarantee, as applicable, for taxes imposed by the acquiring or resulting entity's Taxing Jurisdiction (subject to exceptions equivalent to those that apply to the obligation to pay Additional Amounts for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax described above under the section entitled **Payments of Additional Amounts**) on payments of any amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes made on or after the date of the consolidation, merger, conveyance, transfer or lease rather than taxes imposed on those payments by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax.

Additional Amounts will be payable on interest or principal due prior to the date of the consolidation, merger, conveyance, transfer or lease only for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, subject to the exceptions discussed under **Payments of Additional Amounts** above. The acquiring or resulting entity will also be entitled to redeem the Notes in the circumstances described below under the section entitled **Redemption and Purchase Early Redemption for Taxation or Listing Reasons** for any change or amendment to, or change in the interpretation or administration of, the laws or regulations of such entity's Taxing Jurisdiction (which change, amendment or change in the interpretation or administration becomes effective on or after the date of the consolidation, merger, conveyance, transfer or lease).

The Guarantor or any subsidiary of the Guarantor may assume our obligations under the Notes without the consent of the holders. Any Notes so assumed, unless assumed directly by the Guarantor, will have the benefit of the Guarantee in respect of such Notes. In the event of an assumption by an entity within a Taxing Jurisdiction other than the Kingdom of Spain, Additional Amounts under the Notes will be payable for taxes imposed by the assuming entity's Taxing Jurisdiction (subject to exceptions equivalent to those that apply to the obligation to pay Additional Amounts for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax described above under the section entitled **Payments of Additional Amounts**) on payments of any amounts payable (whether in respect of principal, redemption amount, interest or otherwise) in respect of the Notes made on or subsequent to the date of such assumption rather than taxes imposed on these payments by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax. In the event of such assumption, the Guarantor or the applicable subsidiary of the Guarantor will be entitled to redeem the Notes in the circumstances described in the preceding paragraph.

Additional Amounts will be payable on interest or principal due prior to the date of the assumption only for taxes imposed by the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof

having power to tax, subject to the exceptions discussed under Payments of Additional Amounts above.

S-26

Table of Contents

An assumption of our obligations under the Notes of a series may be considered for U.S. federal income tax purposes to be an exchange of Notes of such series for new Notes by U.S. beneficial owners of such Notes, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. U.S. beneficial owners should consult their own tax advisors regarding the U.S. federal, state and local income tax consequences of any assumption.

Negative Pledge

So long as any of the Notes of a series remains outstanding (as defined in the Indenture), neither we nor the Guarantor will create or will have outstanding any mortgage, pledge, security interest or lien (**Encumbrance**) upon the whole or any part of our respective present or future assets, in order to secure any Relevant Indebtedness (as defined below) issued or guaranteed by us, the Guarantor or by any other person unless the Notes of such series are equally and ratably secured therewith, for as long as such Relevant Indebtedness shall be so secured.

We and the Guarantor are, however, allowed to secure Relevant Indebtedness in the following circumstances:

- i. the Relevant Indebtedness was originally offered, distributed or sold primarily to the residents of the Kingdom of Spain; or
 - ii. the Relevant Indebtedness matures within one year of its date of issue; or
 - iii. such Encumbrance affects assets of an entity which, when such Encumbrance was created, was unrelated to us or the Guarantor and which was subsequently acquired by us or the Guarantor;
- provided*, that nothing in this section shall limit the ability of the Issuer or the Guarantor, as the case may be, to grant or permit to subsist Encumbrances over any or all of their respective present or future assets to secure Relevant Indebtedness issued or guaranteed by the Issuer, the Guarantor or any other person, to the extent that the aggregate principal amounts so secured do not exceed 5% of the Consolidated Net Tangible Assets of the Guarantor (as defined below), as reflected in the most recent balance sheet of the Guarantor (prepared in accordance with generally accepted accounting principles as in effect at the date of such computation and as applied by the Guarantor) prior to the time such Relevant Indebtedness was issued or guaranteed.

Consolidated Net Tangible Assets of the Guarantor means, in accordance with generally accepted accounting principles, the total amount of assets of the Guarantor and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deduction of (i) goodwill, (ii) intangible assets, and (iii) amounts due from stockholders for uncalled capital. Solely for purposes of this definition, **Subsidiary** means any company in respect of which the Guarantor owns, directly or indirectly, more than half of the voting rights of the shares of such company, or when the Guarantor owns half or less of the voting power but controls such company, i.e., has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

The term **generally accepted accounting principles** means (i) in the case of our and the Guarantor's unconsolidated financial statements, the accounting principles generally accepted in the Kingdom of Spain and (ii) in the case of the Guarantor's consolidated financial statements, International Financial Reporting Standards as adopted by the European Union, in each case as in effect at the date of such computation and as applied by us or the Guarantor, as the case may be.

Person means any individual, corporation, limited liability company, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

Relevant Indebtedness means any obligation for the payment of borrowed money which is in the form of, or represented or evidenced by, a certificate of indebtedness or in the form of, or represented or evidenced by,

S-27

Table of Contents

bonds, notes or other securities which, in any of the above cases, is or are, or is or are capable of being, quoted, listed, dealt in or traded on a stock exchange or other recognized securities market. For the avoidance of doubt, any obligation for the payment of borrowed money as used in this definition of Relevant Indebtedness does not include obligations of the Issuer or the Guarantor which, pursuant to the requirements of law and accounting principles generally accepted in the Kingdom of Spain need not, and are not, reflected in the balance sheet of the Issuer or the Guarantor, as the case may be.

Redemption and Purchase

Early Redemption for Taxation or Listing Reasons

If, in relation to the Notes of any series, (i) as a result of any change in the laws or regulations of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, or in the interpretation or administration of any such laws or regulations which becomes effective on or after the date of issuance of the Notes of such series, (x) we or the Guarantor, as the case may be, are or would be required to pay any Additional Amounts or (y) the Guarantor is or would be required to deduct or withhold tax on any payment to us to enable us to make any payment of principal, premium, if any, or interest on the Notes of such series, provided that such payment cannot, with reasonable effort by the Guarantor, be structured to avoid such deduction or withholding and (ii) such circumstances are evidenced by the delivery by us or the Guarantor, as the case may be, to the Trustee of a certificate signed by an authorized officer or director of the Issuer or the Guarantor, as the case may be, stating that such circumstances prevail and describing the facts leading to such circumstances, together with an opinion of independent legal advisers of recognized standing to the effect that such circumstances prevail, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 30 nor more than 60 days notice (ending on a day upon which interest is payable) to the holders of the Notes of such series (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. No such notice of redemption may be given earlier than 90 days prior to the date on which we or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes of such series then due.

In addition, if any series of Notes is not listed on a regulated market, multilateral trading facility or other organized market no later than 45 days prior to the first Interest Payment Date on such series of Notes, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 15 days notice (ending on a day which is no later than the Business Day immediately preceding such first Interest Payment Date) to the holders of the Notes of such series (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at their principal amount, together with accrued and unpaid interest, if any, thereon to but not including the redemption date (any such redemption, a **Redemption for Failure to List**); *provided* that from and including the issue date of the Notes of such series to and including such Interest Payment Date, we will use our reasonable best efforts to obtain or maintain such listing, as applicable.

In the event of a Redemption for Failure to List of a series of Notes, we or the Guarantor, as the case may be, will be required to withhold tax and will pay any income (as such term is defined under **Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments**) in respect of the Notes redeemed net of the Spanish withholding tax applicable to such payments (currently 19%). If this were to occur, beneficial owners would have to follow the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

For a description of the Spanish tax treatment applicable to the income, if any, paid on the Notes upon an early redemption of such Notes as a result of such Notes not being listed on a regulated market, multilateral trading facility

or other organized market, see Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market .

S-28

Table of Contents

Optional Redemption of Notes

We may redeem all or a portion of any series of the Notes at our election at any time or from time to time as set forth below. Notice of redemption shall be given by first-class mail postage prepaid, mailed not less than 15 nor more than 60 days prior to the redemption date to each holder of any series of Notes to be redeemed at his or her address appearing in the register kept by the Trustee. If we redeem all or a portion of any series of Notes prior to the applicable Par Call Date (as defined below), we will pay a redemption price equal to the greater of:

100% of the principal amount of such Notes to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date of such Notes; and

as determined by the Independent Investment Banker (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed that would be due if such Notes matured on the applicable Par Call Date (in each case, not including the amount, if any, of unpaid interest accrued to, but excluding, the redemption date) discounted to the redemption date of such series of Notes being redeemed on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) (i) plus _____ basis points in the case of any _____ Fixed Rate Notes being redeemed and (ii) plus _____ basis points in the case of any _____ Fixed Rate Notes being redeemed, in each case, plus accrued and unpaid interest on the principal amount of such Notes (or any portion thereof) being redeemed to, but excluding, the redemption date of such Notes (or any portion thereof) being redeemed.

If we redeem all or a portion of any series of Notes on or after the applicable Par Call Date, we will pay a redemption price equal to 100% of the principal amount of such Notes being redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date of such Notes.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed (assuming for this purpose that the applicable series of Notes matured on the applicable Par Call Date) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes being redeemed.

Comparable Treasury Price means, with respect to any redemption date prior to the applicable Par Call Date for the applicable series of Notes, (1) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such quotations or, if only one such quotation is obtained, such quotation.

Independent Investment Banker means an independent investment banking institution of national standing appointed by us and the Guarantor.

Par Call Date means (_____ months prior to the _____ Fixed Rate Note Maturity Date) with respect to the _____ Fixed Rate Notes or (_____ months prior to the _____ Fixed Rate Note Maturity Date) with respect to the _____ Fixed Rate Notes.

Reference Treasury Dealer means (1) each of Bardays Capital Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and their affiliates or their respective successors, provided that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a **Primary Treasury Dealer**), we and the Guarantor will substitute therefor another Primary Treasury Dealer and (2) any other Primary Treasury Dealer selected by us and the Guarantor.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date prior to the applicable Par Call Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 5:00 p.m. on the third New York Business Day preceding such redemption date.

S-29

Table of Contents

Treasury Rate means, with respect to any redemption date prior to the applicable Par Call Date, the rate per annum equal to the semi-annual equivalent yield to maturity or, if such equivalent is not available, the interpolated maturity (on a day count basis) of the Comparable Treasury Issue, calculated assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Purchase of Notes

We, the Guarantor or any of the Guarantor's other subsidiaries may at any time purchase Notes in the open market or otherwise at any price. We are not required to cancel any such Notes purchased by us, the Guarantor or any of the Guarantor's other subsidiaries, as the case may be.

Events of Default, Waiver and Notice

Event of Default, with respect to any series of the Notes, means any one of the following events which occurs and is continuing:

- i. we fail to pay, and the Guarantor fails to honor the Guarantee with respect to payments of, principal of, interest due on or any Additional Amounts in respect of the Notes of that series for a period of 21 days from the stated maturity of such principal or interest payment;
- ii. we fail to perform any other obligation arising from the Notes of that series or the Guarantor fails to perform any other obligation arising under the Guarantee of the Notes of such series and in each case, such failure continues for more than 60 days (90 days if the failure to perform relates to an obligation of the Issuer or the Guarantor arising pursuant to a transaction described under Consolidation, Merger, Etc.; Assumption) after there has been given, by the Trustee or holders of not less than 25% in principal amount of the outstanding Notes of such series, a written notice to us specifying such failure and requiring it to be remedied, and stating that such notice is a Notice of Default under the Indenture;
- iii. we or the Guarantor fail (taking into account any applicable grace periods) to fulfill any payment obligation in excess of 100,000,000 or its equivalent in any other currency under any Relevant Indebtedness or under any guarantees or suretyships provided for under any Relevant Indebtedness of others, and this failure remains uncured for 30 days;
- iv. the holders of any other Relevant Indebtedness of the Issuer or the Guarantor accelerate any payment obligation in excess of 100,000,000 or its equivalent in any other currency as a result of us or the Guarantor entering into a transaction described and in accordance with the conditions set forth under Consolidation, Merger, Etc.; Assumption, which transaction constitutes an event of default in respect of such other Relevant Indebtedness;
- v. we or the Guarantor announce our inability to meet our respective financial obligations;

- vi. a court, at the request of any creditor, commences insolvency proceedings (*concurso*) against us or the Guarantor and any such proceeding is not discharged or dismissed within 60 days;

- vii. we or the Guarantor go into liquidation unless it is done as a result of us or the Guarantor entering into a transaction described and in accordance with the conditions set forth under Consolidation, Merger, Etc.; Assumption ;

S-30

Table of Contents

viii. we or the Guarantor make a filing seeking relief under any applicable bankruptcy or insolvency (*concurso*) laws; or

ix. the Guarantee ceases to be valid or legally binding for any reason.

If any Event of Default shall occur in relation to the Notes of a series (taking into account any applicable grace period), the Trustee or the holders of not less than 25% in principal amount of the outstanding Notes of such series may, by written notice to us, at the Corporate Trust Office (and to the Trustee if given by the holders), declare that the Notes of such series, including principal, any premium thereon and all interest then accrued and unpaid on the Notes of such series, as the case may be, shall be immediately due and payable, whereupon the same shall, to the extent permitted by applicable law, become immediately due and payable, at their principal amount together with all interest, if any, accrued and unpaid thereon and premium, if any, payable in respect thereof without presentment, demand, protest or other notice of any kind, all of which we or the Guarantor, as the case may be, will expressly waive, unless, prior thereto, all Events of Default in respect of the Notes of such series shall have been cured. Such declarations of acceleration may be rescinded and past defaults may be waived, except defaults in payment of principal of, interest on or premium, if any, by holders of a majority of the outstanding principal amount on the Notes of such series pursuant to the procedures and under the conditions described under *Modification and Waiver* below; *provided, however*, that the amounts due to the Trustee under the Indenture have been paid. Holders of Notes represented by one or more Global Certificate should consult with their banks or brokers for information on how to give notice or direction to, or make a request of, the Trustee and to make or cancel a declaration of acceleration. The Indenture provides that none of the terms of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to the Trustee.

Defeasance; Covenant Defeasance

Each series of Notes will be subject to the defeasance and covenant defeasance provisions in the Indenture.

With respect to any series of Notes, we and the Guarantor shall be deemed to have paid and discharged the entire indebtedness on all the outstanding Notes of such series and the provisions of the Indenture as it relates to such outstanding Notes shall no longer be in effect, and the Trustee, at our expense, shall, upon our order or the order of the Guarantor, execute proper instruments acknowledging the same, when:

- i. we or the Guarantor have deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of the Indenture), irrevocably (irrespective of whether the conditions in subparagraphs (ii), (iii), (iv), (v), (vi) and (vii) below have been satisfied, but subject to certain provisions in the Indenture relating to the application of trust money), as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Notes of such series, U.S. Dollars or U.S. government obligations in an amount which will provide not later than the opening of business on the due date of any payment referred to in subsection (A), (B) or (C) of this subparagraph (i) U.S. Dollars or U.S. government obligations in an amount sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge (A) the principal of (and premium, if any), (B) interest on and (C) Additional Amounts, if any, on the outstanding Notes of such series on the day on which such payments are due and payable in accordance with the terms of the Indenture and of the Notes;

- ii. no Event of Default with respect to the Notes of such series has occurred and is continuing on the date of such deposit and no Event of Default under subparagraphs (v), (vi) or (viii) under the section entitled Events of Default, Waiver and Notice is in occurrence and continues on a date which is six months after the date of such deposit;

S-31

Table of Contents

- iii. we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing with respect to U.S. federal income tax matters (which opinion must state that it is based on a change in law or a ruling received from the Internal Revenue Service) to the effect that beneficial owners of the Notes of such series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred;
- iv. such defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Notes of such series are in default within the meaning of the Trust Indenture Act);
- v. such defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the U.S. Investment Company Act of 1940, as amended (the **Investment Company Act**);
- vi. if the Notes of such series are then listed on any securities exchange, we or the Guarantor have delivered to the Trustee an opinion of counsel to the effect that such deposit, defeasance and discharge will not cause the Notes of such series to be delisted from such exchange; and
- vii. we or the Guarantor have delivered to the Trustee an officer's certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the defeasance and discharge of the entire indebtedness on all outstanding Notes of such series have been complied with;
provided, however, that a defeasance described above shall not impair or affect (a) the rights of holders of Notes of such series to receive, from the trust funds described in subparagraph (i) above, payment of the principal of (and premium, if any) and any installment of principal of (and premium, if any), interest on or Additional Amounts, if any, on the Notes of such series on the stated maturity of such principal or installment of principal of (and premium, if any) or interest, or any mandatory sinking fund payments or analogous payments applicable to the Notes of such series on the day on which such payments are due and payable in accordance with the terms of the Indenture and of the Notes of such series, (b) our and the Guarantor's obligations with respect to the Notes of such series and Guarantee, respectively, under certain provisions of the Indenture, (c) the rights, powers, trusts, duties and immunities of the Trustee under the Indenture and (d) the provisions of the Indenture relating to the application of trust money.

With respect to any series of Notes, we and the Guarantor by board resolution may elect to be released from our respective obligations under any specified provisions of the Indenture applicable to the outstanding Notes of such series, and the provisions so specified in such board resolution, as they relate to outstanding Notes of such series, shall no longer be in effect, and the Trustee, at our expense, shall, upon our order or the order of the Guarantor, execute proper instruments acknowledging the same, when:

- i. we or the Guarantor have deposited or caused to be deposited with the Trustee (or another trustee satisfying the requirements of the Indenture), irrevocably (irrespective of whether the conditions in subparagraphs (ii), (iii), (iv), (v), (vi), (vii) and (viii) below have been satisfied, but subject to certain provisions in the Indenture

relating to the application of trust money), as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Notes of such series, U.S. Dollars or U.S. government obligations in an amount which will provide not later than the opening of business on the due date of any payment referred to in subsection (A), (B) or (C) of this subparagraph (i) U.S. Dollars or U.S. government obligations in an amount sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge (A) the principal of (and premium, if any), (B) interest on and (C) Additional Amounts, if any, on the outstanding Notes of such series on the day on which such payments are due and payable in accordance with the terms of the Indenture and of the Notes of such series;

Table of Contents

- ii. such deposit does not result in a breach or violation of, or constitute a default under, the Indenture or any other agreement or instrument to which we or the Guarantor are a party or by which either of us is bound;
- iii. no Event of Default with respect to the Notes of such series has occurred and is continuing on the date of such deposit and no Event of Default under subparagraphs (v), (vi) and (viii) under the section entitled Events of Default, Waiver and Notice is in occurrence and continues on a date which is six months after the date of such deposit;
- iv. we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing with respect to U.S. federal income tax matters to the effect that the beneficial owners of the Notes of such series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit and covenant defeasance had not occurred;
- v. such covenant defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Notes are in default within the meaning of the Trust Indenture Act);
- vi. such covenant defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act;
- vii. if the Notes of such series are then listed on any securities exchange, we or the Guarantor have delivered to the Trustee an opinion of counsel of recognized standing to the effect that such deposit and covenant defeasance will not cause the Notes of such series to be delisted from such exchange; and
- viii. we or the Guarantor have delivered to the Trustee an officer's certificate and an opinion of counsel of recognized standing, each stating that all conditions precedent provided for relating to the covenant defeasance of the specified provisions of the Indenture as they relate to the outstanding Notes of such series have been complied with.

From and after the date when the foregoing conditions have been met, we or the Guarantor, as the case may be, may omit to comply with, and shall have no liability in respect of, any term, covenant, condition or limitation set forth in any of the specified provisions of the Indenture with respect to which the covenant defeasance has taken place as contemplated under the Indenture, but the remainder of the Indenture and the Notes of any other series will be unaffected thereby.

The Trustee, Transfer Agent, Registrar and Paying Agent

The Bank of New York Mellon will be acting as the Trustee, Transfer Agent, Registrar and Paying Agent for each series of Notes under, and as such terms are defined in, the Indenture.

In addition to acting as Trustee, The Bank of New York Mellon also acts as depository, trustee and/or paying agent in connection with various other transactions carried out by us, the Guarantor and certain of our respective affiliates.

Replacement of Notes

If any Certificated Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the office of the Trustee subject to applicable laws, on payment by the claimant of the expenses incurred in connection with such replacement and on the terms as to evidence, security, indemnity and otherwise as we, the Guarantor and the Trustee may reasonably require.

S-33

Table of Contents

Modification and Waiver

Modification Without Consent of Holders

We, the Guarantor and the Trustee may enter into one or more supplemental indentures without the consent of the holders of a series of Notes under the Indenture to:

secure the Notes of such series;

evidence the succession of another person to the Issuer or the Guarantor and the assumption by any such successor of the covenants and agreements of the Issuer or the Guarantor in the Indenture and in the Notes of such series;

evidence or provide for the acceptance of appointment under the Indenture by a successor trustee with respect to the Notes of such series;

change the terms of the Notes of such series to correct a manifest error (for the avoidance of doubt, no other modification may be made to the terms of the Notes of such series);

cure any ambiguity or to correct or supplement any provision contained in the Indenture or any indenture supplemental thereto which may be defective or inconsistent with any other provision contained in the Indenture or in any indenture supplemental thereto;

to delete, amend or supplement any provision contained in the Indenture or in any indenture supplemental thereto, provided that no such amendment or supplement shall materially adversely affect the interests of the holders of any notes issued thereunder then outstanding; or

to establish the form or terms of notes of any series as permitted by the Indenture.

Modification with Consent of Holders

With the consent of the holders of not less than a majority in principal amount of the outstanding Notes of a series, we, the Guarantor and the Trustee may add any provisions to, or change in any manner or eliminate any of the provisions of, or waive any past defaults with respect to, the Indenture or modify in any manner the rights of the holders of such series of Notes. However, we, the Guarantor and the Trustee may not make any of the following changes to the Notes of such series without the consent of each holder of each outstanding Note of such series that would be affected by such change:

change the stated maturity of the principal or of any installment of the principal of or interest, if any, on any Note of such series;

reduce the principal amount of any Note of such series;

reduce the rate or extend the time of payment of interest on, any Note of such series;

reduce the amount payable on redemption of any Note of such series;

change our obligations or the obligations of the Guarantor to pay Additional Amounts on any Note of such series;

waive a default in the payment of principal of, or interest on, any Note of such series;

change the currency in which the principal, premium, or interest on, any Note of such series is payable;

impair the right of any holder to take legal action to enforce the payment on the Notes of such series or the Guarantee when due; or

reduce the quorum requirements or the percentage of Notes of such series the consent of whose holders is required for modification of the Indenture.

Table of Contents**Maintenance of Tax Procedures**

The supplemental indenture to be entered into in respect of each series of Notes will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. In addition, we and the Guarantor will agree in the respective supplemental indenture in respect of each series of Notes to, so long as any principal amount of such series of Notes remains outstanding, and insofar as it is practicable, maintain, implement or arrange for the implementation of procedures to facilitate the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under such series of Notes or the collection of any other documentation concerning such Notes that may be required under Spanish law to allow payments on such Notes to be made free and clear of Spanish withholding tax. However, neither we nor the Guarantor can assure you that it will be practicable to maintain, implement or arrange for the implementation of any such procedures or that they will be effective, in which case we may be required to make payments in respect of such Notes net of the Spanish withholding tax applicable to such payments (currently 19%).

Under the supplemental indenture to be entered into in respect of each series of Notes, the Paying Agent must deliver a Payment Statement to us and the Guarantor no later than 1:00 a.m. New York Time on the relevant payment date. If we or the Guarantor, as the case may be, believe that the information contained in the Payment Statement is incomplete or inaccurate or that the Payment Statement is otherwise not in compliance with the applicable regulation, we or the Guarantor will notify the Paying Agent and state the reasons for such belief. Following such notification, the Paying Agent shall deliver to us and the Guarantor a further executed Payment Statement, revised, if necessary, as reasonably determined by the Paying Agent and which the Paying Agent shall reasonably believe to be duly completed, as soon as possible but in any event no later than 9:30 a.m. New York Time on the relevant Payment Date (the **First Statement Deadline**). If the Paying Agent delivers a duly executed and completed Payment Statement to us and the Guarantor by the First Statement Deadline, the relevant payment will be made free and clear of Spanish withholding tax. Otherwise, such payment will be made net of the Spanish withholding tax applicable to such payments (currently 19%).

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to us and the Guarantor by the First Statement Deadline, the Paying Agent undertakes to make all reasonable efforts to provide an executed Payment Statement to us and the Guarantor, which the Paying Agent shall reasonably believe to be duly completed, as soon as possible but no later than 4:00 p.m. New York time on the 10th calendar day of the month immediately following the relevant payment date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day). If we or the Guarantor, as the case may be, believe that the information contained in the Payment Statement is incomplete or inaccurate or that the Payment Statement is otherwise not in compliance with the applicable regulation, we or the Guarantor will notify the Paying Agent and state the reasons for such belief. Following such notification, the Paying Agent shall deliver to us and the Guarantor a further executed Payment Statement, revised, if necessary, as reasonably determined by the Paying Agent and which the Paying Agent shall reasonably believe to be duly completed, as soon as possible but in any event no later than 5:00 p.m. New York Time on the 10th calendar day of the month immediately following the relevant payment date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day) (the **Second Statement Deadline**). If we or the Guarantor receive a duly executed and completed Payment Statement by the Second Statement Deadline, we or the Guarantor, as the case may be, will, no later than the 18th calendar day of the month immediately following the relevant payment date (or if such day is not a New York Business Day, the first New York Business Day immediately preceding such day), instruct the Paying Agent to, within one New York Business Day of such date, transfer to each DTC participant the amount initially withheld to such DTC participant for the benefit of beneficial owners.

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to us and the Guarantor by the Second Statement Deadline, the Paying Agent shall, within one New

S-35

Table of Contents

York Business Day of the date of the Second Statement Deadline, transfer the amount withheld to us, and beneficial owners will have to follow the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Prospective investors should note that none of the Issuer, the Guarantor or the underwriters accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer, the Guarantor or the underwriters will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, none of the Issuer or the Guarantor will pay any Additional Amounts with respect to any such withholding.

Notices

Notices to holders will be deemed to be validly given if mailed to them at their respective addresses as recorded in the register kept by the Trustee, and will be deemed to have been validly given on the seventh day after the date of such mailing.

Governing Law

Pursuant to Section 5-1401 of the General Obligations Law of the State of New York, the Indenture, the Notes and the Guarantee shall be governed by, and shall be construed in accordance with, the laws of the State of New York.

Consent to Jurisdiction

We and the Guarantor have irrevocably submitted to the exclusive jurisdiction of any federal or state court in the Borough of Manhattan, the City of New York, and any appellate court from any such court thereof, with respect to any legal suit, action or proceeding based on or arising under the Notes or the Indenture and have agreed that all claims in respect of such suit or proceeding shall be determined in any such court.

Table of Contents

TAXATION

Spanish Tax Considerations

The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Notes.

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

This tax section is based on Spanish law as in effect on the date of this Prospectus Supplement as well as on administrative interpretations thereof, and is subject to any change in such law that may take effect after such date.

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Prospectus Supplement and does not take into account specific regulations established by the autonomous regions of Spain or the historic territories of Basque Country or Navarra:

- (i) of general application, Additional Provision One of Law 10/2014, of June 26 on the regulation, supervision and solvency of credit entities (**Law 10/2014**) and Royal Decree 1065/2007 of July 27, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes (**Royal Decree 1065/2007**);
- (ii) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax (**IIT**), Law 35/2006 of November 28 on the IIT Law and on the partial amendment of the Corporate Income Tax Law, the Non-Resident Income Tax Law and the Net Wealth Tax Law, as amended, and Royal Decree 439/2007 of March 30, promulgating the IIT Regulations, along with Law 19/1991 of June 6, on the Net Wealth Tax, as amended, and Law 29/1987 of December 18 on Inheritance and Gift Tax;
- (iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (**CIT**), Law 27/2014, of November 27 and Royal Decree 634/2015 of July 10 promulgating the CIT regulations; and
- (iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (**NRIT**), Royal Legislative Decree 5/2004 of March 5 promulgating the Consolidated Text of the NRIT Law, as amended, and Royal Decree 1776/2004 of July 30 promulgating the NRIT Regulations, along with Law 19/1991 of June 6, on the Net Wealth Tax and Law 29/1987 of December 18 on Inheritance and Gift Tax.

Whatever the nature and residence of the noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993 of September 24 and exempt from Value Added Tax, in accordance with Law 37/1992 of December 28 regulating such tax.

S-37

Table of Contents

Individuals with Tax Residency in Spain

Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the IIT Law, and must be included in the investor's IIT savings taxable base and taxed at a flat rate of 19% on the first 6,000, 21% on the following 44,000 and 23% for any amount in excess of 50,000.

No withholding on account of IIT will be imposed on interest as well as on income derived from the redemption or repayment of the Notes (except in the case of a Redemption for Failure to List) by individual investors subject to IIT provided that certain requirements are met (including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement). See *Compliance with Certain Requirements in Connection with Income Payments*. However, income derived from the transfer of the Notes may be subject, under certain circumstances, to a withholding on account of IIT at the rate of 19%. In any event, the individual holder may credit taxes withheld against his or her final IIT liability for the relevant tax year.

Reporting Obligations

We and the Guarantor will comply with the reporting obligations set out in the Spanish tax laws with respect to beneficial owners of the Notes who are individuals resident in Spain for tax purposes.

Net Wealth Tax (Impuesto sobre el Patrimonio)

Spanish resident tax individuals are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), as amended, which imposes a tax on property and rights in excess of 700,000 held on the last day of any year. Spanish tax resident individuals whose net worth is above 700,000 and who hold Notes on the last day of any year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year.

However, in accordance with article 3 of the Royal Decree-Law 7/2018, of December 28 (**RDL 7/2018**), as from year 2020 and onwards, a full exemption on Spanish Net Wealth Tax applies (*bonificación del 100%*) relieving taxpayers from formal and filing obligations in relation to this Spanish Net Wealth Tax. Therefore, no Spanish Net Wealth Tax will be applied on the holding of the Notes, unless the application of the full exemption is removed.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules. The effective tax rate, after applying all relevant factors, ranges between 0% and 81.6% for 2019, depending on relevant factors.

Legal Entities with Tax Residency in Spain

Corporate Income Tax (Impuesto sobre Sociedades)

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Both interest periodically accrued and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general flat tax rate of 25% for 2019) in accordance with the rules for this tax.

No withholding on account of CIT will be imposed on interest as well as on income derived from the redemption or repayment of the Notes (except in the case of a Redemption for Failure to List), by Spanish CIT

S-38

Table of Contents

taxpayers provided that certain requirements are met (including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement). See [Compliance with Certain Requirements in Connection with Income Payments](#) .

Reporting Obligations

We and the Guarantor will comply with the reporting obligations set out in the Spanish tax laws with respect to beneficial owners of the Notes who are legal persons or entities resident in Spain for tax purposes.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the Notes in their taxable income for CIT purposes.

Individuals and Legal Entities that are not Tax Resident in Spain

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

(i) Non-Spanish tax resident investors acting through a permanent establishment in Spain

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set out above for Spanish CIT taxpayers. See [Legal Entities with Tax Residency in Spain Corporate Income Tax \(Impuesto sobre Sociedades\)](#) . Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

We and the Guarantor will comply with the reporting obligations set out in the Spanish tax laws with respect to beneficial owners of the Notes who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Notes through a permanent establishment in Spain.

(ii) Non-Spanish tax resident investors not acting through a permanent establishment in Spain

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT and therefore no withholding on account of NRIT will be levied on such income provided certain requirements are met.

In order to be eligible for the exemption from NRIT, certain requirements must be met (including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement), as laid down in Section 44 of Royal Decree 1065/2007. See [Compliance with Certain Requirements in Connection with Income Payments](#) . If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to us and the Guarantor in a timely manner in respect of a payment of income under the Notes, we will withhold Spanish withholding tax at the then-applicable rate (currently 19%) on such payment of income on the Notes and we will not pay Additional Amounts with respect to any such withholding tax.

Beneficial owners not resident in Spain for tax purposes and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure by the Paying Agent to deliver a duly executed and completed Payment Statement, will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent provides us and the Guarantor with a duly executed and completed Payment Statement no later than the Second Statement Deadline. In addition, beneficial owners may apply

S-39

Table of Contents

directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto. Beneficial owners are advised to consult their own tax advisors regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Net Wealth Tax (Impuesto sobre el Patrimonio)

Spanish non-resident tax individuals are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), as amended, which imposes a tax on property and rights in excess of 700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any year.

However, in accordance with article 3 of the RDL 7/2018, as from year 2020 and onwards, a full exemption on Spanish Net Wealth Tax applies (*bonificación del 100%*) relieving taxpayers from formal and filing obligations in relation to this Spanish Net Wealth Tax. Therefore, no Spanish Net Wealth Tax will be applied on the holding of the Notes unless the application of the full exemption is removed.

Non-Spanish resident legal entities are not subject to Spanish Net Wealth Tax.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the provisions of such relevant double tax treaty. The United States did not enter any double tax treaty with Spain in relation to Inheritance and Gift Tax.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional and state legislation, to the extent that rights deriving from the Notes can be exercised within the Spanish territory. As such, prospective investors should consult their tax advisors.

Non-Spanish tax resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable convention for the avoidance of double taxation entered into by Spain. In general, conventions for the avoidance of double taxation provide for the taxation of this type of income in the country of tax residence of the beneficiary.

Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market

Withholding on Account of IIT, NRIT and CIT

If the Notes are not listed on a regulated market, multilateral trading facility or other organized market on any date on which income in respect of the Notes will be paid (i.e. either an Interest Payment Date or a redemption date), payments of income to beneficial owners in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 19%). Beneficial owners which are: (A) residents of a European Union member state other than Spain and obtain such income either directly or through a permanent establishment located in another European Union member state, provided that such beneficial owners (i) do not obtain such income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5 as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an

exemption from Spanish tax or a reduced withholding tax rate with respect to income payable to any beneficial owner may be entitled to an exemption from, or reduction of,

S-40

Table of Contents

such tax. Individuals and entities that may benefit from such exemptions or reduced tax rates should apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto.

Tax Rules for Payments Made by the Guarantor

Payments made by the Guarantor to beneficial owners will be subject to the same tax rules previously set out for payments made by us.

Compliance with Certain Requirements in Connection with Income Payments

As described under Individuals and Legal Entities that are not Tax Resident in Spain , Legal Entities with Tax Residency in Spain Corporate Income Tax (*Impuesto sobre Sociedades*) and Individuals with Tax Residency in Spain Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*) , provided the conditions set forth in Law 10/2014 and Royal Decree 1065/2007 are met (including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement), income paid in respect of the Notes for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish CIT or IIT taxpayers, will not be subject to Spanish withholding tax (other than in the event of a Redemption for Failure to List). For these purposes, income means interest paid on an Interest Payment Date or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Notes of a series (or a portion thereof) and the aggregate principal amount of such Notes.

In accordance with sub-section 5 of Section 44 of Royal Decree 1065/2007, a duly executed and completed Payment Statement must be submitted to us and the Guarantor by the Paying Agent at the time of each relevant payment date. In accordance with the form attached as Annex to Royal Decree 1065/2007, the Payment Statement shall include the following information:

- a) Identification of the Notes;
- b) Payment date;
- c) Total amount of income to be paid on the relevant payment date; and
- d) Total amount of income corresponding to Notes held through each clearing system located outside Spain (such as DTC).

In particular, the Paying Agent must certify the information above about the Notes by means of a certificate, the form of which is attached as Annex B to this Preliminary Prospectus.

In light of the above, we, the Guarantor and the Paying Agent will enter into a supplemental indenture in respect of each series of Notes which, among other things, will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each income payment under the Notes and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See Description of the Notes and the

Guarantee Maintenance of Tax Procedures .

Prospective investors should note that none of the Issuer, the Guarantor or the underwriters accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer, the Guarantor or the underwriters will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, neither we nor the Guarantor will pay any Additional Amounts with respect to any such withholding tax. See Risk Factors Risks Relating to the Guarantor, the Issuer and the Notes We will have to withhold Spanish withholding tax from any income payment on the Notes unless certain requirements are met .

S-41

Table of Contents

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to us and the Guarantor in a timely manner in respect of a payment of income under the Notes, such payment will be made net of the Spanish withholding tax applicable to such payments (currently 19%). If this were to occur, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to us and the Guarantor no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto.

In addition to the timely provision of a duly executed and completed Payment Statement, the Notes must be admitted to listing on a regulated market, multilateral trading facility or other organized market in order to allow payments on Notes to be made free and clear of Spanish withholding tax. We believe the Notes will comply with this requirement as long as they are listed and admitted to trading on the NYSE. See Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market.

The Proposed Financial Transactions Tax (FTT)

On February 14, 2013, the European Commission published a 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**). Estonia has since officially announced its withdrawal from the negotiations.

The proposed FTT has very broad scope. If introduced in the form proposed on February 14, 2013, it could apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the February 14, 2013 proposal, 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 Notes where at least one party to the transaction is established in the territory of a participating Member State and that a financial institution established in the territory of a participating Member State is a party to the transaction, acting either for its own account or for the account of another person or is acting in the name of a party to the transaction. 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 the participating Member States. Additional EU Member States may decide to participate and/or certain of the participating Member States may withdraw. The FTT proposal may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT. If introduced, certain dealings in Notes may be subject to FTT, in which case neither we nor the Guarantor would be obliged to pay additional amounts with respect to any Note as a result of imposition of such tax.

Material U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax considerations relating to the ownership and disposition of the Notes by U.S. holders (defined below) (and solely to the extent provided under U.S. Foreign Account Tax Compliance Withholding, all prospective investors). This summary does not purport to be a complete analysis of all tax considerations that may be applicable to a decision to acquire the Notes. Except to the extent provided under U.S. Foreign Account Tax Compliance Withholding, this summary applies only to U.S. holders that

purchase the Notes in the initial offering at their issue price, which for each series of Notes will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes of such series is sold, and hold such Notes as capital assets within the meaning of Section 1221 of the Code.

S-42

Table of Contents

This discussion is for general information purposes only. This summary does not address the tax consequences applicable to all categories of investors, some of which may be subject to special rules (for example, certain financial institutions, regulated investment companies, insurance companies, dealers in securities, tax-exempt organizations or traders in securities that elect to mark their securities to market for tax purposes, investors holding the Notes as part of a straddle or other integrated transaction, certain former citizens and residents of the United States, persons required for U.S. federal income tax purposes to conform the timing of income accruals on the Notes to their financial statements under Section 451(b) of the Code, or investors whose functional currency is not the U.S. Dollar). This summary does not address the effects of any state, local or non-U.S. tax laws or any U.S. federal estate, gift, Medicare contribution or alternative minimum tax considerations.

Furthermore, the discussion below is based upon the provisions of the Code and regulations, rulings and judicial decisions as of the date of this offering, and those authorities may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. The tax treatment applicable to you may vary depending on your particular tax situation or status.

In this discussion, a U.S. holder is for U.S. federal income tax purposes a beneficial owner of a Note that is:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof, or the District of Columbia; or

(iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source. If an entity treated as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partnership or partner of a partnership holding Notes, you should consult your tax advisor.

Prospective investors should consult their tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of Notes in light of their own particular circumstances, as well as the effect and applicability of any state, local or non-U.S. tax laws.

Interest Payments

It is expected, and this disclosure assumes, that the Notes will be issued without original issue discount for U.S. federal income tax purposes. Interest paid to a U.S. holder of Notes (including any Spanish tax withheld and any Additional Amounts paid with respect thereto) generally will be includible in such U.S. holder's income as ordinary interest income in accordance with such U.S. holder's regular method of accounting for U.S. federal income tax purposes. Interest earned by a U.S. holder on the Notes generally will be treated as foreign-source income for U.S. federal income tax purposes, which may be relevant in calculating a U.S. holder's foreign tax credit limitation.

Subject to applicable limitations, some of which vary depending upon a U.S. holder's particular circumstances, Spanish income taxes withheld at a rate not in excess of any applicable treaty rate from interest payments on a Note may be creditable against the U.S. holder's U.S. federal income tax liability. However, a U.S. holder that is eligible for

a refund under Spanish law or an applicable treaty of any amount withheld for Spanish taxes will not be eligible to receive a credit of such amount against the U.S. holder's U.S. federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

S-43

Table of Contents***Sale, Exchange, Redemption and Other Taxable Disposition of Notes***

Upon the sale, exchange, redemption or other taxable disposition of the Notes, a U.S. holder will recognize gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, redemption or other taxable disposition (other than amounts attributable to accrued but unpaid interest not previously included in income, which will be taxable as described above under **Interest Payments**) and the U.S. holder's tax basis in such Notes. A U.S. holder's tax basis in the Notes generally will equal the initial cost of such Notes to the U.S. holder. Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period for the Note exceeds one year at the time of disposition of such Note. The deductibility of capital losses is subject to certain limitations. Any gain or loss realized by a U.S. holder on the sale, exchange, redemption or other taxable disposition of the Notes generally will be treated as U.S. source gain or loss, as the case may be.

Information Reporting and Backup Withholding

Information returns may be filed with the Internal Revenue Service (the **IRS**) in connection with payments of interest on the Notes and the proceeds from a sale or other disposition of the Notes unless the beneficial owner of such Notes establishes an exemption from the information reporting rules. A U.S. holder of Notes that does not establish such an exemption may be subject to U.S. backup withholding on these payments if it fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that the required information is furnished to the IRS in a timely manner.

Certain U.S. holders who are individuals (and certain specified entities) may be required to report information relating to securities issued by a non-U.S. person or non-U.S. accounts through which such securities are held. U.S. holders should consult their tax advisors regarding their reporting obligations with respect to the Notes.

U.S. Foreign Account Tax Compliance Withholding.

Under certain provisions of the Code, and the FATCA regulations, a 30% 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 IRS 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 payments*. In addition, no withholding on foreign passthru payments will apply to any payment on non-U.S. debt obligations (such as the Notes) that are issued before (and not materially modified after) the date that is six months after the date on which the final regulations defining the term **foreign passthru payments** are published. 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 Notes, FATCA may impact payments by custodians or intermediaries in the payment chain between the Issuer and the ultimate beneficial owner of the Notes. 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 advisors with respect to FATCA and its

S-44

Table of Contents

application to the Notes and should consider carefully the FATCA compliance status of any financial intermediaries in the chain of ownership through which they hold Notes.

The U.S. federal income tax discussion provided above is included for general information only and does not describe all consequences that may apply in your particular situation. You should consult your own tax advisor regarding the tax consequences to you of owning and disposing of the Notes, including the tax consequences under state, local, non-U.S. and other tax laws.

S-45

Table of Contents**UNDERWRITING**

We intend to offer the Notes through the underwriters named below. Subject to the terms and conditions contained in the underwriting agreement dated as of February , 2019, between us, the Guarantor and the underwriters, each underwriter has severally agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of the Notes listed opposite the underwriter's name below:

| Underwriters of Notes | Principal Amount (Fixed Rate Notes) | Principal Amount (Fixed Rate Notes) |
|---|---|---|
| Barclays Capital Inc. | \$ | \$ |
| Commerz Markets LLC | \$ | \$ |
| Credit Suisse Securities (USA) LLC | \$ | \$ |
| Deutsche Bank Securities Inc. | \$ | \$ |
| Goldman Sachs & Co. LLC | \$ | \$ |
| J.P. Morgan Securities LLC | \$ | \$ |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | \$ | \$ |
| Mizuho Securities USA LLC | \$ | \$ |
| Morgan Stanley & Co. LLC | \$ | \$ |
| Total | \$ | \$ |

The underwriters have agreed to purchase all of the Notes sold pursuant to the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the underwriting commitments of the non-defaulting underwriters may be increased, the offering size may be reduced or the underwriting agreement may be terminated.

We and the Guarantor have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or to contribute to payments the underwriters may be required to make in respect of those liabilities. The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Each underwriter has agreed that it will not, in connection with the initial distribution of the Notes, sell Notes to any person in an aggregate amount of less than \$150,000.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the Notes to the public at the public offering prices on the cover page of this Prospectus Supplement, and may offer the Notes to other dealers at those prices less a concession not in excess of: (i) % of the aggregate principal amount of the Fixed Rate Notes; and (ii) % of the aggregate principal amount of the Fixed Rate Notes. The underwriters may allow, and the dealers may reallow, to other dealers a discount not in excess of: (i) % of the aggregate principal amount of the Fixed Rate Notes; and (ii) % of the aggregate principal amount of the Fixed Rate Notes.

After the initial public offering, the public offering prices concession and discount may be changed.

S-46

Table of Contents

The following table shows the public offering price, underwriting discount and proceeds before expenses to us:

| | |
|---|----|
| Public offering price (Fixed Rate Notes) | \$ |
| Public offering price (Fixed Rate Notes) | \$ |
| Total underwriting discount | \$ |
| Total proceeds to us | \$ |

In connection with this offering, we will pay % per Fixed Rate Note and % per Fixed Rate Note, of underwriting discounts to the underwriters (expressed as a percentage of the aggregate principal amount of the respective series of Notes). We estimate that our out-of-pocket expenses for this offering will be approximately \$ million. The underwriters have agreed to reimburse us for \$ million of expenses in connection with this offering.

New Issuances of Notes

The Notes are new issuances of securities with no established trading market. We intend to apply for listing of the Notes on the New York Stock Exchange. We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Price Stabilization and Short Positions

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. If the underwriters create a short position in the Notes in connection with the offering, i.e., if they sell more Notes than are on the cover page of this Prospectus Supplement, such underwriters may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the other underwriters have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions

Settlement

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Prospectus Supplement, which will be the third Business Day following the date of pricing of the Notes (T+3).

Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market are generally required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Prospectus Supplement will be required to specify alternative settlement arrangements to prevent a failed settlement. Such purchasers should consult their own advisors.

S-47

Table of Contents

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The underwriters and their respective affiliates have engaged in, and may in the future engage in, commercial and investment banking services, hedging services and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions and may do so in the future.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of ours. If any of the underwriters or their affiliates have a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

General

Other than in the United States, no action has been or will be taken by the Issuer or the Guarantor in any jurisdiction that would permit a public offering of the Notes or the Guarantee or possession or distribution of this Prospectus Supplement, the accompanying Prospectus or any other offering material relating to the Notes or the Guarantee in any country or jurisdiction where action for that purpose is required. Each underwriter has agreed that it will comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus Supplement, the accompanying Prospectus or any other offering document or any publicity or other material relating to the Notes.

Selling Restrictions

European Economic Area (EEA)

Please note that, in relation to EEA Member States, additional selling restrictions may apply in respect of any specific EEA Member State, including those set out in relation to the Kingdom of Spain and the United Kingdom in this section.

The Notes 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 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 Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the **PRIPs Regulation**) for offering or selling

the Notes or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This Prospectus Supplement and the accompanying Prospectus have been prepared on the basis that any offer of Notes in any Member State of the

S-48

Table of Contents

EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. This Prospectus Supplement and the accompanying Prospectus are not a prospectus for the purposes of the Prospectus Directive.

Kingdom of Spain

The Notes, the Prospectus Supplement and the accompanying Prospectus have not been approved or registered in the administrative registries of the CNMV. Accordingly, the Notes may not be offered or sold in Spain except in accordance with the requirements of (i) the Spanish Securities Law (*Real Decreto Legislativo 4/2015, de 23 de Octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*); (ii) the Royal Decree 1310/2005, of November 4; and (iii) any decrees and regulations made thereunder (and, if applicable, the relevant laws and regulations which in the future may replace the aforementioned existing legal provisions).

Each underwriter has represented and agreed that it will not initially offer or sell any Notes in Spain, but the underwriters have made no representation as to subsequent resales of the Notes.

United Kingdom

Each underwriter has represented and agreed that:

- (i) 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 United Kingdom Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of the Notes or the Guarantee in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes or the Guarantee in, from or otherwise involving the United Kingdom.

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

The information in this Prospectus Supplement, the accompanying Prospectus or any other document relating to the offer has not been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the FSMA) has been published or is intended to be published in respect of the Notes. This Prospectus Supplement and the accompanying Prospectus are issued on a confidential basis to qualified investors (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and these securities may not be offered or sold in the United Kingdom by means of this Prospectus Supplement, the accompanying Prospectus, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This Prospectus Supplement and the accompanying Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

In addition, in the United Kingdom, this Prospectus Supplement and the accompanying Prospectus are being distributed only to, and are directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in

S-49

Table of Contents

matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the **Order**) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as **relevant persons**). This Prospectus Supplement and the accompanying Prospectus must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this Prospectus Supplement and the accompanying Prospectus relates is only available to, and will be engaged in with, relevant persons.

Hong Kong

This Prospectus Supplement and the accompanying Prospectus have not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), nor has it been authorized by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). No action has been taken in Hong Kong to authorize or register this Prospectus Supplement and the accompanying Prospectus or to permit the distribution of the Prospectus Supplement, the accompanying Prospectus or any documents issued in connection with it. The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and any rules made thereunder. No person allotted the Notes may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such Notes.

Singapore

This Prospectus Supplement and the accompanying Prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Notes were not offered or sold or caused to be made the subject of an invitation for subscription or purchase and will not be offered or sold or caused to be made the subject of an invitation for subscription or purchase, and this Supplement, the accompanying Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, has not been circulated or distributed, nor will it be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

S-50

Table of Contents

(a) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law; or
- (d) as specified in Section 276(7) of the SFA.

Japan

The Notes have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Act of Japan (the **Financial Instruments and Exchange Act**) pursuant to an exemption from the registration requirements applicable to a private placement to Qualified Institutional Investors (as defined in Article 2, paragraph 3 of the Financial Instruments and Exchange Act and the regulation promulgated thereunder). Each underwriter has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, other than Qualified Institutional Investors, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

Table of Contents

VALIDITY OF THE NOTES

The validity of the Notes and the Guarantee will be passed upon for us by Davis Polk & Wardwell LLP as to matters of New York law, and by Uría Menéndez Abogados, S.L.P. and Telefónica's general counsel as to matters of Spanish law. Certain matters will be passed upon for the underwriters by DLA Piper LLP (US).

EXPERTS

The consolidated financial statements of Telefónica as of December 31, 2018 and 2017 and for each of the years ended December 31, 2018 and 2017 and management's assessment of the effectiveness of Telefónica's internal control over financial reporting (which is included in Management's Annual Report on Internal Control over Financial Reporting) as of December 31, 2018, incorporated into this Prospectus Supplement by reference to the Form 20-F, have been so incorporated in reliance on the report of PricewaterhouseCoopers Auditores, S.L., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. In addition, the adjustments to the 2016 consolidated financial statements to (i) retrospectively reflect the change in presentation of the segment information, as described in Note 4 to the Consolidated Financial Statements included in the Form 20-F, and (ii) retrospectively apply the change in accounting for translation differences and hyperinflation adjustments related to Telefónica's Venezuelan operations, as described in Note 2 to the Consolidated Financial Statements included in the Form 20-F, have been audited by PricewaterhouseCoopers Auditores, S.L., as set forth in their report, included therein, and incorporated herein by reference.

The consolidated financial statements of Telefónica for the year ended December 31, 2016, before the adjustments to (i) retrospectively reflect the changes in presentation of segment information, as described in Note 4 to the Consolidated Financial Statements and (ii) retrospectively apply the change in accounting for translation differences and hyperinflation adjustments related to Telefónica's Venezuelan operations, as described in Note 2 to the Consolidated Financial Statements (the **Unadjusted 2016 Consolidated Financial Statements**), appearing in the Form 20-F, have been audited by Ernst & Young, S.L., independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. The Unadjusted 2016 Consolidated Financial Statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information that Telefónica, the Guarantor, files with the SEC, which means that we can and do disclose important information to you by referring you to those documents that are considered part of this Prospectus Supplement. We incorporate by reference into this Prospectus Supplement the Form 20-F filed with the SEC by the Guarantor on February 21, 2019 (SEC Accession No. 0000814052 - 19 - 000029).

We incorporate by reference in this Prospectus Supplement and the accompanying Prospectus all subsequent annual reports of Telefónica filed with the SEC on Form 20-F under the Exchange Act and those of Telefónica's periodic reports submitted to the SEC on Form 6-K that are specifically identified in such form as being incorporated by reference in this Prospectus Supplement and the accompanying Prospectus after the date hereof and prior to the completion of an offering of securities under this Prospectus Supplement and the accompanying Prospectus. This Prospectus Supplement is part of a registration statement filed with the SEC.

As you read the above documents, you may find inconsistencies in information from one document to another. If you find inconsistencies you should rely on the statements made in the most recent document. All information appearing in this Prospectus Supplement and the accompanying Prospectus is qualified in its entirety by the information and

financial statements, including the notes thereto, contained in the documents that we have incorporated by reference.

S-52

Table of Contents

We have not authorized anyone to provide any information other than that contained or incorporated by reference in this Prospectus Supplement, the accompanying Prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. These documents do not constitute an offer to sell or solicitation of an offer to buy the securities referred to herein in any circumstances under which such offer or solicitation is unlawful. You should not assume that the information in this or any future prospectus supplements is accurate as of any date other than the date on the front of those documents.

S-53

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement, the accompanying Prospectus and the documents incorporated by reference contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Prospectus Supplement, the accompanying Prospectus and the documents incorporated by reference herein can be identified, in some instances, by the use of words such as will , shall , target , expect , aim , hope , anticipate , should , may , might , assume , estimate , plan , int language or other formulations of a similar meaning or, in each case, the negative formulations thereof. Other forward-looking statements can be identified in the context in which the statements are made or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Prospectus Supplement, the accompanying Prospectus and in the documents incorporated by reference herein, including, without limitation, certain statements made in Risk Factors in this Prospectus Supplement and Risk Factors , Information on the Company , Operating and Financial Review and Prospects and Quantitative and Qualitative Disclosures About Market Risk in the Form 20-F and include statements regarding our intent, belief or current expectations with respect to, among other things:

the effect on the Guarantor s results of operations of competition in telecommunications markets;

trends affecting the Guarantor s business, financial condition, results of operations or cash flows;

ongoing or future acquisitions, investments or divestments which the Guarantor may make;

the Guarantor s capital expenditures plan;

the Guarantor s estimated availability of funds;

the Guarantor s ability to repay debt with estimated future cash flows;

the Guarantor s shareholder remuneration policies;

supervision and regulation of the telecommunications sectors where the Guarantor has significant operations;

the Guarantor s strategic partnerships;

the potential for growth and competition in current and anticipated areas of the Guarantor s business; and

the outcome of pending or future litigation or other legal proceedings.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our and the Guarantor's businesses that could affect the matters referred to in such forward-looking statements include but are not limited to:

changes in general economic, business or political conditions in the domestic or international markets in which the Guarantor operates or has material investments that may affect demand for the Guarantor's services or its cost structure, including as a result of the outcome of Brexit or increasing trade tensions in certain parts of the world;

exposure to currency exchange rates, interest rates or credit risk, including related to the Guarantor's treasury investments or in some of the Guarantor's financial transactions;

existing or worsening conditions in the international financial markets;

the impact of new accounting standards or current, pending or future legislation and regulation in countries where the Guarantor operates, as well as any failure to renew or obtain the necessary licenses, authorizations and concessions to carry out the Guarantor's operations and the impact of limitations in spectrum capacity;

Table of Contents

compliance with anti-corruption laws and regulations and economic sanctions programs;

the Guarantor's inability to anticipate or adapt in a timely manner to changing customer demands and/or new ethical or social standards;

changes in the Guarantor's competitive position, including as a result of the evolution of competition and market consolidation in the markets where it operates;

the Guarantor's inability to anticipate and adapt to the rapid technological changes that characterize the sector in which it operates, or to select the right investments to make;

failure of suppliers to provide necessary equipment and services on a timely basis and otherwise meeting the Guarantor's performance expectations;

the impact of unanticipated network interruptions;

the impact of cyber-security actions;

the impact of impairment charges on the Guarantor's goodwill and assets as a result of changes in the regulatory, business, economic or political environment or other factors;

potential liability resulting from the Guarantor's internet access and hosting services arising from illegal or illicit use of the internet, including the inappropriate dissemination or modification of consumer data;

sustainability and environmental risks, including climate change;

the effect of reports suggesting that electromagnetic fields may cause health problems; and

the outcome of pending or future litigation or other legal proceedings.

Some of these and other important factors that could cause such differences are discussed in more detail in "Risk Factors" in this Prospectus Supplement and "Operating and Financial Review and Prospects", "Risk Factors" and "Business" in the Form 20-F.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Prospectus Supplement, the date of the accompanying Prospectus or as of the date of the documents incorporated by reference herein, as the case may be. Neither we nor the Guarantor undertake any obligation to update any forward-looking statements that may be made to reflect events or circumstances after the date of this Prospectus

Supplement, the accompanying Prospectus or the documents incorporated by reference, as the case may be, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CURRENCY OF PRESENTATION

In this Prospectus Supplement, we present the Guarantor's financial information in euros. In this Prospectus Supplement, references to euros, EUR or are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time-to-time. References to U.S. Dollars, USD or \$ are to the lawful currency adopted by the United States of America, unless the context otherwise requires. References to GBP or £ are to the lawful currency adopted by the United Kingdom.

S-55

Table of Contents

ANNEX A

DIRECT REFUND FROM SPANISH TAX AUTHORITIES PROCEDURES

1. Beneficial owners entitled to receive income payments in respect of the Notes free of any Spanish withholding taxes or at the reduced withholding tax rate contained in any applicable convention for the avoidance of double taxation with Spain but in respect of whom income payments have been made net of Spanish withholding tax at the general withholding tax rate may apply directly to the Spanish tax authorities for any refund to which they may be entitled.
2. Beneficial owners may claim the amount withheld from the Spanish Treasury following February 1 of the year immediately following the year in which the relevant payment was made and within the first four years following the last day on which the Issuer or the Guarantor, as the case may be, may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities, among other documents (i) the relevant Spanish tax form, (ii) proof of beneficial ownership and (iii) a certificate of residency issued by the tax authorities of the country of tax residence of such beneficial owner (to be obtained from the U.S. Internal Revenue Service in the case of U.S. resident beneficial owners).

Table of Contents

ANNEX B

Set out below is Annex B. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Annex B and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.

The language of this Prospectus Supplement is English. The Spanish language text of Annex B has been included in order that the correct technical meaning may be ascribed to such text under applicable Spanish law. Any foreign language text included in this Prospectus Supplement does not form part of this Prospectus Supplement.

B-1

Table of Contents

ANNEX B

Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007

Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Don (nombre), con número de identificación fiscal (), en nombre y representación de (entidad declarante), con número de identificación fiscal () y domicilio en () en calidad de (marcar la letra que proceda):

Mr. (name), with tax identification number (), in the name and on behalf of (entity), with tax identification number () and address in () as (function mark as applicable):

(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.

(a) Management Entity of the Public Debt Market in book entry form.

(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

(d) Agente de pagos designado por el emisor.

(d) Issue and Paying Agent appointed by the issuer.

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Makes the following statement, according to its own records:

1 En relación con los apartados 3 y 4 del artículo 44:

1 In relation to paragraphs 3 and 4 of Article 44:

1.1 Identificación de los valores

1.1 Identification of the securities

(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia

(1) In the case of non-residents (individuals or corporations) without permanent establishment in Spain the corresponding number or identification code of their country of residence should be included.

1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

B-2

Table of Contents

1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados)

1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)

1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora

1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved

1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).

1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).

2 En relación con el apartado 5 del artículo 44.

2 In relation to paragraph 5 of Article 44.

2.1 Identificación de los valores

2.1 Identification of the securities

2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)

2.2 Income payment date (or refund if the securities are issued at discount or are segregated)

2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados)

2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)

2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.

2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.

2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.

2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en a . de de .

I declare the above in on the . of of .

Table of Contents

PROSPECTUS

Ordinary Shares of Telefónica, S.A.

Rights to subscribe for Ordinary Shares of Telefónica, S.A.

Debt Securities of Telefónica Emisiones, S.A.U.,

which are fully and unconditionally guaranteed by Telefónica, S.A.

Telefónica, S.A. may offer from time to time ordinary shares, including in the form of American Depositary Shares (ADSs), or rights to subscribe for ordinary shares of Telefónica, S.A., in one or more offerings.

Telefónica Emisiones, S.A.U. may offer from time to time in one or more series Debt Securities (as defined herein), which are fully and unconditionally guaranteed by Telefónica, S.A.

This prospectus describes the general terms of these securities and the general manner in which Telefónica, S.A. and Telefónica Emisiones, S.A.U. may offer these securities. Telefónica, S.A. and/or Telefónica Emisiones, S.A.U. will provide the specific terms of the securities, and the specific manner in which they are offered, in one or more supplements to this prospectus. Such prospectus supplements may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement, together with the additional information described under the heading *Where You Can Find More Information* and the information incorporated by reference in this prospectus that is described under the heading *Incorporation by Reference* before investing in our securities. The amount and price of the offered securities will be determined at the time of the offering.

The ordinary shares of Telefónica, S.A. are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the *Spanish Stock Exchanges*) and are quoted through the Automated Quotation System of the Spanish Stock Exchanges under the symbol *TEF* . The ordinary shares of Telefónica, S.A. are also listed on the London and Buenos Aires stock exchanges. The ordinary shares of Telefónica, S.A. in the form of ADSs are listed on the New York Stock Exchange and the Lima (Peru) Stock Exchange. If Telefónica, S.A. and/or Telefónica Emisiones, S.A.U. decide to list any of the other securities that may be offered hereunder on a national stock exchange upon issuance, the applicable prospectus supplement to this prospectus will identify the exchange and the expected date for commencement of trading.

Investing in these securities involves risks. See Risk Factors .

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Telefónica, S.A. and Telefónica Emisiones, S.A.U. may sell these securities on a continuous or delayed basis directly, through agents or underwriters as designated from time to time, or through a combination of these methods, and reserve the sole right to accept, and together with any agents, dealers and underwriters, reserve the right to reject, in whole or in part, any proposed purchase of securities. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable commissions or discounts. The net proceeds from the sale of securities will also be set forth in the applicable prospectus supplement.

The date of this prospectus is April 20, 2018.

Table of Contents

TABLE OF CONTENTS

| | Page |
|---|------|
| <u>About This Prospectus</u> | 1 |
| <u>Incorporation by Reference</u> | 2 |
| <u>Where You Can Find More Information</u> | 3 |
| <u>The Telefónica Group</u> | 4 |
| <u>Telefónica Emisiones, S.A.U.</u> | 4 |
| <u>Risk Factors</u> | 5 |
| <u>Ratio of Earnings to Fixed Charges</u> | 6 |
| <u>Description of Telefónica's Ordinary Shares</u> | 7 |
| <u>Description of American Depositary Shares</u> | 18 |
| <u>Description of Rights to Subscribe for Ordinary Shares</u> | 19 |
| <u>Description of Debt Securities and Guarantees</u> | 20 |
| <u>Enforceability of Certain Civil Liabilities</u> | 22 |
| <u>Legal Matters</u> | 22 |
| <u>Experts</u> | 22 |
| <u>Information Not Required in a Prospectus</u> | II-1 |

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Telefónica, S.A. and Telefónica Emisiones, S.A.U. filed with the United States Securities and Exchange Commission (the SEC) using the shelf registration process. Under the shelf registration process, Telefónica, S.A. and/or Telefónica Emisiones, S.A.U. may sell any combination of the securities described in this prospectus from time-to-time in the future in one or more offerings.

This prospectus provides you with a general description of the securities that can be offered. Each time the securities described herein are offered under this prospectus, Telefónica, S.A. and/or Telefónica Emisiones, S.A.U., as the case may be, will provide prospective investors with a prospectus supplement that will contain specific information about the terms of the securities. A prospectus supplement may also add to or update or change information contained in this prospectus. Accordingly, to the extent inconsistent, information in this prospectus is superseded by the information in any prospectus supplement. You should read both this prospectus and any prospectus supplement together with the additional information described in **Where You Can Find More Information and the information incorporated by reference that is described in **Incorporation by Reference** .**

A prospectus supplement to be attached to the front of this prospectus will describe, among other matters, the terms of the offering, including the amount and detailed terms of the securities, the public offering price, net proceeds to us, the expenses