Comisión Nacional del Mercado de Valores
Calle Edison 4
28006 Madrid

En Madrid, a 20 de septiembre de 2016

Ref.: Folleto Informativo de Telxius Telecom, S.A.U. ("Telxius")

Don Alberto Manuel Horcajo Aguirre, en nombre y representación de Telefónica, S.A. y de Telxius Telecom, S.A.U., debidamente facultado al efecto,

CERTIFICO

Que el contenido del soporte informático adjunto a esta carta para su depósito en esa Comisión Nacional del Mercado de Valores, se corresponde con el Folleto Informativo (*Prospectus*) de Telxius Telecom, S.A.U. que ha sido verificado e inscrito en los registros oficiales de esa Comisión Nacional del Mercado de Valores el 20 de septiembre de 2016.

Se autoriza a esa Comisión Nacional del Mercado de Valores para que publique en su página Web el contenido del soporte informático del Folleto Informativo.

Atentamente,

Telxius Telecom, S.A.U.

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Don Alberto Manuel Horcajo Aguirre

THIS DOCUMENT IS AVAILABLE ONLY (1) IN THE UNITED STATES TO INVESTORS WHO ARE QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR (2) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT (AND, IN THIS CASE, ONLY TO INVESTORS WHO, IF RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(1)(e) DIRECTIVE 2003/71/EC, AS AMENDED (THE "PROSPECTUS DIRECTIVE")).

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Company or the Managers (both as defined in the Prospectus) as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended only for you, and you agree you will not forward, reproduce, copy, download or publish this electronic transmission or the attached Prospectus (electronically or otherwise) to any other person.

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THERE WILL BE NO PUBLIC OFFERING OF THE SECURITIES IN THE UNITED STATES. THE SECURITIES WILL ONLY BE SOLD IN THE UNITED STATES TO PERSONS REASONABLY BELIEVED TO BE QIBs IN RELIANCE ON RULE 144A OF THE SECURITIES ACT.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation: By accepting electronic delivery of this document, you are deemed to have represented to Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A., Goldman Sachs International and J.P. Morgan Securities plc (the "**Joint Global Coordinators**"), BNP Paribas, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca S.p.A., Banco Santander, S.A. and UBS Limited (together with the Joint Global Coordinators, the "**Joint Bookrunners**"), Fidentiis Equities S.V. S.A., Banca IMI (Intesa Sanpaolo, S.p.A.), Mizuho

International plc, Nmás1 Capital Markets Sociedad de Valores, S.A., RBC Europe Limited (trading as RBC Capital Markets), Banco de Sabadell, S.A. and Société Générale (the "**Co-lead Managers**", and together with the Joint Bookrunners, the "**Managers**"), Telxius Telecom, S.A. (the "**Company**") and Telefónica, S.A. (the "**Selling Shareholder**") that (i) you are a QIB, (ii) you are acting on behalf of, or you are an institutional investor outside the United States (as defined in Regulation S under the Securities Act); (iii) if you are in the U.K., you are a relevant person; (iv) if you are in any member state of the European Economic Area other than the U.K., you are a Qualified Investor; (v) the securities acquired by you in the offer have not been acquired on a nondiscretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); and (vi) if you are outside the U.S., U.K. and EEA (and the electronic mail addresses that you gave the Company and to which this document has been delivered are not located in such jurisdictions) you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

This electronic transmission, the attached Prospectus and the offer, when made, are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), this document is only being distributed to, and is only directed at, Qualified Investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (ii) persons falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**relevant persons**") in compliance with section 21(1) of the Financial Services and Markets Act 2000.

This document must not be acted on or relied on (i) in the U.K., by persons who are not relevant persons, and (ii) in any member state of the EEA other than the U.K., by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) in the U.K., relevant persons, and (ii) in any member state of the EEA other than the U.K., Qualified Investors, and will be engaged in only with such persons.

This Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, Selling Shareholder, any Manager, or any of their respective affiliates, directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and any hard copy version. By accessing the linked or attached document, you consent to receiving it in electronic form.

A hard copy of the Prospectus will be made available to you only upon request.

You are reminded that this document has been made available to you solely on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person.

Restriction: Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

None of the Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the Company or the offer. The Managers and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this document.

The Managers are acting exclusively for the Company and Selling Shareholder and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

This document has been sent to you or accessed by you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Company, the Selling Shareholder, the Managers, or any of their respective affiliates, or any of their respective directors, officers, employees or agents, accepts any liability or responsibility whatsoever, whether arising in tort, contract or otherwise which they might have in respect of this electronic transmission, the document or the contents thereof, or in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you upon request. Please ensure that your copy is complete. You are responsible for protecting against viruses and other destructive items. Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

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Offering of up to 90,909,091 ordinary shares of

Telxius Telecom, S.A.

Offering Price Range: €12.00 to €15.00 per share

Telefónica, S.A. (the "**Selling Shareholder**" or "**Telefónica**") is offering up to 90,909,091 ordinary shares, with a nominal value of €1.00 per share (the "**Initial Offered Shares**"), of Telxius Telecom, S.A., a *sociedad anónima* incorporated under the laws of Spain (the "**Company**" or "**Telxius**") by way of an institutional offering to qualified institutional buyers in the United States and qualified investors in other jurisdictions outside the United States, including Spain (the "**Offering**").

The Selling Shareholder will grant the Joint Global Coordinators (as described below), acting on behalf of themselves and the other Managers (as described below) an option to purchase a number of additional shares of the Company up to 10% of the Initial Offered Shares (the "**Additional Shares**" and together with the Initial Offered Shares, the "**Offered Shares**") to cover over-allotments of shares in the Offering, if any (the "**Over-Allotment Option**"). The Over-allotment Option is exercisable by the Joint Global Coordinators, on behalf of the Managers, upon notice to the Selling Shareholder, only for the purpose of covering over-allotments (if any), at any time on or before the 30th calendar day after the commencement of trading of the Shares on the Spanish Stock Exchanges (as defined below).

The Company will not receive any proceeds from the sale of the Offered Shares.

Investing in the Offered Shares involves a degree of risk. See section "Risk Factors" beginning on page 37 for a discussion of certain matters that investors should consider prior to making an investment in the Offered Shares.

This document (the "**Prospectus**") constitutes a prospectus relating to the Company and its subsidiaries (together, the "**Group**") for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (as amended, the "**Prospectus Directive**"), its implementing measures in Spain and the Commission Regulation (EC) No 809/2004 (as amended, the "**Prospectus Regulation**") (together, the "**Prospectus Rules**"). This document has been prepared in connection with the Offering, in accordance with, and includes the information required by, Annexes I, II, III and XXII of the Prospectus Regulation in connection with the Offering and application for the admission to trading (the "**Admission**") of the shares to the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the "**Spanish Stock Exchanges**") which are regulated markets for the purposes of Directive 2004/39/EC (as amended, the "**Markets in Financial Instruments Directive**"). This Prospectus has been approved by the Spanish National Securities Market Regulator (*Comisión Nacional del Mercado de Valores*) (the "**CNMV**"), in its capacity as Spanish competent authority under Royal Legislative Decree 4/2015, of 23 October, approving the consolidated text of the Spanish Securities Market Act (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) ("**LMV**") and relevant implementing measures in Spain.

Prior to this Offering, there has been no public market for the Shares. The indicative non-binding offering price range at which the Offered Shares will be sold in the Offering is €12.00 and €15.00 per Offered Share (the "**Offering Price Range**"). The Offering Price Range has been determined based on negotiations between the Selling Shareholder and the Joint Global Coordinators and no independent experts have been consulted in determining the Offering Price Range. The price of the

Offered Shares (the "**Offering Price**") will be determined based on negotiations between the Selling Shareholder and the Joint Global Coordinators, upon the finalisation of the book-building period (expected to occur on or about 29 September 2016) and will be announced through the publication of a relevant fact disclosure (*hecho relevante*).

The Company has applied to have the Shares listed on the Spanish Stock Exchanges and to have the Shares quoted on the *Sistema de Interconexión Bursátil Español* (the "**SIBE**"). The Shares are expected to be listed on the Spanish Stock Exchanges and quoted on the SIBE or "*mercado continuo*" of the Spanish Stock Exchanges on or about 3 October 2016 under the symbol "TLX". The Initial Offered Shares are expected to be delivered through the book-entry facilities of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Sociedad Unipersonal ("**Iberclear**") and its participating entities on or about 4 October 2016.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Offered Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful. The Offered Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities authority of any state of the United States, and may not be offered, sold, pledged or otherwise transferred within the United States or to any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of, the Securities Act, and in compliance with any applicable state or local securities laws. The Offered Shares are being offered: (i) in the United States, only to persons reasonably believed to be qualified institutional buyers (each, a "**QIB**") as defined in and in reliance on Rule 144A under the Securities Act ("**Rule 144A**") and (ii) outside the United States, only in offshore transactions as defined in, and in reliance upon, Regulation S under the Securities Act ("**Regulation S**") and in this case, only to investors who, if resident in a member state of the European Economic Area (the "**EEA**"), are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive. This document is not to be treated as a "prospectus" for the purposes of Section 10 of the Securities Act. Prospective purchasers are hereby notified that the sellers of the Offered Shares may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For additional information about eligible offerees see section "*Transfer and Selling Restrictions*".

Joint Global Coordinators and Joint Bookrunners

Goldman Sachs International
J.P. Morgan
BBVA
CaixaBank

Joint Bookrunners

BNP PARIBAS
Citigroup
HSBC
Mediobanca
Banco Santander
UBS

Co-lead Managers

Fidentiis
Banca IMI
Mizuho
N+1
RBC Capital Markets
Banco Sabadell
Société Générale

The date of this Prospectus is 20 September 2016

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

YOU SHOULD READ THE ENTIRE PROSPECTUS AND, IN PARTICULAR, "RISK FACTORS" BEGINNING ON PAGE 37 OF THIS PROSPECTUS WHEN CONSIDERING AN INVESTMENT IN THE SHARES.

This document, including the financial information included herein, is in compliance with the Prospectus Rules, which comply with the provisions of the Prospectus Directive for the purpose of giving information with regard to the Company, the Selling Shareholder and the Shares. The Company and the undersigned, Mr. Alberto Manuel Horcajo Aguirre, in his capacity as Chief Executive Officer and Director of the Company and acting under a special power of attorney granted by the Board of Directors (whose members are listed on page 273 of this Prospectus (the "**Directors**")) and the sole shareholder of the Company by means of the resolutions dated 20 June 2016 and 13 June 2016, respectively, accepts responsibility for the information contained in this document. Having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

Mr. Alberto Manuel Horcajo Aguirre, acting for and on behalf of the Selling Shareholder, acting under a special power of attorney granted on 27 July 2016 by the board of directors of the Selling Shareholder, declares that the Selling Shareholder accepts responsibility for the information referred to the Selling Shareholder in sections "*The Offering*", "*Principal and Selling Shareholder*" and "*Plan of Distribution*". Having taken all reasonable care to ensure that such is the case, the information referred to the Selling Shareholder in sections "*The Offering*", "*Principal and Selling Shareholder*" and "*Plan of Distribution*" is, to the best of their knowledge, in accordance with the facts and contains no omissions likely to affect its import. None of Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A., Goldman Sachs International and J.P. Morgan Securities plc (together, the "**Joint Global Coordinators**"), BNP Paribas, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca S.p.A., Banco Santander, S.A. and UBS Limited (together with the Joint Global Coordinators, the "**Joint Bookrunners**"), Fidentiis Equities S.V. S.A., Banca IMI (Intesa Sanpaolo, S.p.A.), Mizuho International plc, Nmás1 Capital Markets Sociedad de Valores, S.A., RBC Europe Limited (trading as RBC Capital Markets) and Banco de Sabadell, S.A. (the "**Co-lead Managers**", and together with the Joint Bookrunners, the "**Managers**"), or their respective affiliates make any representation or warranty, express or implied, nor accept any responsibility whatsoever with respect to the content of this document, including the accuracy or completeness or verification of any of the information in this document. This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Managers that any recipient of this document should purchase the Offered Shares. Each purchaser of Offered Shares should determine for itself the relevance of the information contained in this document, and its purchase of Offered Shares should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such investor in connection with the subscription for or purchase of the Offered Shares.

This document does not constitute an offer to the public generally to subscribe for or purchase or otherwise acquire the Offered Shares. In making an investment decision regarding the Offered Shares, an investor must rely on its own examination of the Company and the terms of the Offering, including the merits and risks involved. Investors should rely only on the information contained in this document. None of the Company, the Selling Shareholder or the Managers has authorised any other person to provide investors with different information. If anyone provides any investor with different or inconsistent information, such investor should not rely on it. Investors should assume that the information appearing in this document is accurate only as of its date. The Company's business, results of operations, financial condition and prospects and the information set forth in this document may have changed since the date of this document.

Notwithstanding the foregoing, the Company is required to issue a supplementary prospectus in respect of any significant new factor, material mistake or inaccuracy relating to the information included in this document which is capable of affecting the assessment of Shares and which arises or is noted between the date hereof and the Admission, in accordance with Article 22 of Spanish Royal Decree 1310/2005, of 4 November (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*).

The contents of the website of the Company (http://www.telxius.com) do not form any part of this document.

Investors should not consider any information in this document to be investment, legal or tax advice. An investor should consult its own legal counsel, financial adviser, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing the Offered Shares. None of the Company, the Selling Shareholder or the Managers or their respective affiliates, makes any representation or warranty to any offeree or purchaser of the Shares regarding the legality of an investment in the Offered Shares by such offeree or purchaser under appropriate investment or similar laws.

Each Manager that is regulated in the United Kingdom by the Financial Conduct Authority is acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering. Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers under the Spanish Securities Markets Act or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with the Company or the Shares. Each of the Managers accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this document to the Shares being sold, offered or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of their respective affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Selling Shareholder may withdraw the Offering at any time before the setting of the Offering Price, and the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the Offered Shares, in whole or in part, and to sell to any investor less than the full amount of the Offered Shares sought by such investor. For more information on the withdrawal and revocation of the Offering, see section "*Plan of Distribution—Withdrawal and Revocation of the Offering*".

This document does not constitute or form part of an offer to sell, or a solicitation of an offer to purchase, any security other than the Offered Shares. The distribution of this document and the offer and sale of the Offered Shares may be restricted by law in certain jurisdictions. Any investor must inform themselves about, and observe any such restrictions. See section "*Transfer and Selling Restrictions*" elsewhere in this document. Any investor must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Offered Shares or possesses or distributes this document and must obtain any consent, approval or permission required for its subscription for, purchase, offer or sale of Offered Shares under the laws and regulations in force in any jurisdiction to which such investor is subject or in which such investor makes such subscriptions, purchases, offers or sales. None of the Company, the Selling Shareholder or the Managers is making an offer to sell Offered Shares or a solicitation of an offer to buy any Offered Shares to any person in any jurisdiction except where such an offer or solicitation is permitted or accepts any legal responsibility for any violation by any person, whether or not an investor, or applicable restrictions.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be sold within the United States, except to persons reasonably believed to be QIBs, or outside the United States, except in offshore transactions in compliance with Regulation S. Investors are hereby notified that sellers of the Shares may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A. None of the U.S. Securities and Exchange Commission, any other U.S. federal or state securities commission or any U.S. regulatory authority has approved or disapproved of the Shares referred to in this Prospectus nor have such authorities reviewed or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. Investors are cautioned that this Prospectus is not a "prospectus" within the meaning of Section 10 of the Securities Act. For a discussion of certain restrictions on transfers of the Shares in other jurisdictions, see section "*Transfer and Selling Restrictions*".

In connection with the Offering, J.P. Morgan Securities plc, or any of its agents, as stabilisation manager (the "**Stabilisation Manager**"), acting on behalf of itself and the other Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage over-allot or effect transactions in Shares or effect transactions in any over the counter market or otherwise, with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Any stabilisation transactions shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as regards exemptions for buy-back programmes and stabilisation of financial instruments.

The stabilisation transactions will be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of the Shares on the Spanish Stock Exchanges, provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The stabilisation period is expected to commence on 3 October 2016 and end on 3 November 2016 (the "**Stabilisation Period**").

For this purpose, the Stabilisation Manager may carry out an over-allotment of Shares in the Offering, which may be covered by the Stabilisation Manager pursuant to a security loan granted by the Selling Shareholder. The Stabilisation Manager is not required to enter into such transactions and such transactions may be effected on a regulated market and may be taken at any time during the Stabilisation Period. However, there is no obligation on the Stabilisation Manager or any of its agents to effect stabilisation transactions and there is no assurance that stabilisation transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice, without prejudice to the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse. In no event will measures be taken to stabilise the market price of the Shares above the Offering Price. In accordance with Article 5.5 of Commission Regulation (EU) No. 596/2014 of 16 April 2014, the details of all stabilisation transactions will be notified by the Stabilisation Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilisation transactions.

Additionally, in accordance with Article 5.4 and 5.5 of Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, the following information will be disclosed to the CNMV by the Stabilisation Manager within one week of the end of the Stabilisation Period: (i) whether or not stabilisation transactions were undertaken; (ii) the date at which stabilisation transactions started; (iii) the date at which stabilisation transactions last occurred; and (iv) the price range within which the stabilisation transaction was carried out, for each of the dates during which stabilisation transactions were carried out.

For the purposes of this document, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in each relevant member state of the European Economic Area.

NOTICE TO UNITED STATES INVESTORS

THE SHARES HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THE OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO UNITED KINGDOM AND OTHER EUROPEAN ECONOMIC AREA INVESTORS

This Prospectus and the Offering are only addressed to and directed at persons in member states of the EEA who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any relevant implementing measure in each relevant member state of the EEA). In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at Qualified Investors who are (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) or (2) persons falling within Article 49(2)(a)-(d) of the Order (all such persons together being referred to as “**Relevant Persons**”). The Shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

Any person making or intending to make any offer within the EEA of the Shares should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder, or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholder or the Managers has authorised or authorises the making of any offer of the Offered Shares through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Shares contemplated in this document.

NOTICE TO PROSPECTIVE INVESTORS IN CERTAIN OTHER COUNTRIES

For information to investors in certain other countries, see section “*Transfer and Selling Restrictions*”.

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SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and company, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of 'not applicable'.

Terms in capital letters and acronyms used in this summary are defined in section "Certain Terms and Conventions" of the Prospectus.

SECTION A- INTRODUCTION AND WARNINGS		
A.1	**Warning to investors**	This summary should be read as an introduction to the present Prospectus. Any decision to invest in the shares of Telxius Telecom, S.A. (the "**Shares**" and the "**Company**", respectively) should be based on the consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, a plaintiff investor may, under the national legislation of the member state of the European Economic Area, have to bear the costs of translating the Prospectus before legal proceedings are initiated. Civil liability attaches only to those who have tabled this summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether or not to invest in the Shares.
A.2	**Information on financial intermediaries**	Not applicable. No consent has been given by the Company or any person responsible for drawing up this Prospectus to use this Prospectus for subsequent sale or placement of securities by financial intermediaries.

SECTION B- COMPANY		
B.1	**Legal and commercial name**	The legal name of the Company is Telxius Telecom, S.A. and the global brand name of the Company and its subsidiaries ("**Telxius**" or the "**Group**") is Telxius.

<table>
<tr>
<td>B.2</td>
<td>Domicile/legal form/legislation /country of incorporation</td>
<td>The Company is a public limited company (<i>sociedad anónima</i>) incorporated in and subject to the laws of the Kingdom of Spain. The Company’s registered office is Distrito Telefónica, Ronda de la Comunicación, s/n, 28050, Madrid.</td>
</tr>
<tr>
<td>B.3</td>
<td>Current operations/ principal activities and markets</td>
<td>The Company holds a unique asset portfolio comprised of a combination of submarine fibre-optic cables and telecommunication towers. These two types of infrastructures comprise Telxius’ current business segments: the Cable Segment and the Tower Segment.

Through its Cable Segment, Telxius provides whole Internet access to its customers worldwide via Telxius’ submarine infrastructure and international circuits, with over 65,000 km of worldwide fibre-optic lines (approximately 31,265 km of which are owned submarine cables).

The Cable Segment offers two primary products: IP and Capacity services.

• IP services are wholesale internet access (e.g., IP peering, IP transit) sold to carriers and OTTs (i.e., Over-The-Top, which include content providers and content delivery networks) provided on a best effort basis and charged by customer type. Carriers typically need Internet transit to provide full Internet access to their end users, while OTTs need Internet access to deliver the content to the end users of a certain carrier. The service is built on both transmission and routing equipment.

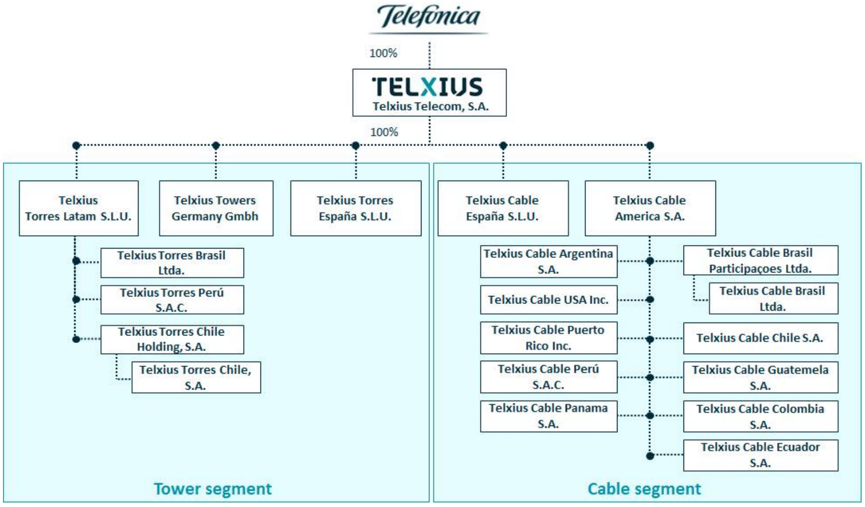
• Capacity services provide wholesale point-to-point dedicated bandwidth in the cable to end customers such as carriers and large OTTs. Capacity services can be sold under different agreements (e.g., leases, IRUs). In this type of services only transmission equipment is involved.

The table below shows the main characteristics of Telxius’ cable network:

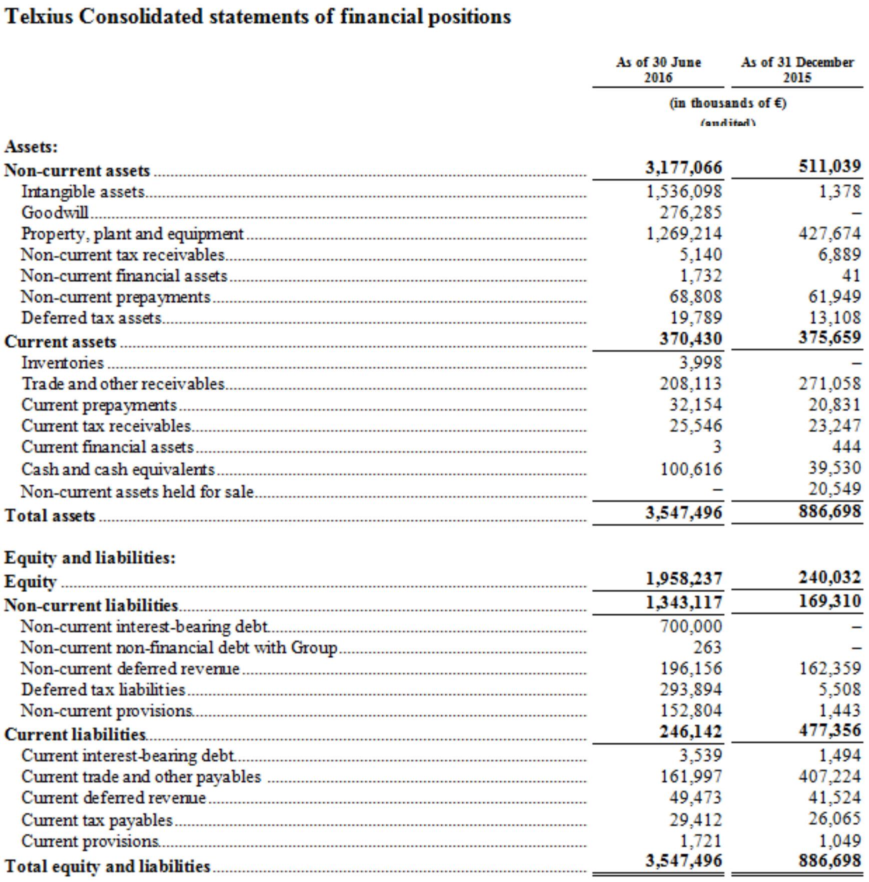
<table>
<tr><th>Cable
(65,000 km)</th><th>Geographical area</th><th>Entrance into service</th><th>Operator</th><th>Type of ownership</th><th>Potential capacity</th></tr>
<tr><td>SAM-1 (25,000 km)</td><td>Florida, Puerto Rico, Brazil, Argentina, Chile, Peru, Ecuador, Colombia, Guatemala.</td><td>2001</td><td>Telxius</td><td>Owned by Telxius</td><td>19.2 Tbps</td></tr>
<tr><td>PCCS (6,000 km)</td><td>Ecuador, Panama, Colombia, Curaçao, Tortola, Puerto Rico, Florida, Aruba.</td><td>2015</td><td>Telxius</td><td>Consortium. Telxius holds 29.1%.</td><td>80 Tbps</td></tr>
<tr><td>Unisur (265 km)</td><td>Argentina, Uruguay.</td><td>1995</td><td>Telxius</td><td>Ownership shared with Antel Uruguay. Telxius holds 50%.</td><td>2 Tbps</td></tr>
<tr><td>Other submarine cables</td><td>USA, Europe.</td><td>N/A</td><td>Multivendor</td><td>Leased by Telxius</td><td>N/A</td></tr>
<tr><td>Terrestrial links</td><td>USA, Brazil, Argentina, Chile, Peru, Ecuador, Guatemala, Colombia, Panama, Europe.</td><td>N/A</td><td>Multivendor</td><td>Leased by Telxius</td><td>N/A</td></tr>
</table>

With respect to its Tower Segment, Telxius offers co-location of space on multi-tenant telecommunication towers mainly to mobile network operators (MNOs), both to Telefónica Group companies and to third parties, through its portfolio of telecommunication towers.</td>
</tr>
</table>

<table>
<tr><td></td><td></td><td>
<p>With approximately 16,000 towers in Spain, Germany and Latin America (Brazil, Peru and Chile), Telxius has one of the largest tower portfolios among independent tower companies (source: listed companies' information, TeleGeography). Telxius owns and manages the tower passive infrastructure (i.e. tower base, tower / mast, shelters, and ground / rooftop space), while the tower active infrastructure is owned and managed by the tenants (i.e. MNOs).</p>
<p>The table below shows the main characteristics of Telxius' tower business:</p>
<table>
<tr><th></th><th></th><th colspan="2">Type (%)[1]</th><th colspan="2">Location (%)</th><th colspan="5">Tenancy (%)</th><th colspan="2">Height (%)</th></tr>
<tr><th>Country of Towers</th><th>Total No.</th><th>Rooftop</th><th>Greenfield</th><th>Urban[1]</th><th>Rural</th><th>1</th><th>2</th><th>3</th><th>4</th><th>Tenancy ratio</th><th>&lt;30 m</th><th>&gt;30 m</th></tr>
<tr><td>Spain</td><td>10,741</td><td>40</td><td>60</td><td>40</td><td>60</td><td>81</td><td>14</td><td>4</td><td>1</td><td>1.24</td><td>64</td><td>36</td></tr>
<tr><td>Germany</td><td>2,359</td><td>0</td><td>100</td><td>16</td><td>84</td><td>69</td><td>19</td><td>8</td><td>4</td><td>1.37</td><td>35</td><td>65</td></tr>
<tr><td>Brazil</td><td>1,655</td><td>3</td><td>97</td><td>62</td><td>38</td><td>61</td><td>27</td><td>9</td><td>3</td><td>1.55</td><td>23</td><td>77</td></tr>
<tr><td>Peru</td><td>849</td><td>37</td><td>63</td><td>73</td><td>27</td><td>100</td><td>0</td><td>0</td><td>0</td><td>1</td><td>73</td><td>27</td></tr>
<tr><td>Chile</td><td>327</td><td>4</td><td>96</td><td>59</td><td>41</td><td>80</td><td>15</td><td>4</td><td>1</td><td>1.13</td><td>59</td><td>41</td></tr>
<tr><td>Total</td><td>15,931</td><td>32</td><td>68</td><td>41</td><td>59</td><td>78</td><td>15</td><td>5</td><td>2</td><td>1.28</td><td>56</td><td>44</td></tr>
</table>
<p>(1) The criteria the Company uses to determine if a site is located in urban or rural area varies depending on the country, as follows:</p>
<table>
<tr><th>Country:</th><th>Criteria:</th></tr>
<tr><td>Spain</td><td>Urban if located in municipality over &gt;25,000 inhabitants</td></tr>
<tr><td>Germany and Brazil</td><td>Depending on the distance between the site and the nearest building</td></tr>
<tr><td>Peru</td><td>According to INEI's (<i>Instituto Nacional de Estadística e Informática</i>) definition of rural/urban areas</td></tr>
<tr><td>Chile</td><td>According to regulatory definition of rural/urban areas</td></tr>
</table>
<p>For the six-month period ended 30 June 2016 and the year ended 31 December 2015, the Company's pro forma consolidated revenues amounted to €338,484 thousand and to €691,039 thousand, respectively, approximately 58% and 57% of which were generated by the Cable Segment and approximately 42% and 43% of which were generated by the Tower Segment.</p>
</td></tr>
<tr><td>B.4</td><td>Significant recent trends affecting the Group and the industries in which it operates</td><td>The Company is not aware of any significant recent trends influencing Telxius and the industry in which it operates, notwithstanding the risk factors described elsewhere in this Summary.</td></tr>
<tr><td>B.5</td><td>Group structure</td><td>The following table shows the Company and its material subsidiaries prior to the Offering:</td></tr>
</table>

		 Telefónica 100% TELXIUS Telxius Telecom, S.A. 100% Telxius Torres Latam S.L.U. Telxius Towers Germany Gmbh Telxius Torres España S.L.U. Telxius Cable España S.L.U. Telxius Cable America S.A. Telxius Torres Brasil Ltda. Telxius Torres Perú S.A.C. Telxius Torres Chile Holding, S.A. Telxius Torres Chile, S.A. Telxius Cable Argentina S.A. Telxius Cable USA Inc. Telxius Cable Puerto Rico Inc. Telxius Cable Perú S.A.C. Telxius Cable Panama S.A. Telxius Cable Brasil Participaçoes Ltda. Telxius Cable Brasil Ltda. Telxius Cable Chile S.A. Telxius Cable Guatemela S.A. Telxius Cable Colombia S.A. Telxius Cable Ecuador S.A. Tower segment Cable segment Note: As of the date of this Prospectus some of the companies above are in the process of changing their corporate names. The chart above shows the expected corporate names after such processes have finalised.
B.6	**Selling Shareholder**	As of the date of this Prospectus, Telefónica, S.A. is the sole shareholder of the Company. After the Offering, the Selling Shareholder is currently expected to hold 159,090,909 Shares, representing 63.64% of the total issued ordinary share capital of the Company, assuming no exercise of the Over-Allotment Option, and 150,000,000 Shares, representing 60.00% of the total issued ordinary share capital of the Company, assuming full exercise of the Over-Allotment Option.
B.7	**Summary of historical key financial information**	The following tables present (i) selected financial information of the Company consisting of the audited consolidated statements of financial positions of Telxius as of 30 June 2016 and as of 31 December 2015, and the consolidated income statement and consolidated cash flow statement for the six-month periods ended 30 June 2016 (audited) and 2015 (unaudited), and (ii) selected financial information of Telefónica International Wholesale Services América, S.A (“**TIWS América**”) consisting of the audited consolidated statements of financial positions of TIWS América as of 31 December 2015 and 2014 (and for the consolidated statements of financial position unaudited data as of 1 January 2014) and the audited consolidated income statement and consolidated cash flow statement for the years ended 31 December 2015 and 2014. The selected financial information of the Company mentioned in point (i) in the paragraph above is derived from the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, which are prepared in accordance with EU-IFRS and which are included elsewhere in this Prospectus. The selected financial information of Telefónica International Wholesale Services América, S.A. (TIWS América) mentioned in

point (ii) of the first paragraph above is derived from the 2015 Audited Consolidated TIWS América Financial Statements, which are prepared in accordance with EU-IFRS and which are also included elsewhere in this Prospectus. Financial information regarding Telefónica International Wholesale Services América, S.A. is included in this Prospectus because for accounting purposes this company was considered to be the "acquiring entity" in the Reorganisation and because it comprises a significant part of the Cable Segment.



Telxius Consolidated statements of financial positions

	As of 30 June 2016	As of 31 December 2015
	(in thousands of €) (audited)	
Assets:		
Non-current assets	**3,177,066**	**511,039**
Intangible assets	1,536,098	1,378
Goodwill	276,285	–
Property, plant and equipment	1,269,214	427,674
Non-current tax receivables	5,140	6,889
Non-current financial assets	1,732	41
Non-current prepayments	68,808	61,949
Deferred tax assets	19,789	13,108
Current assets	**370,430**	**375,659**
Inventories	3,998	–
Trade and other receivables	208,113	271,058
Current prepayments	32,154	20,831
Current tax receivables	25,546	23,247
Current financial assets	3	444
Cash and cash equivalents	100,616	39,530
Non-current assets held for sale	–	20,549
Total assets	**3,547,496**	**886,698**
Equity and liabilities:		
Equity	**1,958,237**	**240,032**
Non-current liabilities	**1,343,117**	**169,310**
Non-current interest-bearing debt	700,000	–
Non-current non-financial debt with Group	263	–
Non-current deferred revenue	196,156	162,359
Deferred tax liabilities	293,894	5,508
Non-current provisions	152,804	1,443
Current liabilities	**246,142**	**477,356**
Current interest-bearing debt	3,539	1,494
Current trade and other payables	161,997	407,224
Current deferred revenue	49,473	41,524
Current tax payables	29,412	26,065
Current provisions	1,721	1,049
Total equity and liabilities	**3,547,496**	**886,698**

Telxius Consolidated Income Statement

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Revenue	243,041	177,199
Other operative income	3,332	129
Other income	11,942	–
Supplies	(49,154)	(47,619)
Personnel expenses	(8,626)	(6,746)
Other expenses	(66,041)	(18,618)
Operating income before depreciation and amortization (OIBDA)	**134,494**	**104,345**
Depreciation and amortization	(66,496)	(29,692)
Operating income	**67,998**	**74,653**
Finance income	1,193	717
Exchange gains	5,363	–
Finance expense	(3,293)	(978)
Exchange losses	–	(1,819)
Net financial result	**3,263**	**(2,080)**
Profit before tax	**71,261**	**72,573**
Corporate income tax	(13,938)	(9,435)
Profit for the period from continuing operations	57,323	63,138
Loss after tax for the period from discontinued operations	(45,170)	(50,793)
Result for the period	**12,153**	**12,345**

Telxius Consolidated Cash Flow Statement

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Cash flow provided by operating activities:		
Cash received from customers	259,081	144,384
Cash paid to suppliers and employees	(99,339)	(64,574)
Taxes paid	(6,148)	(5,361)
Net interest (paid)/received	(4,123)	1,478
Net cash flow provided by continuing operations	**149,471**	**75,927**
Net cash flow from discontinued operations	(37,663)	(48,683)
Net cash flow provided by operating activities	**111,808**	**27,244**
Cash flow used in investing activities:		
Payments on investments in property, plant and equipment and intangible assets	(75,072)	(28,231)
Payments on investments in companies, net of cash and cash equivalent acquired	(2,652,750)	–
Cash received from disinvestments in property, plant and equipment and intangible assets	84	–
Cash received from financial investments not included in cash equivalents	2,762	–
Government grants received	7	–
Net cash flow used in investing activities from continuing operations	**(2,724,969)**	**(28,231)**
Net cash flow used in investing activities from continuing operations	19,258	
Net cash flow used in investing activities	**(2,705,711)**	**(28,231)**
Cash flow provided by/(used in) financing activities:		
Proceeds of treasury and other operation with stakeholder	1,951,549	–
Proceeds on issue of debentures and bonds, and other debt	1,903,433	–
Loans, credits and promissory notes prepayments	(1,201,774)	–
Net cash flow provided by/(used in) financing activities from continuing operations	**2,653,208**	–
Net cash flow provided by/(used in) financing activities	**2,653,208**	–
Effect of changes in exchange rates	**1,781**	**3,275**
Net increase (decrease) in cash and cash equivalents during the period	**61,086**	**2,288**
Cash and cash equivalents balance at 1 January	**39,530**	**36,707**
Cash and cash equivalents balance at 30 June	**100,616**	**38,995**

TIWS América Consolidated statements of financial positions

	As of 31 December		As of 1 January
	2015	2014	2014
		(in thousands of €)	
	(audited)		(unaudited)
Assets:			
Non-current assets	**511,039**	**478,887**	**418,614**
Intangible assets	1,378	1,955	2,478
Property, plant and equipment	427,674	403,259	350,099
Non-current tax receivables	6,889	5,522	4,956
Non-current financial assets	41	137	105
Non-current prepayments	61,949	56,274	50,315
Deferred tax assets	13,108	11,740	10,661
Current assets	**375,659**	**298,243**	**246,583**
Trade and other receivables	271,058	229,666	178,106
Current prepayments	20,831	18,996	13,514
Tax receivables	23,247	12,532	8,535
Current financial assets	444	342	45
Cash and cash equivalents	39,530	36,707	46,383
Non-current assets held for sale	20,549	—	—
Total assets	**886,698**	**777,130**	**665,197**
Equity and liabilities:			
Equity	**240,032**	**239,443**	**231,315**
Non-current liabilities	**169,310**	**156,146**	**126,790**
Non-current deferred revenue	162,359	149,469	119,491
Deferred tax liabilities	5,508	5,354	5,718
Non-current provisions	1,443	1,323	1,581
Current liabilities	**477,356**	**381,541**	**307,092**
Current interest-bearing debt	1,494	97	418
Current trade and other payables	407,224	319,850	228,456
Current deferred revenue	41,524	46,129	52,346
Current tax payables	26,065	14,538	20,666
Current provisions	1,049	927	5,206
Total equity and liabilities	**886,698**	**777,130**	**665,197**

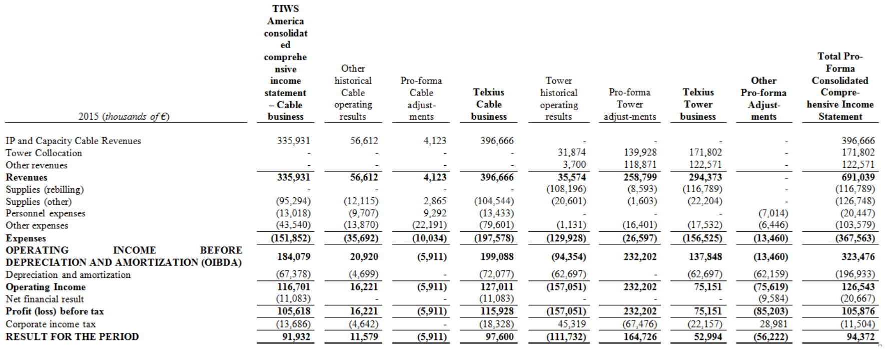
TIWS América Consolidated Income Statement

	For the year ended 31 December	
	2015	2014
	(in thousands of €)	
	(audited)	
Income statements:		
Revenues	334,935	269,155
Other operative income	996	1,439
Supplies	(95,294)	(85,017)
Personnel expenses	(13,018)	(12,251)
Other expenses	(43,540)	(39,694)
Operating income before depreciation and amortization (OIBDA)	**184,079**	**133,632**
Depreciation and amortization	(67,378)	(52,739)
Operating income	**116,701**	**80,893**
Finance income	2,413	1,809
Exchange gains	1,965	1,389
Finance costs	(3,391)	(2,636)
Exchange losses	(12,070)	(3,711)
Net financial result	**(11,083)**	**(3,149)**
Profit before tax	**105,618**	**77,744**
Corporate income tax	(13,686)	(10,429)
Profit after tax from continuing operations	91,932	67,315
Loss after tax from discontinued operations	(118,352)	(88,850)
Result for the year	**(26,420)**	**(21,535)**

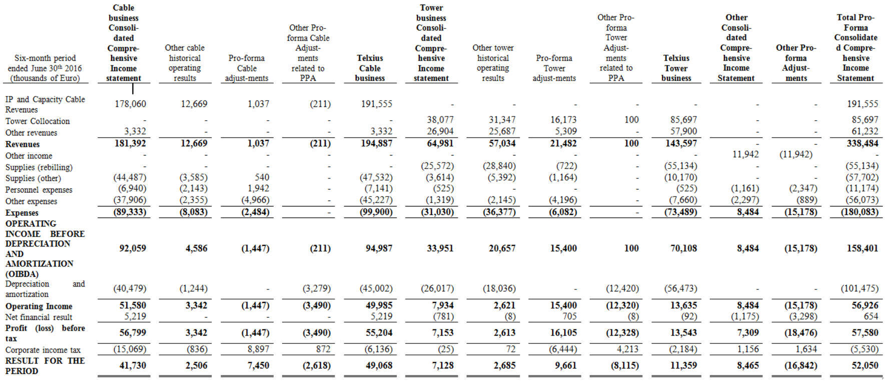
TIWS América Consolidated Cash Flow Statement

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
Cash flow provided by operating activities:		
Cash received from customers	310,229	248,305
Cash paid to suppliers and employees	(141,131)	(138,467)
Taxes paid	(8,094)	(6,006)
Net interest paid	1,470	(1,417)
Net cash flow provided by operating activities from continuing operations	**162,474**	**102,415**
Net cash flow provided by operating activities from discontinued operations	(112,191)	(85,821)
Net cash flow provided by operating activities	**50,283**	**16,594**
Cash flow used in investing activities:		
Proceeds on disposals of property, plant and equipment and intangible assets	—	8
Payments on investments in property, plant and equipment and intangible assets	(44,442)	(24,297)
Net cash flow used in investing activities from continuing operations	**(44,442)**	**(24,289)**
Net cash flow used in investing activities from discontinued operations	(6,816)	(6,154)
Net cash flow used in investing activities	**(51,258)**	**(30,443)**
Cash flow provided by/(used in) financing activities:		
Proceeds on issue of debentures and bonds, and other debts	437	—
Cancellation of debentures and bonds, and other debts	(437)	—
Net cash provided by/(used in) financing activities from continuing operations	—	—
Net cash provided by/(used in) in financing activities	—	—
Effect of changes in exchange rates	**3,798**	**4,173**
Net increase (decrease) in cash and cash equivalents during the year	**2,823**	**(9,676)**
Cash and cash equivalents at 1 January	**36,707**	**46,383**
Cash and cash equivalents at 31 December	**39,530**	**36,707**

B.8	**Selected key pro forma consolidated financial information**	The Company presents in this Prospectus Pro Forma Consolidated Financial Information consisting of the pro forma consolidated income statements of the Company for the six-month period ended 30 June 2016 and for the year ended 31 December 2015, which have been derived from, and should be read in conjunction with the 1H 2016 Audited Consolidated Telxius Interim Financial Statements of the Company and the 2015 Audited Consolidated TIWS América Financial Statements. The Company has included the Pro Forma Consolidated Financial Information to illustrate on a pro forma basis the impact on its consolidated income statements for the six-month period ended 30 June 2016 and for the year ended 31 December 2015 of the transactions described therein as if they had occurred on 1 January 2015. The Pro Forma Consolidated Financial Information is presented solely for illustrative purposes and reflects estimates and certain assumptions made by the Company's management, considered to be reasonable under the circumstances and information existing as of the date of preparation of such Pro Forma Consolidated Financial Information.



2015 (*thousands of €*)	**TIWS America consolidated comprehensive income statement – Cable business**	Other historical Cable operating results	Pro-forma Cable adjust-ments	**Telxius Cable business**	Tower historical operating results	Pro-forma Tower adjust-ments	**Telxius Tower business**	**Other Pro-forma Adjust-ments**	**Total Pro-Forma Consolidated Compre-hensive Income Statement**
IP and Capacity Cable Revenues	335,931	56,612	4,123	396,666	-	-	-	-	396,666
Tower Collocation	-	-	-	-	31,874	139,928	171,802	-	171,802
Other revenues	-	-	-	-	3,700	118,871	122,571	-	122,571
Revenues	**335,931**	**56,612**	**4,123**	**396,666**	**35,574**	**258,799**	**294,373**	-	**691,039**
Supplies (rebilling)	-	-	-	-	(108,196)	(8,593)	(116,789)	-	(116,789)
Supplies (other)	(95,294)	(12,115)	2,865	(104,544)	(20,601)	(1,603)	(22,204)	-	(126,748)
Personnel expenses	(13,018)	(9,707)	9,292	(13,433)	-	-	-	(7,014)	(20,447)
Other expenses	(43,540)	(13,870)	(22,191)	(79,601)	(1,131)	(16,401)	(17,532)	(6,446)	(103,579)
Expenses	**(151,852)**	**(35,692)**	**(10,034)**	**(197,578)**	**(129,928)**	**(26,597)**	**(156,525)**	**(13,460)**	**(367,563)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**184,079**	**20,920**	**(5,911)**	**199,088**	**(94,354)**	**232,202**	**137,848**	**(13,460)**	**323,476**
Depreciation and amortization	(67,378)	(4,699)	-	(72,077)	(62,697)	-	(62,697)	(62,159)	(196,933)
Operating Income	**116,701**	**16,221**	**(5,911)**	**127,011**	**(157,051)**	**232,202**	**75,151**	**(75,619)**	**126,543**
Net financial result	(11,083)	-	-	(11,083)	-	-	-	(9,584)	(20,667)
Profit (loss) before tax	**105,618**	**16,221**	**(5,911)**	**115,928**	**(157,051)**	**232,202**	**75,151**	**(85,203)**	**105,876**
Corporate income tax	(13,686)	(4,642)	-	(18,328)	45,319	(67,476)	(22,157)	28,981	(11,504)
RESULT FOR THE PERIOD	**91,932**	**11,579**	**(5,911)**	**97,600**	**(111,732)**	**164,726**	**52,994**	**(56,222)**	**94,372**



Six-month period ended June 30th 2016 (thousands of Euro)	**Cable business Consoli-dated Compre-hensive Income statement**	Other cable historical operating results	Pro-forma Cable adjust-ments	Other Pro-forma Cable Adjust-ments related to PPA	**Telxius Cable business**	**Tower business Consoli-dated Compre-hensive Income statement**	Other tower historical operating results	Pro-forma Tower adjust-ments	Other Pro-forma Tower Adjust-ments related to PPA	**Telxius Tower business**	**Other Consoli-dated Compre-hensive Income Statement**	**Other Pro-forma Adjust-ments**	**Total Pro-Forma Consolidated Compre-hensive Income Statement**
IP and Capacity Cable Revenues	178,060	12,669	1,037	(211)	191,555	-	-	-	-	-	-	-	191,555
Tower Collocation	-	-	-	-	-	38,077	31,347	16,173	100	85,697	-	-	85,697
Other revenues	3,332	-	-	-	3,332	26,904	25,687	5,309	-	57,900	-	-	61,232
Revenues	**181,392**	**12,669**	**1,037**	**(211)**	**194,887**	**64,981**	**57,034**	**21,482**	**100**	**143,597**	-	-	**338,484**
Other income	-	-	-	-	-	-	-	-	-	-	11,942	(11,942)	-
Supplies (rebilling)	-	-	-	-	-	(25,572)	(28,840)	(722)	-	(55,134)	-	-	(55,134)
Supplies (other)	(44,487)	(3,585)	540	-	(47,532)	(3,614)	(5,392)	(1,164)	-	(10,170)	-	-	(57,702)
Personnel expenses	(6,940)	(2,143)	1,942	-	(7,141)	(525)	-	-	-	(525)	(1,161)	(2,347)	(11,174)
Other expenses	(37,906)	(2,355)	(4,966)	-	(45,227)	(1,319)	(2,145)	(4,196)	-	(7,660)	(2,297)	(889)	(56,073)
Expenses	**(89,333)**	**(8,083)**	**(2,484)**	-	**(99,900)**	**(31,030)**	**(36,377)**	**(6,082)**	-	**(73,489)**	**8,484**	**(15,178)**	**(180,083)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**92,059**	**4,586**	**(1,447)**	**(211)**	**94,987**	**33,951**	**20,657**	**15,400**	**100**	**70,108**	**8,484**	**(15,178)**	**158,401**
Depreciation and amortization	(40,479)	(1,244)	-	(3,279)	(45,002)	(26,017)	(18,036)	-	(12,420)	(56,473)	-	-	(101,475)
Operating Income	**51,580**	**3,342**	**(1,447)**	**(3,490)**	**49,985**	**7,934**	**2,621**	**15,400**	**(12,320)**	**13,635**	**8,484**	**(15,178)**	**56,926**
Net financial result	5,219	-	-	-	5,219	(781)	(8)	705	(8)	(92)	(1,175)	(3,298)	654
Profit (loss) before tax	**56,799**	**3,342**	**(1,447)**	**(3,490)**	**55,204**	**7,153**	**2,613**	**16,105**	**(12,328)**	**13,543**	**7,309**	**(18,476)**	**57,580**
Corporate income tax	(15,069)	(836)	8,897	872	(6,136)	(25)	72	(6,444)	4,213	(2,184)	1,156	1,634	(5,530)
RESULT FOR THE PERIOD	**41,730**	**2,506**	**7,450**	**(2,618)**	**49,068**	**7,128**	**2,685**	**9,661**	**(8,115)**	**11,359**	**8,465**	**(16,842)**	**52,050**

B.9	**Profit forecast or estimates**	Not applicable. This Prospectus does not contain profit forecasts or estimates.
B.10	**Qualifications in the audit report on historical information**	The respective audit reports corresponding to the 2015 Audited Consolidated TIWS América Financial Statements and the 1H 2016 Audited Consolidated Telxius Interim Financial Statements issued by Ernst & Young, S.L. are unqualified. Notwithstanding the above, the auditor points as a matter of emphasis (*párrafo de énfasis*) that the 1H 2016 Audited Consolidated Telxius Interim Financial Statements do not include all the information required for complete consolidated financial statements prepared in accordance with the International Financial Reporting Standards, as adopted by the EU, and therefore, the 1H 2016 Audited Consolidated Telxius Interim Financial Statements shall be read in conjunction with the 2015 Audited Consolidated TIWS América Financial Statements.
B.11	**If the issuer's working capital is not sufficient for its present requirements, an explanation should be included**	Not applicable. In the opinion of the Company, the working capital available to the Company is sufficient for the Company's present requirements and, in particular, is sufficient for at least the next 12 months from the date of this Prospectus. This will continue to be the case immediately following completion of the Offering.

SECTION C- SECURITIES		
C.1	**Description of class of the securities**	The Offering will initially be of up to 90,909,091 ordinary shares, with a nominal value of €1.00 per share, representing 36.36% of the total issued ordinary share capital of the Company (the "**Initial Offered Shares**"). This amount may be increased in case of exercise of the Over-Allotment Option up to 9,090,909 ordinary shares, with a nominal value of €1.00 per share, representing 3.64% of the total issued ordinary share capital of the Company (this is, up to 10% of the Initial Offered Shares). All the Shares are owned by Selling Shareholder and no newly-issued shares will be offered in the context of the Offering. The Shares have the ISIN code ES0105146007, allocated by the Spanish National Agency for the Codification of Securities (*Agencia Nacional de Codificación de Valores Mobiliarios*), an entity dependent upon the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*, the "**CNMV**"). It is expected that the Shares will be traded on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and quoted on the SIBE under the ticker symbol "TLX".
C.2	**Currency of the securities issue**	The Shares are denominated in euro.
C.3	**Number of issued and fully paid-up shares**	There is only one class of shares in the Company and each Share entitles its holder to one vote. As of the date of this Prospectus, there are 250,000,000 Shares of €1.00 nominal value each in issue, represented by book-entry interests. All Shares are fully subscribed and paid-up.
C.4	**Rights attached to the shares**	The Shares rank *pari passu* in all respects with each other, including for voting purposes and for all distributions of the Company's profits and proceeds from liquidation. The Shares grant their owners the rights set forth in the bylaws and under Spanish corporate law, such as, among others, (i) the rights to attend General Shareholders' Meetings of the Company with the right to speak and vote, (ii) the right to dividends proportional to their paid-up shareholding in the Company, (iii) the pre-emptive right to subscribe for newly-issued ordinary shares (including convertible bonds and capital increases with share bonus) with cash contributions, and (iv) the right to any remaining assets in proportion to their respective shareholdings upon liquidation of the Company.

C.5	**Description of restrictions on free transferability of the shares**	Other than restrictions applicable under the relevant securities laws, there are no restrictions on the free transferability of the Shares, without prejudice to the lock-up arrangements agreed in connection with the Offering.
C.6	**Applications for admission to trading on regulated markets**	Application will be made to list the Shares on the Spanish Stock Exchanges and to have them quoted on the SIBE, which is expected to occur on or about 3 October 2016. No application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any other exchange.
C.7	**Dividend policy**	It is the Company's current intention to pay annual dividends corresponding to at least 40% of its previous year Recurrent Levered Cash Flow. The Board of Directors currently intends to propose to the General Shareholders' Meeting a cash dividend to be paid in 2017 in an expected amount of approximately €70 million, which would be paid against the 2016 result for the period and/or other existing distributable reserves. The payment of dividends, if any, and the amounts and timing thereof, will depend upon a number of factors, including, but not limited to, legal, tax and regulatory requirements, results for the period attributable to the parent or availability of distributable reserves, the Company's business evolution and growth strategy, inorganic investment opportunities, general economic and business conditions, market returns, credit solvency and such other factors which the Company's Board of Directors may deem relevant. In any case, the Company's dividend policy will be approved by the General Shareholders' Meeting, based on the application of the results for each fiscal year proposed by the Board of Directors. Recurrent Levered Cash Flow means Recurrent Operating Cash Flow, plus or minus current assets and liabilities variation (excluding Net Financial Debt items), plus interest received, minus interest paid and minus any corporate income tax paid, adjusted by material non-recurring impacts. In turn, Recurrent Operating Cash Flow is calculated as OIBDA (operating income before depreciation and amortization) minus Recurrent Capex (capital expenditure devoted to infrastructure maintenance primarily linked to keeping the Company's submarine cables and towers in good working order and which is recurrent in time and in nature, and also including capital expenditures in the Cable Segment to upgrade the capacity of existing cables and to upgrade the IP network investing in routers and additional IP equipment. The Company's consolidated financial statements for the period ended 31 December 2016 will reflect the effects of the Reorganisation process. The €70 million mentioned above is not, and

		investors should not consider it to be, an estimate of the performance of the Company for the year ended 31 December 2016.

SECTION D- RISKS		
D.1	**Key information on the key risks that is specific to the Group or its industry**	Investing in the Company's Shares involves a degree of risk. You should carefully consider the risks and uncertainties described below, together with the other information contained in this document, before making any investment decision. Any of the following risks and uncertainties could have a material adverse effect on Telxius' business, financial condition and results of operations. The market price of Telxius' Shares could decline due to any of these risks and uncertainties and you could lose all or a part of your investment. **Risks Related to the Company's Operations and the Business where it Operates** • The Company's business depends on the demand for the telecom services that it provides, which the Company cannot control, and the Company may be adversely affected by any slowdown in such demand. • The Company currently depends and expects to continue depending on the Telefónica Group for a significant percentage of the Company's revenues. • The Company's Backlog estimates are based on certain assumptions and are subject to unexpected adjustments and cancellations and thus may not be timely converted to revenues in any particular fiscal period, if at all, or be a fully accurate indicator of the Company's future revenue or earnings. • Increasing competition in the Company's industry may materially and adversely affect the Company. • New technologies or changes in the Company's customers' business model could make the Company's services less desirable and result in decreasing revenues. • The Company's revenues may be negatively affected if the Company is unable to provide uninterrupted or quality services. • The Company is exposed to risks derived from the development, expansion and maintenance of the Company's infrastructure, including the need for ongoing capital expenditure.

		• Failure to retain rights to the Company's infrastructure may adversely affect its business. • The Company engages Telefónica and unrelated parties for the construction and technical support of the Company's infrastructure, key equipment and services, as well as for certain ancillary services, which exposes the Company to the risk that the work and/or the service may not be done in accordance with the agreed terms. • Termination of relationships with key suppliers could cause delay and additional costs. • The Company's business may be affected by general economic and political conditions, particularly in Latin America. • The Company's business may be affected by risks inherent in international operations. • The Company is exposed to currency risks, due to its operations in multiple geographic areas. • Inflation and certain government measures to curb inflation in some Latin American countries may have adverse effects on their economies and the Company's business and operations in those locations. • The Company's infrastructure may be affected by natural disasters and other catastrophic events for which its insurance may not provide adequate coverage. • If the Company's security measures are breached, or if its services are subject to attacks that degrade or deny the ability of users to access its systems, products and services, the Company's business would be adversely affected. • The Company's business requires effective business support systems and uniform standards, controls and policies. • The expansion or development of the Company's business, including through acquisitions or other growth opportunities, involve a number of risks and uncertainties that could adversely affect its operating results or disrupt its operations. • The Company is subject to risks inherent to the distribution of content by its customers over its network. • The Company's leverage and debt service obligations may materially and adversely affect it and the Company may incur additional debt. • The Company may require additional capital and other resources in the future and may not be able to obtain these on

		favourable terms, if at all, or to pursue its strategy. • The Company may be exposed to liability to third parties in connection with the operations of its network. • The Company is dependent on key members of its management team and other qualified personnel. • The Company may be subject to litigation or other legal proceedings (civil, tax, administrative or otherwise) which could materially adversely affect its business. • The Company is subject to credit and counterparty risk. **Risks Specific to the Cable Segment** • The undersea cable industry has had, and may continue to have, excess capacity resulting from technological advances or rapid network expansion, which could continue to cause the prices that the Company charges for its IP and capacity services to decline resulting in lower revenue and margins than anticipated. • If the growth in demand for bandwidth in Latin America is lower than anticipated, the Company's results of operations and financial condition will be adversely affected. • Damage to elements of the Company's undersea cable system may lead to a shorter design life than anticipated. • The Company could lose its Tier-1 status in the future, which would adversely affect the Cable Segment. • The Company could lose ownership of its current IP addresses. • The need to obtain additional capacity for the Company's network from other providers increases its costs. In addition, the need to interconnect its network to networks that are controlled by others could increase the Company's costs. • The Company's agreements with certain agencies of the U.S. Government impose significant requirements on the Company. A violation of those agreements could have severe consequences. • Increasing of local caching or changes in peering policy could reduce the demand for international data transportation. • Delays in U.S. licensing and permitting processes could delay the entry into commercial service of new submarine cable facilities. **Risks Specific to the Tower Segment** • Demand for the Company's services could be affected by its

customers' inability to maintain or secure frequencies for their services.

- If the Company's customers share towers to a significant degree or consolidate or merge, its growth, revenue and ability to generate positive cash flows could be materially and adversely affected.
- The Company's ability to use some of its towers could be affected by contractual or administrative law constraints.
- The Company's costs could increase and its revenues could decrease due to perceived health risks from radio emissions and electromagnetic radiation, especially if these perceived risks are substantiated.
- The Company's business in Spain depends on the delivery of an adequate and uninterrupted supply of electrical power and fuel at a reasonable cost.

Risks Related to the Company and the Reorganisation

- The Company has a limited operating history as a stand-alone company.
- The Company may be unable to implement its strategy and efficiently operate its business.
- The Company is a holding company and its only material assets are its interests in its subsidiaries, upon whom the Company is dependent for distributions to pay dividends, taxes and other expenses.
- The Reorganisation may result in contract claims and breaches of contracts entered into by the entities acquired by the Company.

Risks Related to the Company's Relationship with Telefónica

- The Cable MCA and the Tower MLAs with Telefónica may be subject to early termination under certain limited circumstances or not renewed.
- If the Cable Agreements and the Tower Service Agreements were to be terminated or if Telefónica fails to perform its obligations under the Cable Agreements or the Tower Service Agreements, there is no guarantee that the Company will be able to obtain replacement agreements with unrelated parties in the future, or that the Company would be able to obtain terms that are comparable to the existing arrangement through replacement agreements.
- The Reorganisation and the arrangements between the Company and Telefónica were negotiated in the context of an

affiliated relationship.

- The Company is highly dependent on Telefónica, which immediately after the Offering will be the Company's controlling shareholder.
- Other companies in the Telefónica Group could compete with the Company.
- The Company's organisational and ownership structure may create conflicts of interest.
- The Company's reputation is closely related to that of Telefónica.
- A change of control in the Company could have a material adverse effect.

Risks Related to Regulation

- The Company is subject to regulations that govern the way it conducts its businesses, and changes in current or future laws or regulations could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.
- The Company is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.
- Stringent environmental and health regulation imposes additional costs and may affect the Company's results of operations.
- The Company's customers are subject to a wide-ranging regulatory regime, which indirectly affects the Company's own operations.

Risks Related to the Financial Information Included in this Prospectus

- The Company's statement of financial position includes significant amounts of goodwill and other intangible assets which may be might be subject to impairment in the future.
- While the financial information included herein complies with the applicable legal requirements, the Company does not have audited financial statements for the last three fiscal years.
- The Pro Forma Consolidated Financial Information may not be representative of the Company's future results of operations and financial condition, and investors in the Shares may have limited recourse against the Company's

		independent auditors. • Certain historical financial statements included herein have not been prepared and are not presented in this Prospectus on a consistent basis and are not directly comparable between years, which limits the ability to analyse the Company’s historical performance and evaluate its future prospects. **Risks Related to Taxation** • The Company may be a passive foreign investment company for U.S. federal income tax purposes in any year, which could result in adverse U.S. federal income tax consequences to U.S. investors. **Other Risks** • Information in this Prospectus about the Company’s industry, market share and relative competitive position are based on assumptions and estimates that the Company cannot assure you are accurate or correctly reflect its market position.
D.2	**Key information on the key risks that is specific to the shares**	**Risks Related to the Shares and the Offering** • The Company cannot assure that the Offering Price Range will match the future price of the Shares following the Offering. • The market price of the Shares may fluctuate widely in response to different factors. • A liquid market for the Shares may fail to develop. • There can be no assurance that the Company will be able to make distributions to the Company’s shareholders in the future. • Substantial sales of Shares by Telefónica, or the possibility of such sales, may affect the market price of the Shares. • Investors in this Offering may experience dilution of their ownership interest due to the future issuance of additional Shares or convertible debt. • The Offering may be revoked. • Shareholders in countries with currencies other than the euro face additional investment risk from currency exchange rate fluctuations in connection with their holding of Shares. • Shareholders in certain jurisdictions may not be able to exercise their preferential subscription rights to acquire further Shares. • The ability of shareholders residing outside Spain to effect

		service of process on the Company or to enforce any foreign court judgments against them may be limited. • The Offered Shares will not be freely transferable in the United States.

SECTION E- ADMISSION AND THE OFFER		
E.1	**Total net proceeds of the Offering and estimated expenses**	Pursuant to the Offering, the Selling Shareholder expects to raise gross proceeds of between €1,090,909,092 and €1,363,636,365 (based on the minimum and maximum prices of the indicative non-binding Offering Price Range, respectively) in case that the Over-Allotment Option is not exercised, and of between €1,200,000,000 and €1,500,000,000 (based on the same prices) in case that the Over-Allotment Option is exercised in full. The maximum estimated expenses (fees and expenses) payable by the Selling Shareholder and the Company in relation to the Offering (VAT excluded, which shall be added where applicable) amount to approximately €36,819 thousand and €2,430 thousand, respectively. The Selling Shareholder and the Company will not pass through to the investors any of the Offering expenses.
E.2	**Reasons for the Offering and use of proceeds**	The main reasons for the Offering are the following: (i) to meet the shareholding requirements for Admission, (ii) to grant the Company access to capital markets (including debt markets), which may eventually facilitate the provision of financing for the Company's future growth, (iii) to enhance the transparency, reputation and brand image of Telxius as a listed company, and (iv) to increase the liquidity of the Shares by means of the Admission. The Company will not receive any proceeds from the sale of Offered Shares by the Selling Shareholder in the Offering.
E.3	**Terms and conditions of the Offering**	The Selling Shareholder is offering up to 90,909,091 Initial Offered Shares at the Offering Price, which at the midpoint of the Offering Price Range will provide the Selling Shareholder with gross proceeds of €1,227,272,728.5. In addition, the Selling Shareholder will grant the Joint Global Coordinators, acting on behalf of the Managers, an option to purchase at the Offering Price up to 9,090,909 Additional Shares, representing up to 10% of the total number of the Initial Offered Shares, exercisable no later than 30 calendar days after the date on which the Shares commence trading on the Spanish Stock Exchanges and quoted on the SIBE. In member states of the European Economic Area, the Offering consists of an offering not qualifying as a public offering for the

		purposes of the European Parliament and Council Directive 2003/71/EC of 4 November 2003 (as amended, the "**Prospectus Directive**") and only addressed to and directed at persons who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive. In addition, the Offering consist of an offering (i) in the U.S. to persons reasonably believed to be qualified institutional buyers (QIBs) as defined in, and in reliance on, Rule 144A under the Securities Acts and (ii) outside the U.S. in compliance with Regulation S under the Securities Act. The indicative non-binding Offering Price Range at which Offered Shares are being offered in the Offering is between €12.00 and €15.00 per Offered Share, resulting in a market capitalisation of the Company of between €3,000,000,000 and €3,750,000,000 approximately, but the Offering Price may be outside this range. The Offering Price Range has been determined based on discussions and agreements between the Selling Shareholder and the Joint Global Coordinators, and no independent experts have been consulted in determining the Offering Price Range. The Offering Price of the Offered Shares will be determined by the Selling Shareholder and the Joint Global Coordinators upon the finalisation of the book-building period (expected to be determined on or about 29 September 2016) and will be announced through the publication of a relevant fact disclosure (*hecho relevante*). The date of setting of the Offering Price may be postponed or advanced by the Company as a consequence of the extension or reduction, as the case may be, of the book-building period. No independent experts will be consulted in determining the Offering Price. The Offering will be conducted through a book-building process which is expected to take place from 20 September 2016 after the registration of this Prospectus with the CNMV and until 8:00 p.m. (Madrid time) on 29 September 2016. During the book-building period, the Managers will market the Initial Offered Shares among investors in accordance with, and subject to, the selling restrictions set forth in the Prospectus. Investors may submit their purchase proposals during this period, indicating the number of Initial Offered Shares and the potential price they would be interested in acquiring them. The book-building period may be reduced or extended by agreement of the Selling Shareholder and the Joint Global Coordinators if, in the first case, the book of demand is sufficiently covered in their view before the end of the book-building period or, in the second case, if they understand that an extension of book-building period is convenient to ensure the success of the Offering. In the event that there is such a reduction or extension of the book-

		building period, the Selling Shareholder will inform the market through the publication of a relevant fact disclosure (*hecho relevante*) and the subsequent steps in the tentative calendar of the Offering may be postponed or advanced. The purchase proposals made by investors during the book-building period will constitute only an indication of interest of the investors in the Initial Offered Shares and shall accordingly not be binding with respect to the number of Initial Offered Shares and the price either for the investors or the Selling Shareholder. Confirmation of the purchase proposals once the Offering Price has been fixed will be irrevocable. Investors will be expected to confirm their purchase proposals to their custodian entities responsible for their “billing and delivery” including in their settlement instructions the 35 digits corresponding to each of the final investor’s settlement account in Iberclear and the 20 digits corresponding to each final investor’s securities account in an Iberclear participant (failure to furnish such instructions to their respective “billing and delivery” entities may result in investors not being allocated Initial Offered Shares or custodians not accepting settlement). The Company will bear any expenses payable to the Spanish Stock Exchanges and Iberclear deriving from the registration of the Shares under the name of the relevant investors. The Company and the Selling Shareholder have discussed with the Joint Global Coordinators their principles for allocation, the factors they believe to be relevant to the allocation and pricing of the Offered Shares and have agreed the objectives and process for the allocation and pricing; the Joint Global Coordinators will take into account their prudential responsibilities to manage their risk properly when agreeing the allocation, pricing and timing. The final decision on the allocation of the Offered Shares shall be made by the Company and the Selling Shareholder after consultation with the Joint Global Coordinators, which is expected to be done on 30 September 2016, and the Initial Offered Shares are expected to be delivered against payment of the Offering Price, through the book-entry facilities of Iberclear and its participating entities, which is expected to be done on or about 4 October 2016. The Selling Shareholder expressly reserves the right to withdraw the Offering, postpone it, defer it, or suspend it temporarily or indefinitely for any reason at any time before the setting of the Offering Price. In addition, the Offering may be revoked upon the occurrence of certain circumstances including the occurrence of customary termination provisions to be set forth in the Underwriting Agreement.

<table>
<tr>
<td>E.4</td>
<td>Material interests in the Offering</td>
<td>
<p>The Managers and their respective affiliates may have engaged in transactions with and may have performed various lending, trading, investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future. Certain of the Managers are lenders (either directly or through their affiliates) under certain of the Telefónica Group's debt facilities and or provide performance and other guarantees to the Telefónica Group. Moreover, in the ordinary course of their business activities, the Managers 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 (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments, including corporate debt facilities, of the Group and the Selling Shareholder.</p>
<p>As of 9 September 2016, the following Managers (or their respective affiliates) have entered into respective lines of credit facilities with the Company in an aggregate amount of €190,000 thousand for potential additional funding needs, broken down as follows:</p>
<table>
<tr><th></th><th>Amount
(in thousands of €)</th></tr>
<tr><td>Goldman Sachs</td><td>25,000</td></tr>
<tr><td>JP Morgan</td><td>25,000</td></tr>
<tr><td>CaixaBank</td><td>25,000</td></tr>
<tr><td>BBVA</td><td>25,000</td></tr>
<tr><td>Citibank</td><td>15,000</td></tr>
<tr><td>Mediobanca –Banca di Credito Finanziario</td><td>15,000</td></tr>
<tr><td>Santander</td><td>15,000</td></tr>
<tr><td>HSBC</td><td>15,000</td></tr>
<tr><td>BNP PARIBAS</td><td>15,000</td></tr>
<tr><td>UBS</td><td>15,000</td></tr>
<tr><td>Total</td><td>190,000</td></tr>
</table>
<p>No amount has been drawn under the referred lines of credit facilities as of the date hereof.</p>
<p>As of 31 December 2015, Banco Bilbao Vizcaya Argentaria, S.A. held a direct stake in Telefónica amounting to 6.07% of its share capital (302,205,736 shares), based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. In addition, two</p>
</td>
</tr>
</table>

		proprietary directors of Telefónica have been appointed pursuant to the proposal of Banco Bilbao Vizcaya Argentaria, S.A. As of 31 December 2015, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona held an indirect stake in Telefónica amounting to 5.01% of its share capital (249,501,612 shares), based on the information provided by CaixaBank, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. As of the same date, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona indirectly owned shares of Telefónica through CaixaBank, S.A., which owned 249,482,489 shares and Vidacaixa, S.A. de Seguros y Reaseguros, which owned 19,123 shares. In addition, two proprietary directors of Telefónica have been appointed pursuant to the proposal of CaixaBank, S.A.
E.5	**Entities offering the shares and lock-up arrangements**	**(A) Entities offering the Offered Shares** The Selling Shareholder is the entity offering the Offered Shares. **(B) Lock-up arrangements** Pursuant to the Underwriting Agreement, the following parties will be subject to lock-up arrangements for the periods from the execution of the Underwriting Agreement through the date falling on the following days after the date of this Prospectus: The Company: 180 days from the date of this Prospectus The Selling Shareholder: 180 days from the date of this Prospectus The lock-up arrangements are subject to customary exceptions.
E.6	**Dilution**	As all of the Offering is secondary, it will not involve any dilution effect.
E.7	**Expenses charged to the Investors**	Notwithstanding any expenses, broker fees or commissions that might be charged by the participating entities in Iberclear in accordance with their respective practices (and which are external to the Selling Shareholder and the Company), for the purposes of the transfer of the Shares, the Selling Shareholder and the Managers will not charge final investors any expenses in addition to the Offering Price. Purchasers of the Offered Shares may be required to pay stamp taxes and other charges in compliance with the laws and practices of their country of purchase in addition to the Offering Price.

THE OFFERING

The Company

Telxius Telecom, S.A.

The Selling Shareholder

Telefónica, S.A.

The Offering

In member states of the EEA, the Offering consists of an offering not qualifying as a public offering for the purposes of the Prospectus Directive and only addressed to and directed at persons who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (including any relevant implementing measure in each relevant member state of the EEA, such as the Royal Decree 4/2015, of 23 October, approving the reinstated text of the Spanish Securities Market Act (*Texto Refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) (the "**Spanish Securities Market Act**") and Royal Decree 1310/2005.

In addition, the Offering consists of an offering (i) in the United States to persons reasonably believed to be QIBs as defined in, and in reliance on, Rule 144A under the Securities Act and (ii) outside the United States in compliance with Regulation S under the Securities Act.

Offering Price

The indicative non-binding Offering Price Range at which Offered Shares are being offered in the Offering is between €12.00 and €15.00 per Offered Share, but the Offering Price may be outside this range. The Offering Price Range has been determined based on discussions and agreements between the Selling Shareholder and the Joint Global Coordinators, and no independent experts have been consulted in determining the Offering Price Range.

The Offering Price of the Offered Shares will be determined by the Selling Shareholder and the Joint Global Coordinators upon the finalisation of the book-building period (expected to be determined on or about 29 September 2016) and will be announced through the publication of a relevant fact disclosure (*hecho relevante*). No independent experts will be consulted in determining the Offering Price.

Total Number of Initial Offered Shares

The Selling Shareholder is offering up to a maximum of 90,909,091 Initial Offered Shares in the Offering.

Over-Allotment Option

The Selling Shareholder will grant the Joint Global Coordinators, acting on behalf of the Managers, an option to purchase 9,090,909 Additional Shares, representing up to 10% of the total number of the Initial Offered Shares, exercisable in whole or in part for a period of 30 calendar days from the date on which the Shares commence trading on the Spanish Stock Exchanges to cover over-allotments, if any.

Listings and Quotation

Application will be made to list the Shares on the Spanish Stock Exchanges and to have them quoted on the SIBE. It is expected that the Shares will be admitted to listing on the Spanish Stock Exchanges on or about 3 October 2016 under the symbol “TLX”.

If the Shares are not listed on the Spanish Stock Exchanges and quoted on the SIBE by 11:59 p.m. (Madrid time) on 31 October 2016, the Offering will be automatically revoked, in which case the Offered Shares will be repurchased by the Selling Shareholder and the purchase price will be returned to the purchasers, together with accrued interest.

Dividend Policy

It is the Company’s current intention to pay annual dividends corresponding to at least 40% of its previous year Recurrent Levered Cash Flow. The Board of Directors currently intends to propose to the General Shareholders’ Meeting a cash dividend to be paid in 2017 in an expected amount of approximately €70 million, which would be paid against the 2016 result for the period and/or other existing distributable reserves.

The payment of dividends, if any, and the amounts and timing thereof, will depend upon a number of factors, including, but not limited to, legal, tax and regulatory requirements, results for the period attributable to the parent or availability of distributable reserves, the Company's business evolution and growth strategy, inorganic investment opportunities, general economic and business conditions, market returns, credit solvency and such other factors which the Company's Board of Directors may deem relevant. In any case, the Company's dividend policy will be approved by the General Shareholders' Meeting, based on the application of the results for each fiscal year proposed by the Board of Directors (see section "*Dividends and Dividend Policy*").

Recurrent Levered Cash Flow means Recurrent Operating Cash Flow, plus or minus current assets and liabilities variation (excluding Net Financial Debt items), plus interest received, minus interest paid and minus any corporate income tax paid, adjusted by material non-recurring impacts. In turn, Recurrent Operating Cash Flow is calculated as OIBDA (operating income before depreciation and amortization) minus Recurrent Capex (capital expenditure devoted to infrastructure maintenance primarily linked to keeping the Company's submarine cables and towers in good working order and which is recurrent in time and in nature, and also including capital expenditures in the Cable Segment to upgrade the capacity of existing cables and to upgrade the IP network investing in routers and additional IP equipment (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*").

The Company's consolidated financial statements for the period ended 31 December 2016 will reflect the effects of the Reorganisation process. The €70 million mentioned above is not, and investors should not consider it to be, an estimate of the performance of the Company for the year ended 31 December 2016.

Voting Rights

Each Share of the Company entitles the holder to one vote in the general shareholder's meeting (see section "*Description of Capital Stock*").

Use of Proceeds

The Company will not receive any proceeds from the sale of the Offered Shares by the Selling Shareholder in the Offering.

Lock-up Arrangements

The Company will agree in the Underwriting Agreement to certain lock-up arrangements, subject to certain exceptions, for a period starting on the date of the Underwriting Agreement through 180 days after the date of this Prospectus.

The Selling Shareholder will agree in the Underwriting Agreement to similar restrictions, subject to certain exceptions, for a period starting on the date of the Underwriting Agreement through 180 days after the date of this Prospectus.

See section "*Plan of Distribution—Lock-up Agreements*".

Payment, Delivery and Settlement

The Initial Offered Shares are expected to be delivered against payment of the Offering Price, through the book-entry facilities of Iberclear and its participating entities, by on or about 4 October 2016.

The Stabilisation Manager

J.P. Morgan Securities plc.

CERTAIN TERMS AND CONVENTIONS

As used herein, the following terms shall have the meanings indicated:

“**Additional Shares**” mean the additional Shares representing up to 10% of the Initial Offered Shares to cover over-allotments, if any.

“**Admission**” refers to the admission of the Shares to trading on the Spanish Stock Exchanges and on the SIBE or *Mercado Continuo* of the Spanish Stock Exchanges.

“**Agent Bank**” refers to CaixaBank, S.A.

“**Americas-II**” refers to a fibre optic submarine communications cable that extends among the United States, Puerto Rico, the U.S. Virgin Islands, Martinique, Curaçao, Trinidad, Venezuela, French Guiana, Suriname, Guyana and Brazil in service since August 2000 and operated on a common carrier basis.

“**AMX-1**” stands for América Móvil Submarine Cable System-1 and refers to a fibre optic submarine communications cable of 17,800 km that extends between the United States, Mexico, Guatemala, Colombia, Dominican Republic, Puerto Rico and Brazil, owned by America Móvil and in service since 2014.

“**Backbone Links**” refers to a high-speed data transmission line that interconnects networks including regional and metropolitan networks.

“**Backhaul**” refers to the portion of a network that comprises the intermediate links between the core network and the small subnetworks.

“**Backlog**” refers to the estimated future revenue to be recorded from signed contracts stated in the Company’s reporting currency, the euro, as of the relevant date, excluding the sale of ownership of pairs of fibre, any inflation adjustment, , any type of contract renewal and traffic levels in excess of minimum contracted quantities. See section “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company’s Results of Operations—Backlog*”.

“**Bandwidth**” refers to the transmission capacity of an electronic communications device or system (i.e. the speed of data transfer).

“**Board of Directors**” refers to the board of directors of the Company.

“**BRUSA**” refers to the new submarine cable that is expected to be approximately 10,700 km long and connect Brazil, Puerto Rico and the United States by 2018 with eight fibre pairs, totalling 100 Tbps of capacity.

“**Bylaws**” refers to the bylaws or articles of association of the Company.

“**Cable MCA**” refers to the master commercial agreement entered into between Telefónica (as service recipient) and Telxius (as service provider) on 31 March 2016, for the purpose of governing the provision of wholesale connectivity services by Telxius, directly or through its affiliates, to other companies within the Telefónica Group.

“**Cable Segment**” refers to the operating segment of the Company under which it provides wholesale connectivity services (both IP and Capacity) for international data transmission through submarine infrastructure and international circuits with over 65,000 km of worldwide fibre-optic.

“**CAGR**” stands for compound annual growth rate, which is the mean annual growth rate of a parameter over a specified period of time longer than one year.

“**Capacity**” refers to the information-carrying ability of a telecommunications service.

“**Carrier**” refers to a provider of communications services that commonly include voice, data and Internet services, such as América Móvil, AT&T and Telefónica.

“**Cash Conversion**” refers to the result of dividing Recurrent Operating Cash Flow by OIBDA (see section “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*”).

“**CDR**” stands for committed data rate.

“**CNMV**” refers to the Spanish National Securities Market Regulator (*Comisión Nacional del Mercado de Valores*).

“**Co-Lead Managers**” means Fidentiis Equities S.V. S.A., Banca IMI (Intesa Sanpaolo, S.p.A.), Mizuho International plc, Nmás1 Capital Markets Sociedad de Valores, S.A., RBC Europe Limited, Banco de Sabadell, S.A. and Société Générale.

“**Company**” or “**Telxius**” means Telxius Telecom, S.A. (previously known as Telefónica América, S.A.), a company incorporated under the laws of Spain in Madrid on 10 October 2012 pursuant to a notarized public deed of incorporation granted before the Madrid Notary Mr. Jesús Roa Martínez, under number 861 of the public notary’s official records and registered with the Commercial Registry of Madrid in volume 30,377, page 55 and sheet M-546694, and holder of Spanish tax identification number A86565926, with registered office at Ronda de la Comunicación, s/n, Distrito Telefónica, 28050, Madrid; and, where applicable in this Prospectus, its controlled subsidiaries, as defined in article 42 of the Spanish Commercial Code.

“**Dark fibre**” refers to fibre that has not yet been connected to telecommunications transmission equipment, therefore, has not yet been activated or “lit” by the fibre cable owner.

“**DAS**” stands for distributed antenna system and refers to a network of antennas that provides wireless cellular service for a small area.

“**DDoS Shield Service**” refers to a security solution against Denial of Service attacks (DoS) and against Distributed Denial of Service attacks (DDoS). These attacks are generated from different points and their main task is seek to prevent a service being provided, either by saturating the link or taking advantage of faults or weaknesses of the host that is attacked.

“**Directors**” refers to the members of the Board of Directors.

"**DoS Shield**" refers to an Internet Transit value added service, which offers a security solution able to detect and mitigate distributed denial of service (DDoS) attacks, increasingly common on the Internet.

"**DWDM**" stands for dense wavelength division multiplexing and refers to a technology that puts data from different sources together on an optical fibre, with each signal carried at the same time on its own separate light wavelength.

"**EEA**" stands for European Economic Area.

"**End-to-end connectivity**" refers to a direct connection between two points inside network provider without going through an intermediary (third-party).

"**Ethernet**" refers to a physical and data link layer technology for local area networks (LANs). Ethernet was originally specified to connect devices on a company or home network as well as to a cable modem or DSL modem for Internet access.

"**Euroclear**" refers to Euroclear Bank, S.A. / N.V., as operator of the Euroclear System.

"**EU**" stands for European Union.

"**EU-IFRS**" refers to the International Financial Reporting Standards, as adopted by the EU.

"**Exchange Act**" refers to the U.S. Securities Exchange Act of 1934, as amended.

"**Extended network**" means part of the Company's network based on assets owned by third parties that have an agreement with Telxius and allow it to extend its coverage beyond its owned assets. This extended network can be rented capacity in third-party submarine cable systems to provide resiliency to the network or to complete sections of certain routes.

"**Fairness Opinions**" mean the fairness opinions requested by Telxius and issued by Banco Santander, S.A. and Duff & Phelps, S.L., as experts, with respect to the consideration agreed between Telxius and Telefónica for certain assets and liabilities of the Tower Segment and Cable Segment, respectively, acquired in the Reorganisation.

"**Framework Agreement**" refers to the framework agreement (*protocolo*) entered into between Telefónica and Telxius on 29 July 2016 for the fulfilment with the recommendation two of the Spanish Corporate Governance Code and which regulates the relations between the parties in certain areas.

"**FSMA**" refers to the U.K. Financial Services and Markets Act 2000.

"**Gbps**" refers to a data transfer speed measurement for high speed networks (*Gigabits per second*).

"**GCX**" stands for Global Cloud Xchange and refers to a subsidiary of Reliance Communications that offers a comprehensive portfolio of solutions customized for carriers, enterprises and new media companies across the world's largest private undersea cable system.

“**Global Solutions Managed Carrier Grade NAT**” refers to a solution that enables the Company’s Internet Transit customers to deal with the exhaustion of IPv4 addresses by sharing the use of a public address between different end users.

“**Globenet**” refers to a wholesale telecommunications company that provides services over fibre optic submarine cable system serving the Americas.

“**Greenfield Towers**” refers to towers located on ground suitable to host the towers infrastructure.

“**Group**” or “**Telxius Group**” refers to the Company together with its controlled subsidiaries, as defined in article 42 of the Spanish Commercial Code.

“**Iberclear**” refers to *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U.*

“**Initial Offered Shares**” refers to up to 90,909,091 shares of the Company, each with a nominal value of €1.00, offered in the Offering.

“**Internet**” refers to the global system of interconnected computer networks that use the TCP/IP protocol suite to link devices worldwide.

“**Internet of Things**” is the network of physical devices embedded with electronics, software, sensors, and network connectivity that enables these items to collect and exchange data.

“**Internet Transit**” refers to the service of allowing network traffic to cross a computer network, usually used to connect a smaller Internet service provider to the larger Internet.

“**IP**” stands for Internet Protocol and refers to the transmission protocol used in the transmission of data over the Internet.

“**IP Nodes**” refers to a network element that provides the connectivity, routing and switching functionalities.

“**IPv4 protocol**” stands for Internet Protocol version 4 and refers to the fourth version of the IP.

“**IPv6 protocol**” stands for Internet Protocol version 6 and refers to the most recent version of the IP.

“**IPXs**” stands for Internetwork Packet Exchange and refers to a set of packet-switching and packet-sequencing protocols designed to function in small and large networks.

“**IRU**” stands for Indefeasible Right of Use and refers to the exclusive, unrestricted and indefeasible right to use the bandwidth of a determined capacity service (or even one, a pair, or more strands of fibre) of a fibre cable.

“**ISP**” stands for internet service provider and refers to a company that provides Internet services, including personal and business access to the Internet.

"**ITS**" stands for internet transit service and refers to a service that provides direct connectivity to the Internet through global connectivity based on peering agreements.

"**Joint Bookrunners**" means each of the Joint Global Coordinators and BNP Paribas, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca S.p.A., Banco Santander, S.A. and UBS Limited.

"**Joint Global Coordinators**" means Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A. Goldman Sachs International and J.P. Morgan Securities plc.

"**Landing Station**" refers to the key part of the dry plant of a submarine cable system where the power feeding and the submarine line terminal equipment are typically installed.

"**Logical route**" means the transmission route to go from one point of the network to another without the use of physical cables.

"**Managers**" means each of the Joint Bookrunners and each of the Co-Lead Managers.

"**Marea**" refers to the new submarine cable that is expected to be approximately 6,600 km long and to connect Virginia Beach (Virginia, the United States) to Bilbao (Spain).

"**Mbps**" refers to a data transfer speed measurement for high speed networks (*Megabits per second*).

"**Member State**" refers to any state of the EEA.

"**MNO**" stands for mobile network operator and refers to a provider of services of wireless communications that owns or controls all the elements necessary to sell and deliver services to an end user including radio spectrum allocation, wireless network infrastructure, back haul infrastructure, billing, customer care, provisioning computer systems and marketing and repair organisations.

"**NAP**" stands for network access point and refers to a public network exchange facility where ISPs are connected with one another in peering arrangements.

"**Non-Recurrent Capex**" stands for non-recurrent capital expenditure, and it is calculated by the Company as capital expenditure related to the expansion and improvement of the Company's infrastructure, such as capital expenditure associated with the construction of new submarine cables or the expansion of a cable and the deployment of new tower sites, the acquisition of land or the investment for increasing the capacity of existing towers (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*").

"**OBs of the Telefónica Group**" refers to the Telefónica Group's business units.

"**Offered Shares**" means the Initial Offered Shares together with the Additional Shares, if any.

"**Offering**" means the offering by the Selling Shareholder described in this Prospectus.

"**Offering Price**" means the price per Offered Share in the Offering.

“**Offering Price Range**” means the indicative non-binding price range per Offered Share in the Offering, which is between €12.00 and €15.00 per Offered Share, as determined by the Selling Shareholder and the Joint Global Coordinators.

“**OIBDA**” refers to operating income for a given period before depreciation and amortization (see section “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*”).

“**Operating lease**” refers to leases in which the leased asset and substantially all of the risks and rewards relating to ownership are attributable to the lessor and which are reported on a company's statement of profit or loss.

“**Optical Capacity**” refers to the information-carrying ability of a telecommunications service via optical fibre through SDH/DWDM circuits.

“**OTT**” refers to an over-the-top content company, such as Netflix, Hulu and Amazon Video.

“**Over-Allotment Option**” means the option that the Selling Shareholder will grant the Joint Global Coordinators, on behalf of the Managers, to purchase 9,090,909 Additional Shares, representing up to 10% of the Initial Offered Shares in connection with the Offering.

“**PB**” stands for petabyte, which equals to 1,000 terabytes.

“**PCCS**” stands for Pacific Caribbean Cable System, a submarine cable that links Jacksonville (Florida) with Aruba, British Virgin Islands, Colombia, Curaçao, Ecuador, Panama and Puerto Rico, with a total length of over 6,000 km and nine Landing Stations across the region. The PCCS relies on a multi-channel 100 Gbps technology and a capacity of 80 Tbps and was placed into service in 2015.

“**Peering agreement**” refers to an agreement between two network administrators to share data routing responsibilities across multiple networks. Peering is a mainstay of the global Internet and large data mobility systems.

“**Peering connection**” refers to voluntary interconnection of administratively separate Internet networks for the purpose of exchanging traffic between the users of each network.

“**Physical route**” refers to physical (not logical) transmission point-to-point, using a material infrastructure (fiber cable, copper cable, etc.).

“**Point of Presence**” or “**PoP**” refers to the presence of an MNO (all equipment and technologies included) on a wireless tower or a fibre-optic cable.

“**Point-to-point data transportation**” refers to the physical transfer of data (a digital bit stream or a digitized analogue signal) over a point to point communication channel.

“**Pre-cash sale rights**” refers to an anticipation of the contract payment.

“**Prospectus Directive**” means Directive 2003/71/EC of 4 November 2003 (as amended), and includes any relevant implementing measure in each relevant member state of the EEA.

“**Prospectus Rules**” refers to the prospectus rules included in Annexes I, II, III and XXII set out in Commission Regulation (EC) No 809/2004 (and amendments thereto, including Commission Delegated Regulation (EU) 486/2012 and Commission Delegated Regulation (EU) 862/2012) enacted in the European Union.

“**QIBs**” refers to qualified institutional buyers within the meaning of Rule 144A under the Securities Act.

“**Recurrent Capex**” stands for recurrent capital expenditure, and it is calculated by the Company as the capital expenditure devoted to infrastructure maintenance primarily linked to keeping its submarine cables and towers in good working order and which is recurrent in time and in nature, and also including capital expenditures in the Cable Segment to upgrade the capacity of existing cables and to upgrade the IP network investing in routers and additional IP equipment (see section “*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*”).

“**Recurrent Levered Cash Flow**” means OIBDA, minus Recurrent Capex, plus or minus current assets and liabilities variation (excluding Net Financial Debt items), plus interest received, minus interest paid and minus any corporate income tax paid, adjusted by material non-recurring impacts (see section “*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*”).

“**Recurrent Operating Cash Flow**” is defined as OIBDA, minus Recurrent Capex (see section “*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*”).

“**Regulation S**” refers to Regulation S under the Securities Act.

“**Relevant Member State**” refers to each member state of the European Economic Area that has implemented the Prospectus Directive.

“**Reorganisation**” refers to the process that took place during the initial months of 2016 (until 1 May), whereby Telxius acquired from the Telefónica Group, the assets and liabilities comprising the Cable Segment (including TIWS América) and the Tower Segment through a series of intra-group transactions including several spin-offs, contributions of assets and purchases of shares and/or assets. See section “*Business—History*”.

“**Rooftop Towers**” refers to towers set up on buildings, normally pre-existing and usually located on the roof and/or roofing pavement of densely populated areas.

“**Routing processors**” refers to a component of the router which executes routing protocols. It maintains routing information and forwarding table. It also performs network management functions.

“**Rule 144A**” refers to Rule 144A under the Securities Act.

“**SAC**” stands for South Atlantic Cable system, a submarine cable operated by Level 3 that links several locations in Latin America.

"**SAM-1**" stands for South America-1 and refers to an optical submarine communications cable that connects the United States, Puerto Rico, Brazil, Argentina, Chile, Peru, Guatemala, Ecuador and Colombia with a total length of over 25,000 km and 15 Landing Stations across the region. SAM-1 relies on a multi-channel 100 Gbps technology with capacity of 19.2 Tbps and was placed into service in 2001.

"**SDH/SONET**" refers to standard synchronous optical signals for transporting digital information (Synchronous Digital Hierarchy-SDH) and (Synchronous Optical Network-SONET).

"**Securities Act**" refers to the U.S. Securities Act of 1933, as amended.

"**Shares**" refers to all the ordinary shares of the Company, with a nominal value of €1.00 per share.

"**SIBE**" stands for *Sistema de Interconexión Bursátil Español* and refers to the Spanish Automated Quotation System, or *Mercado Continuo*, of the Spanish Stock Exchanges.

"**Small cells**" are low-powered radio access nodes that operate in the spectrum and with a range of 10 meters to two kilometers.

"**Spanish Commercial Code**" means *Real decreto de 22 de agosto de 1885 por el que se publica el Código de Comercio*, as amended.

"**Spanish Companies Act**" means *Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*, as amended.

"**Spanish Continuous Market**" means the computerized stock market connecting the four Spanish Stock Exchanges.

"**Spanish Corporate Governance Code**" refers to *Código de Buen Gobierno de las Sociedades Cotizadas* approved by the CNMV Board on 18 February 2015, as amended.

"**Spanish Securities Markets Act**" means *Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido del Mercado de Valores*, as amended.

"**Spanish Stock Exchanges**" refers to the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

"**Stabilisation Manager**" means J.P. Morgan Securities plc.

"**Stabilisation Period**" refers to the period commencing on 3 October 2016 and ending on 3 November 2016 in which stabilisation transactions may be carried out.

"**Tbps**" refers to a data transfer speed measurement for high speed networks (*Terabits per second*).

"**Telefónica**" means Telefónica, S.A., a company incorporated under the laws of Spain in Madrid on 19 April 1924, registered with the Commercial Registry of Madrid, and holder of

Spanish tax identification number A28015865, with registered office at Gran Vía 28, 28013 – Madrid (Spain).

"**Telefónica Group**" refers to Telefónica together with its controlled subsidiaries, as defined in article 42 of the Spanish Commercial Code.

"**Telxius Towers Germany**" means Telxius Towers Germany GmbH (formerly known as Telefónica Germany Vermögensverwaltungsgesellschaft mbH), a company incorporated under the laws of Germany on 25 February 2016 and registered with the Commercial Register of the local court of Munich under number HRB 224057, and with registered office in Munich (Germany), at Georg-Brauchle-Ring 23-25, 80992.

"**Telxius Towers Latam**" means Telxius Torres Latam, S.L., a company incorporated under the laws of Spain on February 5, 2016 pursuant to a notarized public deed of incorporation granted before the Notary Public of Madrid Mr. José Miguel García Lombardía, under number 408 of the public notary's official records and registered with the Commercial Registry of Madrid in volume 34395, page 28, section 8 and sheet M-618673, and holder of Spanish tax identification number B-87485736, with registered office in Madrid (Spain), at Ronda de la Comunicación, s/n, Distrito C, 28050.

"**Telxius Towers Spain**" means Telxius Torres España, S.L., a company incorporated under the laws of Spain on 16 February 2016 pursuant to a notarized public deed of incorporation granted before the Notary Public of Madrid Mr. José Miguel García Lombardía under number 537 of the public notary's official records and registered with the Commercial Registry of Madrid in volume 34354, page 138, section 8 and sheet M-617966, and holder of Spanish tax identification number B-87494936, with registered office in Madrid (Spain), at Ronda de la Comunicación, s/n, Distrito C, 28050.

"**Tenancy Ratio**" refers to the average number of tenants per Tower Passive Infrastructure site.

"**Tier-1**" refers to the quality of a telecommunications network whereby it is able to reach every other network on the Internet without purchasing IP transit or paying settlements to any other network to provide Internet Transit Service.

"**TIWS América**" means Telefónica International Wholesale Services América, S.A (currently in the process of changing its corporate name to Telxius Cable América S.A.), a company incorporated under the laws of Uruguay on 1999 and holder of Uruguayan tax identification number 214 101 2600019, with registered office in Montevideo (Uruguay), Avenida Luis Alberto de Herrera 1248, 4th Fl., 11300.

"**Tower Active Infrastructure**" refers to the equipment directly owned and managed by tenants (and not owned by Telxius) that is used to receive and transmit the signal of radio, mobile and wireless networks.

"**Tower MLAs**" refers to the five master lease agreements entered into between certain subsidiary companies of Telxius, as lessors, and certain subsidiary companies of Telefónica, as lessees, to govern the use by the lessees of certain spaces within the towers owned by Telxius which form part of different portfolios of towers located in Spain, Germany, Brazil, Chile and Peru, respectively.

“**Tower Passive Infrastructure**” refers to an installation comprising a set of different elements (such as tower base, tower/mast, shelters and ground/rooftop space) which is located at a site and used to provide support to the Tower Active Infrastructure.

“**Tower Segment**” refers to the operating segment of the Company under which it provides co-location services on multi-tenant telecommunications towers to wireless service providers and wireless data providers, both to companies of the Telefónica Group and third parties, through a portfolio of cellular wireless telecommunication towers located in Spain, Germany and Latin America (Brazil, Peru and Chile).

“**Unisur**” refers to an optical submarine telecommunications cable system in the South Atlantic Ocean linking Argentina and Uruguay, also known as Unisur 2.0 with a total length of over 265 km and two Landing Stations. Unisur relies on a multi-channel 200 Gbps technology and a capacity of two Tbps and was placed into service in 1995.

“**United Kingdom**” or “**U.K.**” refers to the United Kingdom of Great Britain and Northern Ireland.

“**United States**” or “**U.S.**” refers to the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction.

“**Wavelength**” refers to an unstructured Optical Capacity service (Zero Layer) based on a Dense Wavelength Division Multiplexing (DWDM) technology.

“**Weighted average length of remaining contracts**” refers to the average of the contract length for each contract weighted by the total contribution of each contract to total Backlog.

“**Wholesale Internet access**” refers to high-speed Internet access with guaranteed bandwidth and performance.

“**Zero layer**” refers to the basic networking hardware transmission technologies of a network. It is a fundamental layer underlying the logical data structures of the higher level functions in a network.

RISK FACTORS

Investing in the Shares involves a degree of risk. You should carefully consider the risks and uncertainties described below, together with the other information contained in this Prospectus, before making any investment decision.

The following risks and uncertainties address risks that the Company has identified as material to the Company and/or the value of the Shares, but this is not an exhaustive list or explanation of all risks and uncertainties which investors may face when making an investment in the Shares. Additional risks or uncertainties relating to the Company that are not currently known to the Company, or that the Company currently deems immaterial, could also adversely affect the Company and/or the value of the Shares.

Any of the following risks and uncertainties could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. The market price of the Shares could decline due to any of these risks and uncertainties, and you could lose all or part of your investment.

The order in which the following risks are presented is not an indication of the likelihood of occurrence, the degree or significance of the individual risks or the scope of any potential adverse effects on the Company's business. The risks mentioned could materialize individually or cumulatively.

Risks Related to the Company's Operations and the Business where it Operates

The Company's business depends on the demand for the telecom services that it provides, which the Company cannot control, and the Company may be adversely affected by any slowdown in such demand

Factors adversely affecting the demand for the services the Company provides in either the Cable Segment or the Tower Segment could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Within the Cable Segment, demand for its wholesale connectivity services depends on the bandwidth demand for broadband services for data transmission, which in turn depends on factors such as overall economic growth, political stability, level of acceptance of communication technologies and government policies and regulations affecting the telecom industry. In the last decade, the Telefónica Group has experienced significant growth in the demand for international infrastructure and the type of services the Company currently provides within the Cable Segment due to the boom of the Internet and data transmission. Although the trend is expected to continue in the coming years with the growth of video and other content services, it cannot be guaranteed that this will be the case. Demand for IP and capacity services have been closely correlated in recent years.

Within the Tower Segment, demand for telecom sites depends on the demand for antenna space from its customers, mainly the Telefónica Group and increasingly from third parties, which, in turn, depends on the demand for wireless voice and data services by their respective customers.

Factors affecting the demand for the Company's services include, among others:

- continued development and expansion of the Internet as a secure communications medium and marketplace, free from interference from governments or otherwise, for the distribution and consumption of data and video by businesses, consumers and governments;
- smartphone penetration and household broadband penetration in the markets in which the Company operates;
- the level of multimedia content consumption and the growth of speed of data transfer;
- the adoption of digital patterns by the Company's customers (including, among others, cloud data services, machine to machine ("**M2M**") communication and the Internet of things);
- the location and condition of the Company's undersea cable infrastructure and telecom sites;
- the evolution of data transmission prices including declining bandwidth prices;
- public Internet growth;
- the evolution of demand for private networks;
- the trends of traffic demand worldwide;
- increased use of network sharing, roaming or resale arrangements by wireless service providers;
- mergers or consolidations among the Company's customers such as wireless service providers;
- the evolution of metropolitan network caching versus long-haul traffic;
- the ability and willingness of wireless service providers to maintain or increase capital expenditures on network infrastructure;
- the availability and/or capacity of the Company's infrastructure and associated land interests where the infrastructure is located;
- the financial condition of the Company's customers, particularly the Telefónica Group (the Company's main customer), including the availability or cost of capital;
- delays or changes in the deployment of next generation technologies or the failure by the Company to anticipate the development of new technologies;
- changes in, or the success or failure of, the Company's customers' business models, particularly of the Telefónica Group;
- the existence of alternative providers of the Company's services or, alternatively, the self-provision of services by the Company's customers;
- the Company's customers' desire to renegotiate their existing agreements;

- the willingness of the Company's current or future customers to make contractual arrangements with the Company under current terms and conditions; and

- a decrease in ultimate consumer demand due to economic conditions, disruptions of financial and credit markets or other factors, including inflation or deflation or zoning, environmental, health or other existing government regulations or changes in the application and enforcement thereof.

As a result of any of these factors the Company's customers, both the Telefónica Group and unrelated parties, may scale back their need or demand for the Company's services which could materially and adversely affect the degree of capacity utilisation of the Company's undersea infrastructure and communications sites, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company currently depends and expects to continue depending on the Telefónica Group for a significant percentage of the Company's revenues

The Company's main customers both in the Cable Segment and in the Tower Segment are other entities within the Telefónica Group. Telefónica, the Company's controlling shareholder and the parent company of the Telefónica Group, is one of the world's leading mobile and fixed communications services providers.

The Company has entered into several agreements with the Telefónica Group for the provision of services by the Company to the Telefónica Group. See section "*Material Contracts*." On a pro forma basis, the Telefónica Group accounted for 63% of the Company's total revenues in the six-month period ended 30 June 2016 (44% of the Cable Segment's total revenues and 88% of the Tower Segment's total revenues) and 65% of the Company's total revenues in the year ended 31 December 2015 (47% of the Cable Segment's total revenues and 88% of the Tower Segment's infrastructure revenues).

Although the Company has entered into various agreements with Telefónica Group companies for the provision of services in the coming years, these agreements may be subject to early termination under certain limited circumstances (e.g., if the Company fails to perform its obligations thereunder) or not renewed. The Company cannot guarantee that contracts with the Telefónica Group will not be terminated or that the Telefónica Group will renew its contracts with the Company in the future once their initial terms have expired. Further, even if renewed, there is no certainty that the Company will be able to secure contractual terms and conditions that are at least in line with those of the agreements in place as of the date of this Prospectus. Without extensions, the master commercial agreement entered into between Telefónica (as service recipient) and the Company (as service provider) on 31 March 2016, for the purpose of governing the provision of wholesale connectivity services by the Company, directly or through its affiliates, to other companies within the Telefónica Group (the "**Cable MCA**") will expire in 2020 and the master lease agreements entered into between certain subsidiary companies of the Company, as lessors, and certain subsidiary companies of Telefónica, as lessees, to govern the use by the lessees of certain spaces within the towers owned by the Company which form part of different portfolios of towers located in Spain, Germany, Brazil, Chile and Peru, respectively (together, the "**Tower MLAs**") will expire between 2026 and 2030. See "*—Risks Related to the Company's Relationship with Telefónica—The Cable MCA and the Tower MLAs with Telefónica may be subject to early termination under certain circumstances or not renewed*" below. The loss of one or more of the

Telefónica Group companies as the Company's customer could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, due to the importance of the Telefónica Group to the Company's overall revenues, the Company depends on the continued financial strength and growth and expansion of the Telefónica Group. If, as a result of a prolonged economic downturn or otherwise, one or more of the Company's Telefónica Group customers experienced financial difficulties or filed for bankruptcy, it could result in late payments, uncollectible accounts receivable and an impairment of the Company's deferred rent assets, tower assets, network location intangible assets and/or customer-related intangible assets, any of which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's Backlog estimates are based on certain assumptions and are subject to unexpected adjustments and cancellations and thus may not be timely converted to revenues in any particular fiscal period, if at all, or be a fully accurate indicator of the Company's future revenue or earnings

The Company's Backlog represents its management's estimate of the amount of contracted revenues that the Company expects to result in future revenue from its existing contracts, including the Cable MCA and the Tower MLAs with the Telefónica Group. In particular, the Company defines its estimated Backlog presented in this Prospectus as the estimated future revenue to be recorded from signed contracts stated in the Company's reporting currency, the euro, as of the relevant date, excluding the sale of ownership of pairs of fibre, any inflation adjustment, any type of contract renewal and traffic levels in excess of minimum contracted quantities. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Backlog*" for further details on how the Company defines and calculates its Backlog.

The Company's definition of Backlog may not necessarily be the same as that used by other companies engaged in activities similar to the Company's. As a result, the amount of the Company's Backlog may not be comparable to the backlog reported by such other companies.

Although the Company believes its Backlog and the resulting predictable cash flows significantly reduce the volatility of its operating results, contracts for services are occasionally modified by mutual consent of the parties and in some instances may be cancelled under certain specific circumstances by the customer on short notice without penalty. Furthermore, many of the Company's contracts with its customers are denominated in U.S. dollars (a significant portion within the Cable Segment) or other non-euro currencies (mainly in the case of the Tower Segment contracts in Latin America), whereas the Company's estimated Backlog is set forth in euros based on the prevailing exchange rate as of the date the estimated Backlog is presented or, in the case of the pro forma Backlog as of 1 January 2016 included elsewhere in this Prospectus, the exchange rates described in section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Backlog*". If there are variations in exchange rates between such currencies and the euro in the future, the amount the Company actually records as revenue from its Backlog will differ from the Company's estimated Backlog. As a result, the Company's estimated Backlog as of any particular date may differ from its future recorded revenue.

There can be no assurance that the revenue projected in the Company's Backlog will be realized or, if realized, will result in profit. Further, it is possible that the client may default and fail to pay amounts owed to the Company. Delays, payment defaults or cancellations could reduce the amount of Backlog currently estimated, and consequently, could impede the conversion of that Backlog into revenues, which could in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, of the Company's estimated Backlog of €4.7 billion as of 1 January 2016, on a pro forma basis, including contracts entered into through 30 June 2016 and calculated as the estimated future revenue to be recorded from signed contracts stated in the Company's reporting currency, the euro, as of the relevant date, excluding the sale of ownership of pairs of fibre, any inflation adjustment, any type of contract renewal and traffic levels in excess of minimum contracted quantities, 75% related to the Cable MCA and the Tower MLAs and other agreements with the Telefónica Group. As a result, the Company's pro forma backlog is subject to significant customer concentration. If members of the Telefónica Group were unwilling or unable to perform their contractual commitments with us, this would limit the conversion of that pro forma Backlog into revenues, which could in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Backlog*" for further information as to when the Company expects such Backlog to be converted into revenue.

Increasing competition in the Company's industry may materially and adversely affect the Company

The telecom infrastructure industry is very competitive and the Company's success will depend on its ability to compete against a variety of other telecom infrastructure companies. The Company may experience at any time increased competition in certain areas of activity from established and new competitors. The Company's industry is competitive both in the Cable Segment and the Tower Segment, and the Company's customers have access to alternatives in wholesale connectivity services and leasing tower space.

To compete effectively, the Company needs to successfully design and market its services, maintain its infrastructure in good condition and anticipate and respond to various competitive factors affecting all of its markets and customers such as pricing strategies adopted by the Company's competitors, emerging technologies, changes in consumer preferences and general economic and social conditions. If the Company is unable to compete effectively with its competitors or effectively anticipate or respond to customer needs or consumer sentiment, the Company could lose existing and potential customers, which could reduce the Company's operating margins and have a material adverse effect on its business, results of operations, financial condition and cash flows.

Where the Company acts as lessor of its infrastructure (either submarine cable or telecom towers), competitive pricing for tenants from competitors could materially and adversely affect the Company's lease rates and services income. Any competitive pricing pressure on tenant leases could make it more difficult to achieve the Company's return on investment criteria or otherwise have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Further, the telecom industry is subject to rapid and significant technological changes, which can lead to further competition. See risk factor *"—New technologies or changes in the Company's customers' business model could make the Company's services less desirable and result in decreasing revenues*" below.

The Company may also experience increased competition for assets and acquisitions in the context of its business expansion, which could make the acquisition of high quality assets significantly more costly. In addition, the Company may not anticipate an increase in competition entering a particular market or competing for the same assets. Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

In the Cable Segment, the Company faces competition from various sources, such as other telecom companies, including locally based operators and global operators, and existing, newly developed, planned and consortium cable systems along certain of the Cable Segment's existing and planned network routes. Furthermore, many of the Company's customers in the Cable Segment are in the telecom industry themselves and may have their own cable infrastructure or access to competing cable networks through which they may choose to route their traffic due to pricing, latency or diversity considerations. For example, the Company's main cable asset is the SAM-1 network, the largest fibre optics submarine system connecting the United States with Central and South America, with landing stations in Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Peru, and the United States, including Florida and Puerto Rico. There currently are, however, alternative submarine cables connecting different countries in North American, the Caribbean Area and South American such as SAC, Globenet, AMX-1 or Americas-II operated by one or more of the Company's competitors, such as Level 3, Globenet, America Movil and C&W Networks, respectively. Google is deploying its own submarine cable (Monet) for its own use connecting the United States with Brazil, and there is no guarantee that other customers will not do the same in the future. Over-the top content companies ("**OTTs**") are driving the demand for capacity services, which may lead to an increase in supply and increased competition in the Cable Segment. For example, they may pursue their own cable projects if they are not able to find a solution to their demand needs. Although there are significant competitive requirements in the Cable Segment, such as the capital intensive requirements at initial stages or the specific technical expertise requirements, and a limited number of players currently manage the vast majority of the market, there is no guarantee that new competitors will not appear in the future. Any form of increased competition may result in a decrease in the prices that the Company may charge for its services, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See section "*Business—Cable Segment—Competition*".

In the Tower Segment, the Company faces competition from various sources, such as independent operators of wireless telecom infrastructure and other mobile network operators ("**MNOs**") who operate their own towers or share towers with other MNOs. See section "*Business—Tower Segment—Competition*". Some of these competitors may be larger than the Company and may have greater financial resources than the Company does, while other competitors may have an investment strategy that requires a lower return than the Company does. Increased competition for the acquisition of new tower sites or for customers could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

New technologies or changes in the Company's customers' business model could make the Company's services less desirable and result in decreasing revenues

The development and implementation of new technologies developing alternative network, capacity and connectivity solutions, or new technologies designed to enhance the efficiency of wireless networks, or changes in the Company's customers' business models, could reduce the need for the Company's IP and connectivity services through undersea cable infrastructure and the Company's tower-based wireless services, decrease the demand for the Company's infrastructure space or reduce lease rates or other fees that were obtained in the past. For example, old cable technologies (such as the one used by the Company's competitors in the Americas II submarine cable) are not easily upgradable and ready for global data centre operations compared with currently existing and future technologies. New technologies can drive specific latency and capacity advantages. Furthermore, new technology may also reduce demand for bandwidth, which may materially and adversely affect the Cable Segment. See the previous risk factor "—*The Company's business depends on the demand for wholesale connectivity services as well as telecom sites and the network and other service that the Company provides, which the Company cannot control, and the Company may be adversely affected by any slowdown in such demand*".

The Company faces the risk that its customers may not adopt the technologies the Company invests in. For example, as communication technologies continue to develop, competitors may be able to design undersea cable systems superior to the Company's, or offer wireless telecom infrastructure products and services that are, or that are perceived to be, substantially similar to or better than those the Company offers, or offer technologies that provide similar functionality with competitive prices and with comparable or superior quality.

The Company cannot be certain that existing, proposed or as yet undeveloped technologies will not become dominant in the future and render the technologies and infrastructure the Company currently uses obsolete. Should the Company's competitors, or even the Company, develop and commercialize new technologies designed to improve and enhance the range and effectiveness of undersea infrastructure and/or wireless telecom networks, it could significantly decrease demand for the Company's existing infrastructure. The development and implementation of new services with a significant technological component, although they may generate new opportunities for the Company, are also subject to inherent risks that the Company may not be able to overcome.

For example, in the Cable Segment, satellite technology could represent a potential cable substitute in the future if solutions to its high latency in data transmission and low capacity were found. Furthermore, the development of more effective terrestrial fibre networks could adversely affect the demand for submarine infrastructure. Moreover, in the Tower Segment, certain small cell-based complementary network technologies could shift a portion of the Company's tenants' investments away from the traditional tower-based networks, which may reduce the need for carriers to add more equipment at communications sites. The emergence of alternative technologies could reduce the need for network services. For example, the growth in the delivery of wireless communications, radio and video services by direct broadcast satellites could materially and adversely affect demand for the Company's tower space. Further, a customer may decide to no longer outsource tower infrastructure or otherwise change its business model, which would result in a decrease in the Company's revenue.

In an industry as dynamic as the telecom infrastructure industry, the Company needs to be able to continuously develop, test and introduce new technologies to avoid being surpassed by its competitors. The Company's ability to respond to technological changes will depend on its ability to develop, test and introduce new technologies as well as on the Company's ability to obtain additional financing in connection therewith, which the Company may not be able to obtain on favourable terms, or at all. The development and implementation of any of these and similar technologies to any significant degree or changes in a tenant's business model could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's revenues may be negatively affected if the Company is unable to provide uninterrupted or quality services

The success of the Company's business depends on the efficient, uninterrupted and high quality operation of the Company's systems and the satisfaction of its customers. The Company's service offerings are often complex and depend on the successful integration of sophisticated in-house and third-party technologies and services, which must meet stringent quality requirements.

The Company's infrastructure and network are subject to the risks inherent in large-scale, complex undersea fibre-optic telecom systems including design defects, equipment breakdowns, security breaches, computer viruses and physical damage to undersea cables and other equipment.

For example, although all of the routers in the Cable Segment are carrier-class and are equipped with all hardware needed to prevent any single point of failure and although some of the Company's cables, like SAM-1, are redundant, there is no guarantee that such a failure will not occur.

Further, in the Tower Segment, the Company uses infrastructure that by its nature may be subject to interruptions or other malfunctions caused by, *inter alia*, prolonged electricity outages, security issues or failures of suppliers.

Interruptions in service or performance problems, due to physical damage to the undersea cable systems and wireless towers from natural disasters, power losses, fishing nets, anchors or other factors or reasons, could undermine confidence in the Company's services and cause the Company to lose customers or make it more difficult to attract new ones. If any of the Company's services have reliability or quality problems, the Company's customers might be reluctant to employ its services again in the future, which could result in a decline in revenues and have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, repairs of damaged infrastructure may not restore the network services in a timely or satisfactory manner. Because many of the Company's services are critical to the businesses of many of its customers, any significant interruption in service could result in lost profits or other losses to customers who in turn could attempt to recover such losses from the Company. Should the Company fail to meet its obligations under its contracts, the Company could be subject to liability claims or litigation for damages related to any service disruptions derived therefrom. If such litigation were to arise, regardless of its outcome, it could result in substantial expenses, significantly divert the efforts of the Company's technical and management personnel and disrupt or otherwise severely and negatively impact its relationships with current and potential customers and the Company's reputation. As a result, a service disruption or any reliability or quality issues and their consequences could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is exposed to risks derived from the development, expansion and maintenance of the Company's infrastructure, including the need for ongoing capital expenditure

The Company's ability to maintain a high level of service depends on its ability to develop, expand and maintain its infrastructure, which requires substantial amounts of capital and other long-term expenditures, including those relating to the renewal, optimisation or improvement of existing networks, upon the Company's ability to obtain sufficient financing to finance these projects and on third-party technical suppliers for the implementation of the Company's infrastructure expansion plans.

Within the Cable Segment, the Company's submarine cables have a limited technical life (of approximately 25 years, although it may vary from cable to cable), after which the infrastructure becomes obsolete unless technically upgraded, if possible, or replaced. Furthermore, such cables provide for limited capacity. For example, the Company's main cable, SAM-1, was installed in 2001, was later extended and upgraded, and has a current technical life of 25 years expiring in 2026. In addition, the Company is currently working on a new undersea cable ("**BRUSA**") that is expected to be approximately 10,700 km long and connect Brazil and the United States by 2018 with eight fibre pairs, totalling 100 Tbps of capacity. Further, there are ongoing expansion plans for the Company to build a new Dominican Republic connection to SAM-1, and the Company is also currently working on new submarine cable ("**Marea**") that is expected to connect the United States (Virginia Beach) and Spain (Bilbao) by the fourth quarter of 2017 and that will be operated by the Company.

Within the Tower Segment, the Company's Tower Passive Infrastructures have a technical life of approximately 25 years. It is difficult to precisely estimate the technical life of the infrastructure assets because each telecom tower is composed of different elements, each of which has a different technical life (see section "*Business—Tower Segment—Properties—Description of telecom towers*" for the different components of a tower). See Note 3(d) to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements included elsewhere in this Prospectus for the technical life of the different infrastructure assets estimated by the Company for purposes of calculating its depreciation and amortization expenses.

The operation, administration, maintenance and repair of certain of the Company's infrastructure, particularly its undersea network's systems, requires the coordination and integration of sophisticated and highly specialized hardware and software technologies and equipment, all of which require significant operating expenses and capital expenditures, as well as highly-qualified personnel with the relevant technical know-how. The failure of the hardware or software to function as required could render a undersea cable system unable to perform at design specifications or at all, resulting in their respective obsolescence or shorter useful life than estimated, all of which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Capital expenditure amounts related to the maintenance of the Company's infrastructure are expected to be relatively stable but may nevertheless vary from time to time, *inter alia*, based on the cost of machinery, construction works and connections to electricity networks. Any significant increase in these development and construction costs could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. Overall capital expenditure amounts also vary from year to year due to expenditures for renewals, new projects and planned expansion expenditures. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Capital expenditures*".

The Company expects to finance these expenditures in the future through a variety of means, including internally generated cash flows and/or external borrowings. In particular, the Company intends to prefund most of the investment needs for new cable developments (such as the above mentioned BRUSA and Marea projects as well as the new Dominican Republic connection to SAM-1) through the execution of long-term IRU contracts and the sale of ownership of pairs of fibre to third parties. The actual amount and timing of the Company's future capital requirements may differ from its estimates as a result of, among other things, unforeseen delays or cost overruns in implementing regulatory reforms, unanticipated expenses, engineering and design changes and technological changes, such as unexpected phase-out of technologies. There can be no assurance that financing from external sources will be available at the time or in the amounts necessary or at competitive rates to meet the Company's requirements. If the Company was unable to obtain financing for capital expenditures, this could limit the Company's ability to maintain the Company's current operations or expand in the future, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is also subject to a number of construction, service provision, financing, operating, regulatory and other risks arising from its expansion plans, some of which are beyond the Company's control, including, but not limited to shortage of materials, equipment and specialist labour required to maintain and develop the Company's infrastructure; failure by sub-contractors to complete projects on time, on budget, or meet appropriate quality standards due to various factors, including any of the conditions described herein; or labour disputes and disputes with sub-contractors, litigation by subcontractors resulting from any of the risks described herein; inadequate infrastructure; adverse weather conditions, natural disasters or accidents; and changes in governmental priorities, spending programs or procurements processes.

The occurrence of one or more of these events may have a material adverse effect on the Company's ability to complete its current or future infrastructure or growth projects on schedule or within budget, if at all, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Failure to retain rights to the Company's infrastructure may adversely affect its business

A key element to the success of the Company's business is its ability to retain rights to its infrastructure, which may be proprietary rights or other types of rights.

In the Cable Segment, the Company owns substantially all of the Company's submarine infrastructure and Landing Stations necessary to operate the Company's undersea telecom network in Latin America. The Company nonetheless must maintain rights-of-way, franchises, and other permits from local governments and other authorities to operate the Cable Segment, including related to landing rights and rights to place infrastructure on the seabed near coastal areas. The Company cannot be certain that the Company will be successful in maintaining these rights-of-way agreements or obtaining future agreements on acceptable terms, or at all. Some of these agreements are short-term or revocable at will, and the Company cannot assure you that it will continue to have access to existing rights-of-way after they have expired or terminated. If a material portion of these agreements are terminated or are not renewed, the Company might be forced to abandon its networks. In order to expand the Company's cable network to new locations, the Company often needs to obtain additional rights-of-way, franchises, and other permits. The Company's failure to obtain these rights in a prompt and cost-effective manner may prevent the Company from expanding its network, which may be necessary to meet the Company's contractual obligations to its customers and could expose the Company to liabilities. If the Company loses or is unable to renew key real property leases where the cable is located, it could adversely affect the Company's services and increase its costs.

In the Tower Segment, the Company does not generally own the land where the infrastructure is located and its real property interests relating to its towers consist primarily of leasehold and sub-leasehold interests, administrative concessions and authorisations, fee interests, easements, licenses and rights-of-way. A loss of these interests at a particular tower site may interfere with the Company's ability to operate a tower and generate revenues. For various reasons, the Company may not always have all the titles to all of its telecom towers. Pursuant to the Reorganisation, the Company acquired the towers without seeking consent of certain landowners, who may therefore challenge such acquisitions. While the Company owns all of its towers, almost all of the land on which the Company's towers are located is operated and managed under leases, administrative concessions, subleases or other agreements with third parties or public authorities. The Company may face disputes with landowners regarding the terms of ground agreements for land under towers, which can affect the Company's ability to access and operate tower sites. Furthermore, the leases are for a contracted term and landowners may not want to renew their leases with the Company or may request increased rents when a lease expires in order to renew it. The Company is not able to pass through to its customers increased rents in Germany and might not be able to pass through increased rents elsewhere, adversely affecting margins. Landlords may lose their rights to the land, or they may transfer their land interests to third parties, including ground lease managers, which could affect the Company's ability to renew ground agreements on commercially viable terms or at all. The Company's inability to protect its rights to the land under its towers may have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Likewise, and in line with industry peers that operate telecom infrastructure, the Company may not always have all the necessary licenses and permits related to its infrastructure assets. The lack of necessary licenses and permits could give rise to monetary fines and, as an interim measures, the authorities could order that the affected equipment or sites be sealed-off or even decommissioned until the required authorisation or license is obtained. Criminal liability could even arise in certain circumstances. Lastly, a key element for the success of the Company's business is its ability to maintain a precise inventory of its entire worldwide infrastructure. Any failure to do so could adversely affect the Company's operations.

Any of these events may in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company engages Telefónica and unrelated parties for the construction and technical support of the Company's infrastructure, key equipment and services, as well as for certain

ancillary services, which exposes the Company to the risk that the work and/or the service may not be done in accordance with the agreed terms

In order to carry out its activities, the Company engages and relies on companies of the Telefónica Group and unrelated parties for the supply and performance of services for the construction and maintenance of the Company's infrastructure, key equipment and services, and for certain ancillary services. In the Cable Segment, the Company entered into several outsourcing agreements with the Telefónica Group on 28 July 2016 (a marketing outsourcing agreement, a professional services outsourcing agreement, an infrastructure extension outsourcing agreement and defined services outsourcing agreement) under which the Telefónica Group is responsible for the technical operation of the Company's network (together, the "**Cable Outsourcing Agreements**"). See section "*Material Contracts—Cable Outsourcing Agreements*". In the Tower Segment, the Telefónica Group is also responsible for the technical support of the Company's towers under the terms of the Tower Service Agreements (as defined below).

The Company also relies on transmission capacity and other critical facilities that are owned by third parties and on Telefónica for maintenance services for its infrastructure.

Although the suppliers and contractors the Company engages, including companies of the Telefónica Group, are subject to the Company's supervision, as well as to its verification that their services meet an adequate level in terms of quality of the work and timing of delivery, the Company does not have operational or financial control over these partners, and it has little or no influence with respect to the manner in which these suppliers conduct their business. Engaging Telefónica Group companies and other parties exposes the Company to the risk that the work and/or the service may not be done in accordance with the agreed terms. If these suppliers fail to provide equipment or services on a timely basis, the Company may be unable to provide services to its customers until an alternative source can be found. In addition, as some of the markets in which the Company competes gain new entrants, it is possible that some of them (or existing market players) may compete for similar services from suppliers that the Company uses, and may gain more favourable terms from particular suppliers than those the Company obtains from them. Additionally, it is possible that current vendors of services could become competitors, therefore competing as consumers of services they provide. Either of these occurrences could result in upward pricing pressure on these contracts and the Company may not be able to renew its contracts at all or at the same rate as in the past, and could lose market share. If any of these contracts are terminated or the Company is unable to renew them on favourable terms or negotiate agreements for replacement services with other providers at comparable rates, this could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, although the Company's relevant procurement agreements may set forth penalty clauses in the event the contractors do not comply with the agreed terms and conditions, in the event of possible interruptions in the services provided, or defects or delays in the delivery of the contracted works, such events could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See "*—The Company's revenues may be negatively affected if the Company is unable to provide uninterrupted or quality services*" above.

Termination of relationships with key suppliers could cause delay and additional costs

The Company's business is dependent on third-party suppliers for fibre, computers, software, optronics, transmission electronics and related components as well as providers of network colocation facilities and right of way rights that are integrated into the Company's network, some of which are critical to the operation of the Company's business. If any of these critical relationships is terminated, a supplier either exits or curtails its business as a result of economic conditions, a supplier fails to provide critical rights of use, services or equipment, or the supplier is forced to stop providing services due to legal constraints, such as patent infringement, and the Company is unable to reach suitable alternative arrangements quickly, the Company may experience significant additional costs or it may not be able to provide certain services to customers, which could in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's business may be affected by general economic and political conditions, particularly in Latin America

Negative developments in domestic and international macroeconomic conditions may adversely impact the Company's business and the demand for its services. Adverse economic conditions may have a negative impact on demand for the services the Company provides and on its customers' ability to meet their payment obligations. In periods of recession, demand, including the demand for the Company's services, may also decline, adversely affecting the Company's results of operations. Furthermore, deflation or the threat of deflation may adversely affect demand for the Company's services. For example, the recent global economic crisis started in 2007 was characterized by a deterioration of macroeconomic conditions at a global level, which led to a decline in consumer spending and in industrial production. In addition, recent years have also seen difficult market conditions for telecom operators, principally due, among other things, to a decrease in telephone traffic and significant competitive pressure on the rates of services due to the increased competition between mobile network operators, and increased investment expenditures. International tensions as a result of the crisis in Ukraine between 2013 and 2015 and the civil war in Syria, the financial situation and political instability, including in Spain following the general elections in December 2015 and June 2016, geopolitical tensions in the Middle East, growth of anti-EU political parties as well as emerging political forces in member states of the EU with alternative economic policies and priorities, concerns about independence movements within the EU and military and terrorist actions in Europe and elsewhere in the world could affect the economic situation in the Eurozone and, particularly in countries in which the Company operates such as Spain and Germany, and could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The United Kingdom held a referendum on continuing membership in the EU on 23 June 2016, which resulted in the decision to leave the EU. Global financial markets were volatile in the period leading up to the vote and especially thereafter. The British exit process from the European Union will suppose an economic adjustment to any new trade and investment relationships in the future, facing, in the meanwhile, the consequences of uncertainty on investment, activity and financial markets.

In particular, economic and political conditions in Latin America pose numerous risks to the Company's operations, as the Company's operations in Latin America generated a significant portion of the Company's pro forma consolidated revenues for the six-month period ended 30 June 2016 and the year ended 31 December 2015. In particular, Latin America is where the main assets necessary to operate the Company's global cable business are located, and revenues derived from the Tower Segment in Latin America for the six-month period ended 30 June 2016 and the year ended 31 December 2015 accounted, respectively, for 17% and 17% of the Company's pro forma consolidated revenues in the Tower Segment, and 7% and 7% of the Company's pro forma total consolidated revenues. As events in the Latin American region have demonstrated, negative economic or political developments in one country in the region can lead to or exacerbate economic or political instability elsewhere in the region. Furthermore, events in recent years in other developing markets have placed pressures on the stability of the currencies of a number of countries in Latin America in which the Company operates, including Argentina, Brazil and Colombia. While certain areas in the Latin American region have experienced economic growth, this recovery remains fragile. Pressures on local currencies may have an adverse effect on the Company's customers in this region. Volatility in regional currencies and capital markets could also have an adverse effect on the Company's ability and that of its customers to gain access to international capital markets for necessary financing, refinancing and repatriation of earnings. Further, exchange or currency controls have from time to time been implemented in certain Latin American countries, which if in effect in the future could adversely affect the Company's ability to repatriate cash balances therefrom. Adverse changes to the political and economic conditions in Latin America could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's business may be affected by risks inherent in international operations

The Company is a global telecom infrastructure company with substantial proprietary infrastructure in several countries in Latin America and Europe and worldwide coverage through third-parties' infrastructure. The Company currently concentrates its activity in Latin America, Spain and Germany. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for details on the Company's revenue generation by geographic areas. Accordingly, the Company's business is subject to risks associated with conducting business internationally, including changes to existing or new tax laws, or changes in the interpretation of existing tax laws as a consequence of court decisions, administrative decisions or otherwise, methodologies impacting the Company's international operations, or fees directed specifically at the ownership and operation of telecom infrastructure or its international acquisitions, which may be applied or enforced retroactively; laws or regulations that tax or otherwise restrict repatriation of earnings or other funds or otherwise limit distributions of capital; changes in a specific country's or region's political or economic conditions, including inflation, deflation or currency depreciation; changes to zoning regulations or construction laws, which could retroactively be applied to the Company's existing infrastructure; expropriation or governmental regulation restricting foreign ownership or requiring reversion or divestiture; actions restricting or revoking spectrum licenses of its customers within the Tower Segment or suspending business under prior licenses; material site security issues; significant license surcharges; increases in the cost of power and other goods and services required for the Company's operations; price setting or other similar laws for the sharing of infrastructure; uncertain rulings or results from legal or judicial systems, including inconsistencies among and within laws, regulations and decrees, and judicial application thereof, which may occasionally be enforced retroactively, and delays in the judicial process; changes in regulation; foreign exchange risk; and changes in consumer price indexes.

Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is exposed to currency risks, due to its operations in multiple geographic areas

The Company conducts a significant portion of its business using the U.S. dollar as its main contracts with customers in the Cable Segment, including the Telefónica Group, are U.S. dollar denominated, although in some cases contracts are payable in local currency at the exchange rate prevailing on the payment or the billing date. Because certain of the Company's U.S. dollar denominated contracts in the Cable Segment are payable in local currency, in the event of a rapid depreciation or implementation of exchange or currency controls, the Company may not be able to exchange the local currency for the agreed dollar amount, which could adversely affect the Company's cash flow. Furthermore, as the Company's financial statements are denominated in euro, any depreciation of the dollar or such local currencies relative to the euro may adversely impact the Company's results of operations. For the year ended 31 December 2015, the majority of the pro forma consolidated revenues generated by the Tower Segment was derived in euro (83% of the pro forma consolidated revenues generated by the Tower Segment came from Spain and Germany) whereas the vast majority of the pro forma consolidated revenues generated by the Cable Business was derived from U.S. dollar denominated contracts. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Effects of Exchange Rates*" for details on the impact that exchange rates have had in the Company's results of operations.

In addition, certain of the revenues of the Company's operations in Latin America are denominated in local currencies. As the Company's financial statements are denominated in euro, any depreciation of such local currencies relative to the euro may adversely impact the Company's results of operations. Moreover, currency fluctuations may make period-to-period comparisons of the Company's results of operations difficult to evaluate. The depreciation of Latin American currencies relative to the euro may also adversely affect the amount of cash flows available from the Company's companies in such jurisdictions.

In particular,

- a strengthening of the U.S. dollar compared with the euro of 5% or 10% would have had a positive impact on the Company's pro forma consolidated revenues for the year ended 31 December 2015 of 2.9% and 6.2%, respectively; likewise, a weakening of the U.S. dollar compared with the euro of 5% and 10% would have had a negative impact on the Company's pro forma consolidated revenues for the year ended 31 December 2015 of 2.6% and 5.0%, respectively; and

- a strengthening of the U.S. dollar compared with the euro of 5% and 10% would have had a positive impact on the Company's pro forma OIBDA for the year ended 31 December 2015 of 3.5% and 7.4%, respectively; likewise, a weakening of the U.S. dollar compared with the euro of 5% and 10% would have had a negative impact on the Company's pro forma OIBDA for the year ended 31 December 2015 of 3.2% and 6.0%, respectively.

Out of the Company's pro forma consolidated revenues for the year ended 31 December 2015, approximately 55% of such revenues were generated in U.S. dollars, 38% in euro and 7% in other currencies.

Moreover, certain of the Company's current and prospective customers derive their revenue in currencies other than dollars or euros but are invoiced by the Company in dollars or euros. The obligations of customers with substantial revenue in foreign currencies may be subject to unpredictable and indeterminate increases in the event that such currencies depreciate in value relative to their currency of payment to the Company. In such cases, the affected customers may not be able to pay the Company in dollars or euros, as applicable.

Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Inflation and certain government measures to curb inflation in some Latin American countries may have adverse effects on their economies and the Company's business and operations in those locations

Some Latin American countries have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the economies of these countries. Governmental actions taken in an effort to curb inflation, coupled with speculation about possible future actions, have contributed to economic uncertainty at times in most Latin American countries. Countries in the region may experience high levels of inflation in the future that could lead to further government intervention in the economy, including the introduction of government policies that could adversely affect the Company's results of operations in those locations. While a significant portion of the contracts into which the Company has entered with its customers, including the Telefónica Group, within its Tower Segment are indexed to inflation, a high inflation environment could adversely affect macroeconomic activity and employment, which could in turn adversely affect the Company's customers, and have a material adverse effect on the Company's customers and have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's infrastructure may be affected by natural disasters and other catastrophic events for which its insurance may not provide adequate coverage

The Company's submarine infrastructure, towers and equipment are subject to risks associated with natural disasters and other catastrophic events, such as ice and wind storms, geomagnetic storms, tornadoes, floods, landslides, mudslides, avalanches, hurricanes and earthquakes, arson, power outages, telecom failures, network software failures, acts of vandalism or terrorism, theft or fuel shortages or other unforeseeable events. In addition, the Company's operating procedures may not be adequate to materially limit the potential damage that could be caused by these unforeseen events. Any damage or destruction, in whole or in part, to the Company's infrastructure due to natural disasters or other catastrophic events, may impact the Company's ability to operate normally and to continue to provide services to its customers. See *"—The Company's revenues may be negatively affected if the Company is unable to provide uninterrupted or quality services*".

While the Company believes that it maintains adequate insurance coverage for its infrastructure network, there is no assurance that the Company's insurance coverage will adequately cover all costs of repairs or that its recovery plans will be sufficiently effective. Moreover, a natural disaster or other catastrophic event could impact the Company's ability to serve its customers and could in turn cause a loss to certain of the Company's customers that could give rise to a claim for damages or other contractual measures (such as, for example, the payment of penalties or the right to terminate the contract itself) if this event would not qualify as a force majeure event pursuant to the relevant agreement).

The occurrence of any of these events could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

If the Company's security measures are breached, or if its services are subject to attacks that degrade or deny the ability of users to access its systems, products and services, the Company's business would be adversely affected

Network and information systems and other technologies are critical to the Company's business activities. Network and information systems-related events such as computer hackings, cyber-attacks, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks or other malicious activities, or any combination of the these items, could result in a degradation or disruption of the Company's services, damage to its properties, equipment and data, or unauthorised disclosure of confidential information. The Company may experience cyber-attacks against its network and information systems of varying degrees, and as a result, unauthorised parties could obtain access to the Company's data or its customers' data. The Company's security measures may also be breached due to employee error, malfeasance or otherwise. Additionally, outside parties may attempt to fraudulently induce the Company's employees or customers to disclose sensitive information to gain access to its data or its customers' data, including information subject to data protection laws and regulations in the countries in which the Company operates governing the protection of health or other personally identifiable information. The risk of these systems-related events and security breaches occurring has intensified, in part because the Company maintains certain information necessary to conduct its businesses in digital form stored on servers connected to the Internet.

While the Company develops and maintains systems and processes designed to prevent systems-related events and security breaches from occurring, the development and maintenance of these systems and processes is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Despite the Company's efforts, there can be no assurance that unauthorised access and security breaches will not occur in the future. In addition, because the techniques used to obtain unauthorised access, disable or degrade service, or sabotage systems change frequently and often are not recognised until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventative measures.

Any security breach or unauthorised access could result in significant legal and financial exposure, including in respect of customer credits, lost revenue due to business interruption, increased expenditures on security measures, monetary damages, regulatory enforcement actions, fines and/or criminal prosecution. In addition, it would damage the Company's reputation and the market's perception of the effectiveness of its security measures. Moreover, the amount and scope of insurance the Company maintains against losses resulting from unauthorised access or security breaches may not be sufficient to cover the Company's losses or otherwise adequately compensate the Company for any disruptions to its businesses that may result. Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's business requires effective business support systems and uniform standards, controls and policies

The Company's business depends on its ability to manage effective business support systems. The management of business support systems is a complicated undertaking requiring significant resources and expertise, the development of uniform standards, controls, procedures and policies and the efficient consolidation and elimination of business support systems that are no longer useful in the business. This undertaking may also require support from third-party vendors. Business support systems are needed, among other matters, for:

- managing the collection of rents from leases;
- managing and allocating costs between the Company and its customers and providers;
- quoting, accepting and inputting customer orders for services;
- provisioning, installing and delivering services; and
- billing for services.

Any failure to keep effective unified business support systems could materially adversely affect the Company's ability to implement its business plans, which could in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The expansion or development of the Company's business, including through acquisitions or other growth opportunities, involve a number of risks and uncertainties that could adversely affect its operating results or disrupt its operations

The Company expects to grow its business through the increase of return rates on its current platform, the development of new infrastructure to both serve growth of its customers and to lead the traffic growth, and through selective acquisitions from Telefónica or unrelated parties in the countries where the Company currently operates or elsewhere. See section "*Business—Strategy*".

As the Company continues to build or acquire telecom assets from the Telefónica Group or unrelated parties in the Company's existing markets and expand into new markets, the Company is subject to a number of risks and uncertainties, including incurring debt to finance such acquisitions or expansions, failing to obtain the expected returns and financial objectives, problems with the effective integration of operations, increased costs, assumed liabilities, potential regulatory issues applicable to the telecom industry, or the diversion of managerial attention due to acquisitions and potential structural changes such as mergers or consolidations of the Company's competitors.

Achieving benefits of acquisitions depends in part on timely and efficiently integrating operations, infrastructure and personnel. Integration may be difficult and unpredictable for many reasons, including, among other things, differing systems and processes, cultural differences, customary business practices and conflicting policies, procedures and operations. In addition, integrating businesses may significantly burden management and internal resources, including the potential loss or unavailability of key personnel.

The potential acquisition of minority interests in other companies or the entry by the Company into joint venture or other arrangements with them could result in the expected return on the relevant investment not being achieved due to the Company's lack of control over the relevant investment vehicle. This may occur because the interests of other shareholders may not be the same as the Company's, because the underlying business does not perform as expected, because of impairment in the value of such investment or for other reasons. For example, in the Cable Segment, ownership of the two extensions that have been made to the SAM-1 cable (PCCS and Unisur) is shared with other carriers. PCCS is owned by a group of telecom operators consisting of Cable & Wireless, Setar, Telconet and United Telecommunication Services (UTS), in addition to the Company, in which it owns a 29.1% share. Unisur is 50%/50% owned by the Company and Antel Uruguay. Although the Company operates these two extensions under the terms of the operating agreements reached with the Company's partners, it does not have control over these investments and may be forced to implement decisions against the Company's interests.

As a result of any of the above, the Company's expansion initiatives may not succeed which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is subject to risks inherent to the distribution of content by its customers over its network

As a carrier of content, the Company's standard position reflected in contractual documentation provides that its customers are fully responsible for the content of their programming and that the Company is not responsible for the content transmitted by its customers through Company's network, for ensuring that the content conforms to all applicable governmental regulations and for obtaining any local regulatory approvals relating to their activities. While the Company does not believe that it is subject to any liability derived from governmental or third-party proceedings resulting from such content, there is no guarantee that the Company would be successful in protecting itself against liability for such content arising based on obscenity, defamation, negligence, copyright infringement, trademark infringement or otherwise. The Company may also be forced to implement measures to alter the way its services are provided to avoid any further liability, which in turn could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The law relating to the liability of private network operators for information carried on or disseminated through their networks remains unsettled. While the Company disclaims any liability for third-party content and have its customers indemnify the Company for such potential liability in its service agreements, the Company may become subject to legal claims relating to third-party content disseminated on its network. For example, lawsuits may be brought against the Company claiming that material distributed using its network was inaccurate or offensive, or violated the law or the rights of others. Claims could involve matters such as defamation, invasion of privacy and copyright infringement. In addition, the law remains unclear over whether content may be distributed from one jurisdiction where the content is legal into another jurisdiction where it is not. Companies operating private networks have been sued in the past, sometimes successfully, based on the nature of material distributed, even if the content is not owned by the network operator and the network operator has no knowledge of the content or of its legality or illegality. If the Company is required to defend itself against such claims, regardless of the provisions in its service agreements, each may need to incur significant legal fees to defend itself against such claims and may be liable for monetary or other compensation to such counter-parties.

The Company's leverage and debt service obligations may materially and adversely affect it and the Company may incur additional debt

As of 30 June 2016, the Company had €602,923 thousand of Net Financial Debt, which represented a pro forma leverage ratio (measured as Net Financial Debt as of 30 June 2016 over pro forma OIBDA for the year ended 31 December 2015) of 1.86 times. The Company's indebtedness comprised of borrowings with the Telefónica Group. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*". The Company's indebtedness may increase, from time to time, in the future for various reasons, including fluctuations in operating results, capital expenditures and potential new acquisitions or joint ventures and issuances made in connection with any of the foregoing. Further the Company's cost of debt may increase in the future. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure about Market Risk—Interest rate risk*" for further details on how fluctuations in interest rates impact the Company's results of operations.

The Company's present or future leverage could have significant negative consequences on its business, results of operations, financial condition and cash flows, including:

- placing the Company at a possible competitive disadvantage to less leveraged competitors and competitors that may have better access to capital resources, including with respect to acquiring assets and forcing the Company to forego certain business opportunities;
- limiting the Company's ability to obtain additional debt or equity financing, thereby increasing its vulnerability to general adverse economic and industry conditions;
- increasing its borrowing costs if its current creditworthiness declines;
- requiring the dedication of a substantial portion of its cash flow from operations to service the Company's debt, thereby reducing the amount of cash flow available for other purposes, including, among others, capital expenditures and dividends;
- requiring the Company to issue debt or equity securities or to sell some of its core assets, possibly on unfavourable terms, to meet payment obligations;
- limiting the Company's flexibility in planning for, or reacting to, changes in its business and the markets in which it competes; and
- limiting its ability to make dividend distributions to its shareholders.

The Company may require additional capital and other resources in the future and may not be able to obtain these on favourable terms, if at all, or to pursue its strategy

The Company may require additional capital and other resources in the future to operate in the ordinary course of business and it may not be able to obtain financing on favourable terms or at all. If the Company is unable to obtain financing or other resources, it may not be able to successfully continue operating its business. In addition, the Company may need to expand or improve its infrastructure network in order to remain competitive, which may require significant additional funding. See "*—The Company is exposed to risks derived from the development, expansion and maintenance of its infrastructure, including the need for ongoing capital expenditure*". Additional expansion and adaptation of the Company's electronic and software components may also be necessary to respond to a growing number of customers, the development and launching of new services, increased demands by customers to transmit larger amounts of data, and changes in customers' service requirements, technological advances by competitors and governmental regulations. The Company may need to borrow funds to finance these activities, and the terms of any such borrowings may impose significant operating restrictions on the Company. The Company's failure to secure the required capital or resources to respond to market developments on a timely basis, at a commercially reasonable cost and on commercially reasonable terms, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company may be exposed to liability to third parties in connection with the operations of its network

While the Company takes significant precautions to minimise the risk of injury or accidents in its infrastructure, unforeseen events may result in third party liability for the Company. For example, in the Cable Segment its infrastructure is located near coastal or residential areas, and local residents or local fishermen may allege disruption to livelihood or health due to the Company's network's infrastructure or operations. In the Tower Segment, residents may argue that the towers interfere with their views. Furthermore, the Company relies on third parties or agents to collect payments owed to the Company, and it may be subject to liability for the actions of these agents. In the event that a claim is made against the Company, it may choose to settle the case or to litigate, either of which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is dependent on key members of its management team and other qualified personnel

The Company's senior management team has significant experience in the telecom industry and the various countries where the Company operates and its broader management team has played a crucial role in the growth and development of the business conducted by the Company. If the relationship with one or more of these individuals ends for any reason, there is no assurance that the Company will be able to replace them in the short term with people of comparable experience and qualifications. Any material delay in replacing such individuals may have an adverse effect on the public perception of the strength of the Company's business, financial condition, prospects and results of operations.

The Company's success is also dependent on its ability to retain qualified and experienced senior management, as well as hire and train competent and committed technical staff. As the Company's business continues to grow, the Company will need to attract additional employees who have the requisite levels of skill and experience. Competition for highly trained managers and qualified technical personnel is very intense. The Company may not be able to attract and retain sufficient numbers of skilled and motivated employees. Any failure to do so could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, the employment agreement with the senior managers of the Company provides that if the Company ceases to be a member of the Telefónica Group, the senior managers may elect to leave the Company and be employed by a Telefónica Group company. In such event, the Company would need to replace such senior managers with employees who have the requisite levels of skill and experience. Should the Company fail to hire such employees, this could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company may be subject to litigation or other legal proceedings (civil, tax, administrative or otherwise) which could materially adversely affect its business

The Company is subject to the risk of legal claims and proceedings and regulatory enforcement actions in the ordinary course of the Company's business and otherwise. The results of legal, tax and regulatory proceedings cannot be predicted with certainty. The Company cannot guarantee that the results of current or future legal, tax or regulatory proceedings or actions will not materially harm its business, financial condition, results of operations or cash flows, nor can the Company guarantee that it will not incur losses in connection with current or future legal or regulatory proceedings or actions that exceed any provisions the Company may have set aside in respect of such proceedings or actions or that exceed any available insurance coverage which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Following the Reorganisation, the Company succeeded Telefónica Group entities in the disputed rights claims and joined such entities in claims and counter-claims related to all pending litigation (civil, labour, tax, administrative, or otherwise) regarding the Cable Segment and the Tower Segment. The pending administrative litigation in which the Company acts as defendant mainly relates to matters regarding taxes in Brazil, proceedings brought against Telefónica Group companies by entities and private citizens to challenge municipal orders authorising the installation or maintenance of sites, custom duties, regulatory charges or matters where compensation for damages related to submarine cables is sought. As a result of the Reorganisation, the Company also acts as defendant in certain litigation relating to the subject matters described above. The Company's pending legal proceedings could result in an obligation to pay certain claimed amounts or fines. Alternatively, authorities could impose other sanctions on the Company, which could have a material adverse effect on its business, financial condition, prospects and results of operations.

For example, the States of Rio de Janeiro and Bahia have initiated proceedings against Telefonica International Wholesale Services Brasil Ltda. -currently in the process of changing its corporate name to Telxius Cable Brasil Ltda. ("**TIWS Brasil Ltda**")- related to the payment of indirect taxes on communications (ICMS) for different fiscal years. The aggregate amount claimed in those proceedings as of 30 June 2016 was approximately €24,478 thousand. None of those proceedings has been reported as probable by TIWS Brasil Ltda's respective legal counsels, and therefore no provision has been made with respect thereto. For a description of the main administrative and civil proceedings pending as of the date of this Prospectus, see section "*Business—Legal Proceedings*".

In addition, the Company may face claims that it has infringed the patents, copyrights, trademarks or other intellectual property rights of others. Moreover, to the extent that the Company's employees, contractors or other third parties with whom the Company does business use intellectual property owned by others in their work for the Company, disputes may arise as to the rights in related or resulting know-how and inventions. The Company endeavours to defend its intellectual property rights diligently, but intellectual property litigation is expensive and time-consuming and may divert managerial attention and resources from the Company's business objectives. Successful infringement claims against the Company could result in significant monetary liability. The Company could be required to obtain licenses to use the intellectual property that is the subject of the infringement claims, which may be expensive to obtain, and resolution of these matters may not be available on acceptable terms within a reasonable time frame or at all. Intellectual property claims against the Company could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows, and such claims may result in a loss of intellectual property protections that relate to certain parts of the Company's business.

The Company is subject to credit and counterparty risk

In the ordinary course of business, the Company is subject to the potential default in whole or in part of obligations by a counterparty or debtor (including, but not limited to, an insolvency proceeding of a counterparty or debtor) of the Company, particularly the Telefónica Group. Credit risk arises mainly from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, and other debt, including outstanding receivables and committed transactions.

Although the Company regularly reviews its exposure to its clients and other counterparties, as well as its exposure to certain economic sectors and regions that the Company believes to be particularly critical, payment defaults may arise from events and circumstances that are unforeseeable or difficult to predict or detect. In addition, collateral and security provided to the Company may be insufficient to cover the exposure or others' obligations to it, for example, as a result of sudden market declines that reduce the value of the collateral. Accordingly, if a major client or other significant counterparty were to default on its obligations, this could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure about Market Risk—Credit risk*".

Risks Specific to the Cable Segment

In addition to the risks described under "*Risks Related to the Company's Operations and the Business where it Operates*" above, the risks below specifically apply to the Cable Segment.

The undersea cable industry has had, and may continue to have, excess capacity resulting from technological advances or rapid network expansion, which could continue to cause the prices that the Company charges for its IP and capacity services to decline resulting in lower revenues and margins than anticipated

The market prices for many of the services the Company provides within the Cable Segment have decreased in recent years. These decreases resulted from downward market pressure and other factors including:

- technological changes and network expansions which have resulted in increased transmission capacity available for sale by the Company and by its competitors;

- some of the Company's customer agreements contain volume based pricing;
- some of the Company's competitors have been willing to accept smaller operating margins in the short term in an attempt to increase long-term revenue; and
- the negotiating leverage and aggressive pricing strategy of OTTs.

On the IP side, a further price reduction is expected over the next years due to specific competition pressure and technology efficiency improvement. On the capacity side, prices depend heavily on the required route and on competition dynamics, and show a decreasing trend in the last years. See section "*Industry Overview—Submarine Fibre-Optic Cables Market*" for a description of the evolution in recent years of prices of the services the Company provides in the Cable Segment.

If the prices for the Company's IP, capacity and related network services continue to decrease due to excessive supply in the industry or otherwise and the Company is unable to sell more data traffic or new services in sufficient volumes to outweigh the effect of such price declines, the Company's revenues could be adversely affected. Further, to retain customers and revenue, the Company often must reduce prices in response to market conditions and trends. As the Company's prices for some of its services decrease, its operating results may suffer unless the Company is able to either reduce its operating expenses or increase traffic volume from which the Company can derive additional revenue. All these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

If the growth in demand for bandwidth in Latin America is lower than anticipated, the Company's results of operations and financial condition will be adversely affected

The Company's growth is dependent in part on the growth of demand for high-speed bandwidth and related services in Latin America, the region that the Company is targeting for a significant portion of its growth in the next several years. Growth in demand in Latin America will depend on factors such as overall economic growth, the extent to which communications technologies become more widely accepted and affordable for local businesses and consumers, political stability, government policies and regulations affecting the telecom industry and economic activity. If demand for bandwidth and related services in Latin America does not grow as rapidly as anticipated, the Company may not be able to grow its business as planned. See also "*Risks Related to the Company's Operations and the Business where it Operates—The Company's business depends on the demand for wholesale connectivity services and telecom sites, which it cannot control, and the Company may be adversely affected by any slowdown in such demand*".

Damage to elements of the Company's undersea cable system may lead to a shorter design life than anticipated

There can be no assurance that the Company's undersea cable systems and related elements of the network will survive for the full duration of their respective design lives. Moreover, the actual usable lives of the Company's network's systems may differ from its estimates. It is mandatory, under IAS-16 of the International Financial Reporting Standards, for the Company to review the useful life of the undersea cable assets on an annual basis. A number of factors generally affect the useful life of the Company's network's systems, including among other things, quality of construction, unexpected deterioration, frequent cable cuts and technological or economic obsolescence. The Company's current existing cables currently have an estimated useful lives expiring on or about 2026 (SAM-1), 2038 (PCCS) and 2038 (Unisur).

Failure of any of the Company's network's systems to operate for its full design life could require the Company to invest additional capital, which it may not have provisioned for, to repair its systems or may result in interruption to the Company's services. As a result, shorter design lives of the Company's network's undersea cable systems and related elements could have an adverse effect on the Company's business, results of operations, financial condition and cash flows. See also "*Risks Related to the Company's Operations and the Business where it Operates—The Company is exposed to risks derived from the development, expansion and maintenance of its infrastructure, including the need for ongoing capital expenditure*".

The Company could lose its Tier-1 status in the future, which would adversely affect the Cable Segment

The Company believes it currently qualifies as a Tier-1 ISP. See section "*Business—Cable Segment*". As a Tier-1 provider, the Company benefits, among other things, from direct access to content delivery providers and from peering interconnection arrangements with other providers for the exchange of Internet traffic at zero cost. The Company plans to continue to leverage this settlement-free peering. If other providers change the terms upon which they allow settlement-free peering, the costs of operating the Company's Internet backbone will likely increase. Any material increases in costs could have an adverse effect on its margins and its ability to compete in the IP market, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Further, the Company also enjoys operational synergies derived from its consolidated capabilities as a Tier-1 player. The Company's Tier-1 status also provides it with worldwide reputation and recognition among its competitors, customers and suppliers and puts the Company in a better negotiation position when dealing with such players.

Should the Company lose its Tier-1 status in the future, it would no longer be able to benefit from these advantages. For example, the Company would have to pay a fee for some exchanges of Internet traffic and would lose leverage to manage strategic aspects with OTTs. Any of these items would adversely affect the customers' perception of the Company and, as a result, have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Tier-1 status is directly related to the value of the traffic managed by the Company in its network (of which Telefónica's internet traffic volume is currently a key element). Every network in the public Internet is recognised and identified by an AS number. The AS number is a unique identifier used to run a "Border Gateway Protocol" (BGP), the standard routing protocol in the public Internet. Currently, the AS number used by the Company, AS 12956, is owned by the Telefónica Group and not by the Company, which uses it pursuant to a license granted to the Company under the IP nodes agreement entered into between Telefónica and the Company dated 28 July 2016 (the "**IP Nodes Agreement**"). Upon termination of the IP Nodes Agreement, due to a change of control in the Company or otherwise, Telefónica may require the Company to cease the use of AS 12956. See section "*Material Contracts—IP Nodes Agreement*" for further details. If the Company is no longer able to use AS 12956, because of the revocation of the consent by Telefónica as referred to above or otherwise, it would have an adverse effect on the

Company. The Company would then need to initiate a new peering strategy with a new AS number and could lose its Tier-1 status. As a result, the Company's IP revenues would be severely reduced, both from Telefónica and third parties, while interconnection and upstream costs would significantly increase, materially adversely affecting the Company's business, results of operations, financial condition and cash flows.

The Company could lose ownership of its current IP addresses

The public IP addresses used by the Company are owned by the Telefónica Group and are used by the Company pursuant to a licence granted under the IP Nodes Agreement referred to above, which provides that Telefónica may require the Company to cease to use such public IP addresses when the same circumstances as those described above with respect to the use of the AS 12956 under "*—The Company could lose its Tier-1 status in the future, which would adversely affect the Cable Segment*". See section "*Material Contracts—IP Nodes Agreement*" for further details. Public IP addresses are a scarce resource in the public Internet and the Company could have severe difficulties in obtaining new public IP addresses if the Company is no longer able to use the IP addresses it currently uses. If the Company is no longer able to use the IP addresses it currently uses, the revocation of the consent by Telefónica as above referred or otherwise, the Company's IP revenues could be severely reduced, both from Telefónica and third parties. Furthermore, this could affect the Company's ability to serve its customers and could in turn cause a loss to certain of the Company's customers that could give rise to a claim for damages against the Company or other contractual remedies (such as, for example, the payment of penalties or the right to terminate the contract itself). The occurrence of any of the forgoing could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The need to obtain additional capacity for the Company's network from other providers increases its costs. In addition, the need to interconnect its network to networks that are controlled by others could increase the Company's costs

The Company uses network resources owned by other companies for portions of its network by leasing and operating a variety of sources of network connectivity, including backhaul networks, international backbone networks, domestic networks and local access networks, to provide service coverage beyond the reach of its networks. The Company obtains the right to use such network portions, including both telecom capacity and rights to use dark fibre, through operating leases and indefeasible right of use ("**IRU**") agreements. In several of those agreements, the counter-party is responsible for network maintenance and repair. If a counter-party to a lease or right of use suffers financial distress or bankruptcy, the Company may not be able to enforce the Company's rights to use these network assets or, even if the Company could continue to use these network assets, it could incur material expenses related to maintenance and repair. The Company could also incur material expenses if it were required to locate alternative network assets. The Company may not be successful in obtaining reasonable alternative network assets if needed. Failure to obtain usage of alternative network assets, if necessary, could have a material adverse effect on the Company's ability to carry on business operations. In addition, some of its agreements with other providers require the payment of amounts for services whether or not those services are used.

Costs of obtaining service from other communications carriers comprise a significant proportion of the operating expenses of long distance carriers. Similarly, a large proportion of the costs of providing international service consists of payments to other carriers. Changes in regulation, particularly the regulation of local and international telecom carriers and local access network owners, could indirectly, but significantly, affect the Company's competitive position. These changes could increase or decrease the costs of providing the Company's services, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's agreements with certain agencies of the U.S. Government impose significant requirements on the Company. A violation of those agreements could have severe consequences

The Company has issued a letter of assurance to the U.S. Departments of Homeland Security, Justice and Defense addressing the U.S. government's national security and law enforcement concerns regarding the BRUSA network. The issuance of such letter by the Company was a requirement for the U.S. authorities to grant the required consent for the landing and operation of the BRUSA network in U.S. territory and the letter addresses issues relating to national security, law enforcement and public safety. See section "*Regulation—U.S. framework—National security and law enforcement regulation*". This letter imposes certain requirements on the Company related to information storage and management; traffic management; physical, logical, and network security arrangements; personnel screening and training and other matters. While the Company expects to continue to comply fully with its obligations under this letter, it is impossible to eliminate completely the risk of a violation. The consequences of a violation of the letter of assurance could be severe, potentially including the revocation of the Company's Federal Communications Commission ("**FCC**") licenses in the U.S., which would result in the cessation of the Company's U.S. operations, and/or the loss of permissions required to do business with the U.S. Government. Any of these factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Increasing of local caching or changes in peering policy could reduce the demand for international data transportation

The demand for international data transportation may decrease in the future if local caching predominates in the markets where the Company operates. With local caching, the data content is stored locally and when a final user needs to access such content there is no need to transport it to the final user, which is one of the services the Company provides through its submarine cable infrastructure. The ultimate decision to implement local caching depends on both the carrier's interconnection policy and OTTs caching strategy. The possibility of caching is related to the type of traffic/application (highly replicable content). A decline in the demand for international data transportation as a result of local caching or otherwise could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See also "*—Risks Related to the Company's Operations and the Business where it Operates—The Company's business depends on the demand for the telecom services that it provides, which the Company cannot control, and the Company may be adversely affected by any slowdown in such demand*" above.

In addition, Telefónica may change at any time its existing peering policy by opening Telefónica subsidiaries to direct interconnection with the OTTs (both through direct interconnection or local caching inside the subsidiaries' networks), which would reduce the related traffic currently carried by the Company. This decision would have a direct impact on existing and future IP revenues coming from the OTTs which, in turn, could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Delays in U.S. licensing and permitting processes could delay the entry into commercial service of new submarine cable facilities

Although non-U.S. companies such as the Company may own submarine cable infrastructure in the territory of United States, prior licenses and permits must be obtained from the relevant U.S. authorities, including the Federal Communications Commission. Delays in the Company obtaining the relevant licenses and permits from the U.S. authorities required in connection with the BRUSA and Marea projects, as well as the extension of SAM-1 to the Dominican Republic, could delay the entry into commercial service of those facilities. The national security and law enforcement review by the U.S. Department of Defense, the U.S. Department of Homeland Security and the U.S. Department of Justice required in order to obtain the required licenses and permits is time-consuming and is not subject to statutory time limits, so prolonged reviews by those agencies can preclude the FCC from acting expeditiously. Furthermore, although the Company is not aware of the Federal Communications Commission having denied to date a license for new submarine cable facilities in the United States, it is possible that the Company could fail to obtain the relevant licenses and permits at all. Federal, state and local environmental and land-use permitting process for new communication infrastructure is similarly time-consuming and uncertain in terms of the timing of the receipt of the relevant permits. See sections "*Regulation—U.S. framework—Submarine cable infrastructure", "Regulation—U.S. framework—State and local rights-of-way and sitting"* and *"Regulation—U.S. framework—National security and law enforcement regulation"*. If there are delays in the U.S. licensing and permitting processes for these projects, or if the Company is unable to obtain the relevant licenses and permits, this may have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Risks Specific to the Tower Segment

In addition to the risks described under "**—***Risks Related to the Company's Operations and the Business where it Operates*" above, the risks below specifically apply to the Tower Segment.

Demand for the Company's services could be affected by its customers' inability to maintain or secure frequencies for their services

The Company's main customers in the Tower Segment are certain operating companies of the Telefónica Group that are telephone and Internet service providers. Telephone service providers, including these companies, own the right to use frequencies for their services based on adjudication, license and renewal procedures that are beyond the Company's control.

While the Company's activities do not depend on the authorisations relating to the right to use the frequencies owned by telephone service providers, the ability of its customers (i.e., telephone service providers) to maintain the rights to use such frequencies depends on these authorisations. For example, the Telefónica Group has authorisations to use certain frequencies in the different countries where it operates. Such authorisations are granted by the authorities of each jurisdiction for a limited period of time, which may vary, and are due to expire over the coming years. Unrelated mobile network operators are also subject to the same licenses and limitations. There is no certainty that in the future the Company's customers will be able to retain ownership of the frequencies with respect to which the Company provides its services to them or that such frequencies will be re-assigned to them upon expiration.

Should any of the Company's customers lose the right to operate on any portion of the frequencies currently assigned to them, this could result in reduced demand for the Company's services, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. For further information, see section "*Regulation*".

If the Company's customers share towers to a significant degree or consolidate or merge, its growth, revenue and ability to generate positive cash flows could be materially and adversely affected

Extensive sharing of site infrastructure, roaming or resale arrangements among wireless service providers as an alternative to leasing the Company's towers may cause new lease activity to slow down if carriers utilise shared equipment (either active or passive) rather than deploy new equipment, or may result in the decommissioning of equipment on certain existing sites because parts of the customers' networks may become redundant.

In addition, any potential integration or consolidation of the Company's tower customers would likely result in duplicate or overlapping networks, which may result in the termination or non-renewal of customer contracts (for example where they are co-tenants on a tower) and in the loss of commercial opportunities resulting in a lower number of potential customers for the Company. These two scenarios could materially and adversely impact revenues from the Company's wireless infrastructure and its commercial prospects.

In addition, consolidation may result in a reduction in such customers' total future capital expenditures because their expansion plans may be similar. Wireless carrier consolidation partly explains the recent success and emerging role of neutral carriers but at the same time could decrease the demand for the Company's wireless infrastructure, which in turn could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's ability to use some of its towers could be affected by contractual or administrative law constraints

The Company operates its towers on the basis of lease agreements, sublease agreements and/or concessions or authorisations for the use of the land or structures where the tower infrastructure is located. Agreements permitting the Company to use land or such other structures not owned by the Company could fail to be renewed, resulting in an obligation for the Company to return the land or structures used to their original condition. Additionally, there is a risk that any renewals will not be obtained on terms as favourable as those applicable on the date of this Prospectus, and/or the Company may be required to locate new towers that could render managing and operating those sites less profitable. Further, pursuant to the Reorganisation, the Company acquired some of the towers and the agreements associated therewith without the prior consent of the relevant land owners, who in some cases may therefore be entitled to legally challenge such acquisition. These factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Disputes may also arise with third parties with respect to the ownership or right of use of areas where certain towers are located, which could result in disruption in the Company's operations, the loss of its right to use certain towers or the obligation to make compensation payments.

Moreover, the towers that make up the Company's infrastructure network were built over a period of several decades that witnessed significant changes in the relevant administrative law. In certain circumstances, this could make it necessary to undertake procedures to ensure the compliance of the Company's use or operation of certain sites with applicable administrative regulations. The relevant administrative law authorities could impose obligations on the Company for the adoption and/or the modification of some of these towers, which in turn could affect the operating conditions of these towers and/or require higher investments or increased operating costs. Specifically, in the event that network infrastructures are installed on public domain properties or public properties owned by the state, regional governments or local authorities that the Company utilizes through a concession or authorisation agreement (and not a private law commercial lease agreement), the transfer in the concession or authorisation must be authorised in advance by the entity that granted the concession or authorisation, as applicable. However, it is possible that some of the entities may decide that the Company requires a new concession or authorisation, possibly with different terms and conditions (including those related to duration and rent), and could initiate a new administrative procedure or not agree to the transfer of the concession. Should the relevant entity require the Company to modify and/or amend a concession or authorisation, the Company may be subject to costs, expenses and investments to comply with the requested changes on the sites and this could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's costs could increase and its revenues could decrease due to perceived health risks from radio emissions and electromagnetic radiation, especially if these perceived risks are substantiated

Public perception of possible health risks associated with cellular and other wireless communications technologies could affect the growth of wireless companies, which could in turn affect the growth of the Tower Segment. In particular, negative public perception of, and regulations regarding, these perceived health risks could undermine the market acceptance of wireless communications services, increase opposition to the development and expansion of tower sites and lead to price increases of the site rentals where the towers are located. The potential connection between radio frequency emissions and certain negative health or environmental effects has been the subject of substantial study by the scientific community in recent years and numerous health-related lawsuits have been filed against wireless carriers and wireless device manufacturers. If a scientific study or court decision in Spain, Germany, Latin America or elsewhere resulted in a finding that radio frequency emissions pose health risks to customers, it could negatively impact the Company's tenants and the market for wireless services, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. Furthermore, the Company's insurance with respect to the potential harm from electromagnetic radiation may not be sufficient to cover all or a substantial portion of any liability the Company may have.

The Company's business in Spain depends on the delivery of an adequate and uninterrupted supply of electrical power and fuel at a reasonable cost

Spain is the only country where the Company operates the supply of electricity in the Tower Segment, initially assuming its associated costs for subsequent billing to its customers. The Company's tower sites in Spain therefore require an adequate and cost-effective supply of electrical power to function effectively. The Company principally depends on power supplied by regional and local electricity transmission grids operated by the various state electricity providers in which its sites are located. In order to ensure that the power supply to its sites in Spain is constant and uninterrupted, the Company also rely on batteries and diesel generator sets, the latter of which require diesel fuel.

The Company's customers' operating costs will increase if the price at which the Company purchases electrical power from the state electricity providers or fuel increases. While the Company believes that its current supply of electricity from third parties and internal generation is sufficient to meet its existing requirements, there is no assurance that the Company will have an adequate or cost effective supply of electrical power at its sites or fuel for the generation of captive power, lack of which could disrupt its customers' businesses, which could in turn have an indirect adverse effect on the Company's business and results of operations. Further, any increase in the cost of electrical power, to the extent that the Company is not able to pass this through to its customers, would also adversely affect its profitability.

Risks Related to the Company and the Reorganisation

The Company has a limited operating history as a stand-alone company

Although the Company was incorporated on 10 October 2012 (as Telefónica América, S.A.), prior to 31 March 2016, the Company had no material business or assets and only limited activities. During the first five months of 2016, the Company acquired from the Telefónica Group the assets and liabilities composing the Cable Segment and the Tower Segment through a series of intra-group transactions including several spin-offs, contributions of assets and purchases of shares and/or assets. All of these transactions are hereafter referred to as the "**Reorganisation**". See section "*Business—History*" for more details.

In connection with the Reorganisation the Company and the Telefónica Group entered into, among others, the Cable MCA and the Cable Outsourcing Agreements, and the Company entered into several Tower MLAs with certain subsidiaries of Telefónica for the operation of the acquired tower infrastructure and several ancillary service agreements regarding the Tower Segment that complement the Tower MLAs (the "**Tower Service Agreements**"). See section "*Material Contracts*".

The Company has therefore a very limited operating history as a stand-alone company on which to base an evaluation of its business and prospects. The Company's business is evolving and the historical financial information of the Cable Segment and the Tower Segment acquired by the Company is limited and is not necessarily representative of the results that it would have achieved if the Company was a separate public company at such time and may not be a reliable indicator of its future results. For additional information about the historical financial performance of the Cable Segment and the Tower Segment and the basis of presentation of the financial information, see sections "*Pro Forma Consolidated Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

There can be no assurance that the Company's operating results will continue at a similar level to those performed by the former companies of the Telefónica Group that operated the assets prior to the Reorganisation. The Company's prospects must be considered in light of the increased risk, expenses and difficulties frequently encountered by companies in their early stages of operation, and in particular in an evolving industry such as the telecom industry. It cannot be assured that the Company will be successful in addressing the risks it may encounter, and the Company’s failure to do so could have a material adverse effect on the Company’s business, results of operations, financial condition and cash flows.

Further, as a company with limited operating history, the Company is in the process of developing and implementing procedures, policies and systems of internal controls, such as a system of internal accounting controls and disclosure controls required to comply with the regulatory and reporting obligations imposed by applicable Spanish rules, laws and regulations on companies listed on the Spanish Stock Exchanges and internal procedures to identify and control the diverse inventory of the worldwide infrastructure acquired by it pursuant to the Reorganisation and thereafter. This process is ongoing and may present difficulties in the early stages. Failure to successfully implement and maintain such procedures going forward could have a material adverse effect on the Company’s business, results of operations, financial condition and cash flows.

The Company may be unable to implement its strategy and efficiently operate its business

The Company’s current structure is the result of the acquisition by the Company of the Cable Segment and the Tower Segment from Telefónica pursuant to the Reorganisation. No assurance can be given that the implementation of the Reorganisation and the integration of the entities acquired thereafter will not encounter difficulties of an administrative, technical, industrial, operating, regulatory or financial nature, and that, as a result, the expected benefits will be realized, which could have a material adverse effect on the Company’s business, results of operations, financial condition and cash flows.

The Reorganisation presents risks typical of restructuring transactions for corporate groups, including difficulties relating to management coordination, separation of budgeting and reporting procedures and commercial offerings, duplication of functions and use of resources to achieve operating efficiencies. Notwithstanding the fact that the Reorganisation has been consummated, the completion of the process of separating the existing structures, technologies and services belonging to the Company from those of the companies forming part of the Telefónica Group is still ongoing and may require more time and expense than originally anticipated. Such circumstances could reduce expected synergies in production, distribution and sales as well as the anticipated benefits, with possible adverse effects on the Company’s business, results of operations, financial condition and cash flows.

Further, the Company’s business strategy has not been proven and there can be no assurance that the Company will be able to develop a successful stand-alone business over the long term. As a company with limited operating history, its ability to increase its revenues and improve the Company’s profitability depend on the successful realisation of the Company’s strategy, which is based on the factors described in section “*Business—Strategy*”. The failure to implement or achieve any component of its strategy and/or to manage its growth strategy for any reason, including any of the factors set out in these risk factors, could have a material adverse effect on the Company’s business, results of operations, financial condition and cash flows.

Moreover, although the Company has a senior management with significant experience in the telecom industry, most of the senior management team joined the Company from the Telefónica Group in connection with the Reorganisation. Further, the assets that now constitute the core of the Company’s business and were transferred to the Company pursuant to the Reorganisation were previously operated as part of an integrated telecom business. The Company cannot assure that it will be able to transform the Company into a successful integrated and independent business or that the challenges of operating as a stand-alone company will not occupy a significant amount of the Company's management's time and resources to the detriment of the development of the its business, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company is a holding company and its only material assets are its interests in its subsidiaries, upon which the Company is dependent for distributions to pay dividends, taxes and other expenses

The Company is a holding company whose sole material assets consist of its interests in its direct and indirect subsidiaries. The Company does not have any independent means of generating revenue. The Company intends to cause its operating subsidiaries to make distributions to the Company in an amount sufficient to cover all applicable taxes payable and dividends, if any, declared by the Company. To the extent that the Company needs funds for a cash dividend to holders of Shares or otherwise, and one or more of the Company's operating subsidiaries is restricted from making such distributions under the terms of its financing or other agreements or applicable law and regulations or is otherwise unable to provide such funds, it could materially adversely affect the Company's liquidity and financial condition and limit its ability to pay any dividends to its shareholders.

The Reorganisation may result in contract claims and breaches of contracts entered into by the entities acquired by the Company

The acquisition of the Cable Segment and the Tower Segment has entailed the transfer to the Company of the assets and liabilities associated with the Cable Segment and the Tower Segment. However, certain contractual arrangements transferred to the Company pursuant to the Reorganisation contained provisions that either restricted the transfer of assets or restricted the assignment of the related contracts. While the transfer of assets to the Company has been consummated as a matter of law, certain arrangements that have been transferred to the Company may give counterparties the right to challenge the transfer or assignment of such arrangements. Any successful challenge to such transfer or assignment could result in the termination or amendment of the relevant arrangement or otherwise give rise to third-party rights, any of which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. Furthermore, while Telefónica will retain control over the Company after the Offering, any change in the stake held by Telefónica subsequent to the Offering may result in the breach of change of control and other similar provisions included in certain financing and other agreements originally entered into by the legal entities transferred to the Company to which it became and continue to be a party subsequent to the Reorganisation. While the Company will monitor these developments to ensure that, if necessary, the Company renegotiates or restructure such agreements, the Company may not be able to do so without making additional payments, which could be material or otherwise adversely affect the Company's business, results of operations, financial condition and cash flows.

Risks Related to the Company’s Relationship with Telefónica

The Cable MCA and the Tower MLAs with Telefónica may be subject to early termination under certain limited circumstances or not renewed

On 31 March 2016 the Company entered into the Cable MCA with Telefónica pursuant to which the Company undertook to provide Telefónica with IP transit to the different OBs of the Telefónica Group identified therein in exchange for a fee. Such services include, among others, technical management, service provisioning, service operation, customer care, quality of service and reporting. The different OBs of the Telefónica Group adhered to the Cable MCA through letters of adherence, and additional current or future OBs of the Telefónica Group may do so in the future for their specific business, applying the general conditions fixed for the services which are provided to each OB and defined in an annex specific to such OB. On 30 May 2016, but effective since 1 January 2016, a bilateral separate master commercial agreement was entered into between the Company and Telefónica Germany GmbH&Co. OHG due to the specific conditions applicable in Germany and not common to the rest of the OBS. See section “*Material Contracts*”.

On 18 February 2016, the Company through a subsidiary entered into an MLA with a subsidiary of the Telefónica Group that regulates the provision of services in relation to the telecom towers located in Spain acquired from Telefónica. The Company has also entered into separate MLAs with the relevant subsidiaries of the Telefónica Group in relation to the additional telecom towers acquired in Germany and Latin America. Under the Tower MLAs, the Company undertook to provide Telefónica with certain services at the relevant sites identified therein. See section “*Material Contracts*” for further details.

In general, Telefónica may not terminate any of the Cable MCA or the Tower MLAs during their respective initial terms of five years in the case of the Cable MCA and generally 10 years in the case of the Tower MLAs (15 years in the case of the Tower MLA for Germany) except for certain extraordinary events. In particular, the Cable MCA and the Tower MLAs may be terminated on the basis of a material contractual breach by either party or in the event of cessation in the commercial activity, an administrative sanction of or a material change in the financial situation of either party to the relevant to the agreements, or in the case of a change of control of either party as described in section “*Material Contracts*”. For example, if there were a change of control of the Company, the counterparty to the Cable MCA would have the right to terminate the agreement and the counterparty to certain Tower MLAs would have the right to acquire the underlying infrastructure if a competitor of Telefónica were to acquire control of the Company, in each case as described therein. In addition, these provisions in the Cable MCA and the Tower MLAs could discourage a third party competitor of Telefónica from pursuing any change of control transactions that holders the Company’s Shares may view as beneficial.

The Cable MCA will be automatically renewed on its initial expiration date for additional three years, unless there is no agreement on the new economic terms. The Tower MLAs may generally be renewed following the expiration of their initial term for three additional periods (two in the case of the Tower MLA for Germany) of five years each, after which the term of the contract becomes indefinite. Telefónica may in certain cases terminate the MLAs following their initial term subject to a minimum prior notice requirement. For example, in the case of the Tower MLA for Spain, Telefónica has the right to terminate the agreement following the initial term and the three additional periods with at least six months prior notice and in the case of the Tower MLA for Germany, Telefónica has the right to terminate the agreement following the initial term and the two additional periods with at least six months prior notice. For the six-month period ended 30 June 2016, the Company generated 63% of its pro forma consolidated revenues from the Cable MCA, the Tower MLAs and other agreements with the Telefónica Group. Considering the significant impact of the Cable MCA and the Tower MLAs on the Company's revenues, should the agreements be early terminated under limited extraordinary circumstances, or should Telefónica exercise its termination right or its right not to renew the contract, which is limited under certain circumstances, this could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Furthermore, of the Company's estimated Backlog of €4.7 billion as of 1 January 2016, on a pro forma basis, including contracts entered into through 30 June 2016, 75% are related to the Cable MCA and the Tower MLAs and other agreements entered into with the Telefónica Group. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Company's Results of Operations—Backlog*" for further details as to when the Company expects such Backlog to be converted into revenue. As a result, the Company's estimated pro forma Backlog is subject to significant customer concentration. If members of the Telefónica Group were unwilling or unable to perform their contractual commitments with us, this would limit the conversion of that pro forma Backlog into revenues, which could in turn have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

If the Cable Outsourcing Agreements and the Tower Service Agreements were to be terminated or if Telefónica fails to perform its obligations under the Cable Outsourcing Agreements or the Tower Service Agreements, there is no guarantee that the Company will be able to obtain replacement agreements with unrelated parties in the future, or that the Company would be able to obtain terms that are comparable to the existing arrangement through replacement agreements

In the context of the Reorganisation, effective from 1 April 2016 the Company entered into the Cable Outsourcing Agreements with the Telefónica Group pursuant to which they provide the Company with certain technical services necessary for the operation of its network in the Cable Segment. Such technical services include, among others, professional technical services in support of the Company's business, infrastructure support services necessary for the Company to expand and support its own infrastructure and temporary professional services. Additionally, under the Cable Outsourcing Agreements, Telefónica Group companies provide the Company with certain additional commercial services such as agency services in selling to certain wholesale customers and OTTs. All of the four Cable Outsourcing Agreements have a 21 months initial term (until 31 December 2017), which may be renewed as described in section *"Material Contracts—Cable Outsourcing Agreements*" for further details. Further, also effective from 1 April 2016 the Company entered into additional agreements with the Telefónica Group regarding the Cable Segment, under which the Company is responsible, among others, for reselling capacity to unrelated parties, hosting professional services, providing housing services in America and ancillary general services.

Regarding the Tower Segment, the Company has entered into several Tower Service Agreements associated with different towers that the Company acquired from Telefónica in Spain, Germany and certain countries in Latin America. Under such agreements, the Telefónica Group provides the Company with maintenance services related to the towers, such as infrastructure construction and development, maintenance, monitoring of incidents and security services. The term of the Tower Service Agreements is generally of one year and are generally automatically renewable for three additional periods of six months unless terminated by either party.

The Company has entered into other service agreements with the Telefónica Group, pursuant to which certain services will be procured for the Company by the Telefónica Group, and the Company expects to continue to do so in the future.

If any of the agreements described above were terminated, the Company would have to find substitutes to provide such services to the Company or it would have to procure them itself, which could be costly and time consuming. Further, there is no guarantee that the Company will be able to obtain replacement agreements with unrelated third parties in the future, or that the Company would be able to obtain terms that are comparable to the existing arrangement through replacement agreements, any of which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. In certain cases (if the Company decides not to extend or to early terminate the Cable Outsourcing Agreements), the termination of these agreements could also result in certain liabilities to the Company. See section "*Material Contracts*".

Moreover, despite the fact that each of the Cable Outsourcing Agreements and the Tower Service Agreements provide for pre-established fees and that additional maintenance activities requested by Telefónica will be carried out at Telefónica's expense, should any special maintenance activities need to be performed beyond what is covered under the pre-established fees and scope and should Telefónica refuse to pay for them, there could be a material adverse effect on the Company's business, results of operation, financial condition and cash flows. For further information with reference to ordinary and special maintenance expenses, see section "*Material Contracts*".

The Reorganisation and the arrangements between the Company and Telefónica were negotiated in the context of an affiliated relationship

Neither the acquisition of the Cable Segment and the Tower Segment from the Telefónica Group, nor the Cable MCA, the Cable Outsourcing Agreements, the Tower MLAs, the Tower Service Agreements, or any other agreements that the Company has entered into with entities of the Telefónica Group, were subject to the Company's related parties policy contained in the Framework Agreement entered into with Telefónica on 29 July 2016 and which is further described below, as such Framework Agreement will become effective only upon the listing of the Shares on the Spanish Stock Exchanges and on the Spanish Continuous Market.

The Reorganisation, the Cable MCA, the Cable Outsourcing Agreements, the Tower MLAs, and the Tower Service Agreements with the Telefónica Group as well as the Company's internal policies and procedures for dealing with related parties contained in the Protocol were negotiated in the context of the Reorganisation and by persons who were, at the time of negotiation, members of the Telefónica Group. While the Company believes that the terms of these arrangements are in line with the market terms for transactions of their type and broadly similar to what would have been obtainable from unaffiliated third parties, such terms, including terms relating to fees, performance criteria, contractual or fiduciary duties, conflicts of interest, limitations on liability, indemnification and termination, may be not as favourable to the

Company as otherwise might have resulted if the negotiations had involved unrelated parties from the outset.

The Company is highly dependent on Telefónica, which immediately after the Offering will be the Company's controlling shareholder

The Company currently is a wholly owned subsidiary of Telefónica. Immediately following completion of this Offering, Telefónica will beneficially own and will be the direct or indirect holder of 63.64% of the Company's issued share capital, or 60.00% if the Over-Allotment Option is fully exercised, and four out of the nine members of the Company's Board of Directors will represent Telefónica. As a result, Telefónica will immediately following the Offering be the Company's controlling shareholder and will continue to have a significant influence on the Company's affairs and its ownership interest and voting power will constitute a majority of any quorum of the Company' shareholders voting on any matter requiring the approval of its shareholders. Such matters include the election of directors, the adoption of amendments to the Company's articles of associations, the approval of dividends distribution and approval of mergers or sale of all or substantially all of the Company's assets.

This concentration of ownership may also have the effect of delaying or preventing a change in control of the Company or discouraging others from making tender offers for the Shares, which could prevent shareholders from receiving a premium for their shares.

Furthermore, certain competitors of Telefónica may be less likely to transact business with the Company due to Telefónica's ownership interest in the Company, which may limit the Company's ability for example, to increase its tenancy ratio in the Tower Segment or otherwise gain.

Other companies in the Telefónica Group could compete with the Company

Although the Company acquired all of the assets and liabilities composing the Cable and the Tower Segment pursuant to the Reorganisation from the Telefónica Group, certain Telefónica Group companies still retain certain cable and tower assets. In the cable business the Telefónica Group retained ownership of, or participating interests in, certain submarine cables in Spain, the majority of which provide local services within the Spanish territory, and outside Spain. In the tower business, only a portion of the telecom infrastructure towers of the Telefónica Group were transferred to the Company pursuant to the Reorganisation and the Telefónica Group still holds a significant amount of towers as of the date of this Prospectus. As a result, although the locations of the Company's and the Telefónica Group's respective cables and towers do not generally overlap, it is possible that they will compete with the Telefónica Group for traffic, customers or otherwise in both the Cable Segment and the Tower Segment as applicable in the future. Further, nothing in the Framework Agreement or otherwise precludes Telefónica from pursuing business opportunities that may be of interest to the Company as well. Present or future competition from the Telefónica Group could have a material adverse effect on its business, financial condition, results of operations and cash flows.

The Company's organisational and ownership structure may create conflicts of interest

The Company's organisational and ownership structure involves a number of relationships that may give rise to certain conflicts of interest between the Company and its minority shareholders, on the one hand, and Telefónica, on the other hand.

Four of the Company's initial directors will be affiliated with Telefónica. Following the completion of the Offering, Telefónica will be a related party under the applicable securities laws governing related-party transactions and may have interests which differ from the Company's interests or those of the Company's other shareholders, including with respect to the types of any acquisitions made and the timing and amount of dividends paid by the Company. Following the recommendations of the CNMV Good Governance Code of Listed Companies, of 28 February 2015, on 29 July the Company entered into the Framework Agreement with Telefónica. See section "*Management and Board of Directors—Framework Agreement of relations between the Selling Shareholder and the Company*". The Framework Agreement governs the Company's relationships and conflict procedures with Telefónica, including among other things, the scope of each company's activities in an attempt to prevent and resolve conflict of interest. Notwithstanding the foregoing, there can be no assurance that the interests of Telefónica will coincide with the interests of purchasers of the Offered Shares or that Telefónica will act in a manner that is in the Company's best interests. To the extent that the Company fails to appropriately deal with any such conflicts, it could negatively impact its reputation and its competitive position, all of which could have a material adverse effect on its business, financial condition, results of operations and cash flows.

The Company's reputation is closely related to that of Telefónica

The Company's reputation is closely related to that of Telefónica. If the public image or reputation of Telefónica were to be damaged as a result of adverse publicity or otherwise, the Company could be adversely affected due to its relationship with them. Any such perceived or real difficulties experienced by Telefónica would harm the Company's reputation, which could have a material adverse effect on its business, results of operations, financial condition and cash flows.

A change of control in the Company could have a material adverse effect

The Company currently owns the IP Nodes necessary to provide the IP services provided by it. According to the IP Nodes Agreement, Telefónica has the option to purchase the IP Nodes devoted to provide services to the Telefónica Group in the event of a change of control of Telxius as defined therein. See section "*Material Contracts—IP Nodes Agreement*" for further details. If the Company is no longer able to use such IP Nodes, the Company would need to acquire new IP Nodes, which would require significant investment. In addition, the substitution of the IP Nodes, could affect the Company's ability to serve its customers and could in turn cause a loss to certain of the Company's customers that could give rise to a claim for damages against the Company or other contractual remedies (such as, for example, the payment of penalties or the right to terminate the contract itself). The occurrence of any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Additionally, almost all of the service agreements entered into by the Company and the Telefónica Group companies contain change of control provisions pursuant to which Telefónica could terminate the agreements and, in the event of the Tower MLAs, would have the right to acquire the towers leased by the Company, at market conditions, if control (as defined in the relevant agreement) of the relevant subsidiary of the Company or the Company (in this latter case, except in the case of Germany) is acquired by a competitor of the Telefónica Group. The occurrence of any of the foregoing could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. See section "*Material Contracts*" for a description of the change of control provisions.

The financing agreements entered into by the Company with Telefónica and certain financial institutions contain change of control provisions pursuant to which, if Telefónica's participation in the Company falls below certain shareholding percentages or Telefónica ceases to otherwise control the Company, Telefónica and the financial institutions, as the case may be, could require the Company to prepay the amounts borrowed under such financing. There is no assurance that the Company would have the necessary resources to repay such financing in these circumstances, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Lastly, the management services agreement entered into between Telefónica and the Company may be terminated if the Company ceases to be part of the Telefónica Group. See section *"Material Contracts—Management Services Agreement"* for further details. In case of termination of such agreement, there is no assurance that the Company would have all of the necessary management resources to operate its business, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Risks Related to Regulation

The Company is subject to regulations that govern the way it conducts its businesses, and changes in current or future laws or regulations could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows

The industry in which the Company operates is highly regulated and the Company must comply with a variety of regulatory obligations, including related to taxation. The Company's operations are subject to regulation in each of the countries in which it operates and if the Company fails to comply with those regulatory requirements, it may not be able to conduct its business in the relevant jurisdiction, which would have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

In the ordinary course of constructing the Company's networks and providing its services, the Company is required to obtain, maintain and routinely renew a variety of telecom and other licenses, authorisations and other permits from administrative and regulatory agencies in the several countries in which it operates, as well as rights-of-way from utilities, railroads, incumbent carriers and other persons. In the future some of these existing licenses, authorisations or permits may be revoked, or the Company's applications could be denied or granted only in part. Due to the political and economic risks associated with some of the countries in which the Company operates, there can be no assurance that the Company will be able to obtain new licences, maintain its licenses or that such licenses will be renewed upon their expiration. Zoning authorities and community organisations may oppose to the construction of telecom infrastructure in their communities, which can delay, prevent or increase the cost of new infrastructure construction, modifications, or site upgrades, thereby limiting the Company's ability to respond to its customers' demands and requirements. In certain locations, the Company may be required to pay annual license fees, and these fees may be subject to increases by the government or administrations. Jurisdictions in which the Company currently operates or may operate in the future that do not currently require it to pay license fees may enact license fees. The Company's failure to obtain or maintain necessary licenses, authorisations and rights-of-way, or to comply with the obligations imposed upon license holders including the payment of fees, in one or more countries, may result in sanctions or additional costs, including the revocation of authority to provide services in one or more countries.

The Company's operations around the world are subject to regulation at the regional level, the national level and, in many cases, at the state, provincial, and local levels. In certain jurisdictions these regulations could be applied or enforced retroactively. The regulation of telecom networks and services around the world varies widely. In some countries, the range of services that the Company is legally permitted to provide may be limited, or may change. In other countries, existing telecom legislation is in the process of development, is unclear or inconsistent, or is applied in an unequal or discriminatory fashion, or inadequate judicial, regulatory or other forums are available to address these inadequacies or disputes.

The existing laws or regulations, including tax laws, under which the Company operates may be repealed, amended or overruled, and new regulation, may be promulgated at any time. Additionally, governmental authorities or court decisions may change their interpretation of the existing laws or regulations, including tax laws. Changes to existing regulations or rules, or the failure to regulate going forward in areas which have historically been regulated on matters such as network neutrality, licensing fees, environmental, health and safety, privacy, intercarrier compensation, interconnection and other areas, in general or particular to the Company's industry, may increase costs, restrict operations or decrease revenue. The Company's inability or failure to comply with the telecom and other laws and regulations of one or more of the countries in which it operates could result in the temporary or permanent suspension of operations in one or more countries. The Company also may be prohibited from entering certain countries at all or from providing all of its services in one or more countries. In addition, some of the countries in which the Company operates are conducting regulatory or other proceedings that will affect the implementation of their telecom legislation. The Company cannot be certain of the outcome of these proceedings. These proceedings may affect the manner in which the Company is permitted to provide its services in these countries as well as the level of fees and taxes payable to the government.

The regulatory regime applicable to electromagnetic emissions may indirectly affect the Company's capacity to provide certain of its services within the Tower Segment. Existing regulatory policies may materially and adversely affect the associated timing or cost of the Company's projects and additional regulations may be adopted that increase delays or result in additional costs to the Company, or that prevent its projects in certain locations. Also in the Tower Segment, the Company may be required to observe the rules of regulatory asymmetry for the exploitation of towers in Brazil, which may limit the maximum leasing prices of antenna space in its towers in Brazil.

The Company cannot guarantee that existing or future laws or regulations, including state, regional and local tax laws, will not adversely affect its business, generate delays in its projects or result in additional costs for the Company. These factors may have a material adverse effect the Company's business, results of operations, financial condition and cash flows. For further information, see section "*Regulation*".

The Company is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs

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

Although the Company has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to the Company's reputation and other consequences that could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Stringent environmental and health regulation imposes additional costs and may affect the Company's results of operations

The Company is subject to comprehensive regulation at the national and EU levels aimed at the protection of the environment and health. The Company is subject to various environmental laws and regulations in the countries in which it operates concerning issues such as damage caused by air emissions, noise emissions and electro-magnetic radiation. These laws can impose liability for non-compliance, are increasingly stringent and may in the future create substantial environmental compliance liabilities and costs. Further, there could be environmental liabilities arising from historical operations of its predecessors, for which the Company may be liable.

The Company may also face risks associated with working at height and with perceived or actual harm caused by electro-magnetic radiation. While the Company intends to comply with applicable environmental legislation and regulatory requirements, it is possible that such compliance may come to have an adverse effect or prove to be costly. In addition to potential clean-up liability, the Company may become subject to monetary fines and penalties for violation of applicable environmental laws, regulations or administrative orders. This may also result in closure or temporary suspension or adverse restrictions on its operations. The Company may also, in the future, become involved in proceedings with various environmental authorities that may require the Company to pay fines, comply with more rigorous standards or other requirements or incur capital and operating expenses for environmental compliance. In addition, third parties may sue the Company for damages and costs resulting from environmental contamination emanating from its properties, or for damages arising on its properties.

The Company considers that in the context of its operations it substantially complies with applicable environmental and health protection laws and has procedures designed to encourage and ensure such compliance. Nevertheless, in many jurisdictions these laws are complex, subject to frequent change and are increasingly becoming more stringent. Further, there can be no assurance that new environmental taxes will not be passed affecting its assets. Any breach of any relevant environmental law or regulation could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Although the Company is currently not subject to any material litigation in respect of health, environmental or safety matters, there can be no assurance that breaches of these laws have not occurred or will not occur or be identified or that these laws will not change in the future in a manner that could have a material adverse effect. Environmental laws and regulations may also impose obligations to investigate and remediate or pay for the investigation and remediation of environmental contamination, and compensate public and private parties for related damages.

In certain areas, local associations or groups may oppose the construction or operation of the Company's infrastructure as a result of alleged negative effects on the relevant area and the landscape. Any such challenge filed with the competent authorities may prevent or delay the Company's development projects.

The occurrence of any of the events described above could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

The Company's customers are subject to a wide-ranging regulatory regime, which indirectly affects the Company's own operations

The Company's customers are subject to a wide-ranging regulatory regime, stemming from both domestic and EU rules and requirements, in particular with respect to administrative and anti-trust matters and environmental concerns. For example, in the Tower Segment, the Company's customers are subject to rules and regulations that govern where they can locate their assets and under which conditions. These rules applicable to the Company's customers indirectly affect the Company's own operations, for example in the case of rules limiting electromagnetic emissions by mobile operators, which in turn are applicable to the Company to the extent its customers' transmitting equipment is hosted on the Company's sites. See section "*Regulation*" for further information on the rules limiting electromagnetic emissions mobile operators.

Should any of these customers be deemed to be in violation of these regulations, they could be exposed to a range of sanctions, including the temporary or definitive shut down of operations from specific sites, which in turn could affect the level of business and revenue the Company derives from such customers.

Moreover, on-going national plans relating to the reallocation of frequencies in the Tower Segment, decisions taken by regional and local authorities on the location of sites, or budgetary measures implemented by any such regional or local authority could require or make it advisable for the Company to relocate or shut down some of its sites.

The occurrence of any of the events described above could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Risks Related to the Financial Information Included in this Prospectus

The Company's statement of financial position includes significant amounts of goodwill and other intangible assets which may be subject to impairment in the future

The goodwill and other intangible assets (such as intangible assets resulting from the Reorganisation) recognised on the Company's statement of financial position (which were €276,285 thousand and €1,536,098 thousand, respectively, as of 30 June 2016) represented in the aggregate 51% of the Company's consolidated assets as of 30 June 2016, and any further acquisitions may result in the Company's recognition of additional goodwill or other intangible assets.

Under EU-IFRS, the Company is required to amortize certain intangibles over the useful life of the asset and subject its goodwill and certain of its intangible assets to impairment testing rather than amortization (see sections "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Goodwill* and "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates—Intangible assets*"). Accordingly, on at least an annual basis, the Company must assess whether there have been impairments in the carrying value of its goodwill and certain of its intangible assets. If the carrying value of the asset is higher than its fair value, then it is written down to fair value by recognising an impairment loss in the income statement. An impairment of a significant portion of goodwill or other intangible assets could have a material adverse effect on the Company's reported results of operations and the equity reflected on its statement of financial position, which in turn could have a material adverse effect on the Company's business, results of operations and financial condition.

While the financial information included herein complies with the applicable legal requirements, the Company does not have audited financial statements for the last three fiscal years

Although the Company was incorporated on 10 October 2012 (as Telefónica América, S.A.), it had no material assets and only limited activities until 31 March 2016. Accordingly, the historical financial information of the Company presented in this Prospectus is limited to the six-month period ended 30 June 2016. Prior to the Offering, the Company is not required to prepare consolidated financial statements as it is a wholly-owned subsidiary of Telefónica.

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements include the Company's statement of financial position as of 30 June 2016 and 31 December 2015 and consolidated income statement for the six-month periods ended 30 June 2016 and 2015. The consolidated income statement for the six-month period ended 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and the Company (the holding company of the Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months of activities (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A. Accordingly, any financial information presented herein for periods prior to 30 June 2016 will not be indicative of the Company's results as an independent operating company.

The Company's consolidated statement of financial position as of 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects all the cable and tower infrastructure acquired from the Telefónica Group pursuant to the Reorganisation. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of the Company's Results of Operations—Acquisitions*".

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements also include a statement of financial position as of 31 December 2015 and an income statement for the six-month period ended 30 June 2015. The information included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements as of 31 December 2015 and for the six-month period ended 30 June 2015 reflects principally TIWS América as the "acquiring entity" in the Reorganisation (and, to a significantly lesser extent, the assets and liabilities and financial results of certain limited activities conducted by Telefónica America, S.A. (now Telxius Telecom, S.A.) during such period). Consequently, in order to supplement the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, certain supplementary financial information is presented herein: the 2015 Audited Consolidated TIWS América Financial Statements and the Pro Forma Consolidated Financial Information.

The 2015 Audited Consolidated TIWS América Financial Statements included elsewhere in this Prospectus include the audited annual consolidated financial statements of TIWS América as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014). It should be noted that TIWS América was considered the "acquiring entity" in the Reorganisation from an accounting point of view, and its consolidated financial statements are thus considered to be the historical financial statements of the Company from an accounting perspective. Furthermore, TIWS América represents a significant part of the business of the Group as it accounted for 46% and 49%, respectively, of the pro forma consolidated revenues of the Company for the six-month period ended 30 June 2016 and the year ended 31 December 2015.

The Company therefore believes that this Prospectus contains sufficient financial information, in accordance with Directive 2003/71/CE of the Parliament and the Commission of 4 November 2003, for a potential investor to understand the current financial condition of the Company. It further believes that the information included in this Prospectus provides investors with the necessary information to make an investment decision in the Company and the Shares whose admission to trading in the Spanish Stock Exchanges will be requested.

The Pro Forma Consolidated Financial Information may not be representative of the Company's future results of operations and investors in the Shares may have limited recourse against the Company's independent auditors

This Prospectus includes the pro forma consolidated income statements for the six-month period ended 30 June 2016 and for the year ended 31 December 2015, together with the accompanying notes thereto, prepared to represent the main effects on the Company's consolidated income statement of the transactions described therein as if they had occurred on 1 January 2015. See section "*Presentation of Financial and Other Information—Pro forma consolidated financial information*".

The Pro Forma Consolidated Financial Information presented in this Prospectus is based on available information and certain estimates and assumptions that the Company believes are reasonable. The Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not purport to represent what the actual results of operations would have been if the events for which the pro forma adjustments were made had occurred on the date assumed, nor does it purport to represent the Company's results of operations for any future period or its financial condition at any future date. The Company's future operating results may differ materially from the pro forma amounts set out in this Prospectus due to various factors, including changes in operating results. Accordingly, investors are cautioned not to place undue reliance on the Pro Forma Consolidated Financial Information.

The report of Ernst & Young, S.L. with respect to the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus is addressed to the Board of Directors of Telxius Telecom, S.A. and provides: "This report has been prepared at the request of the Company in relation to the process of issuance and of the verification and registration of the prospectus of the Company which is expected to be approved on or about 20 September 2016 and, therefore, it must not be used for any other purpose or any other market, or published in any other prospectus or document of a similar nature to the prospectus of the Company without express content. We will not accept any liability to persons other than the addresses of this report."

In addition, the Pro Forma Consolidated Financial Information does not constitute, and should not be relied upon as constituting, a complete set of financial statements. For a proper interpretation of the Pro Forma Consolidated Financial Information, it must be read together with the financial information in relation to the Company included elsewhere in this Prospectus.

Certain historical financial statements included herein have not been prepared and are not presented in this Prospectus on a consistent basis and are not directly comparable between years, which limits the ability to analyse the Company's historical performance and evaluate its future prospects

In order to supplement the 1H 2016 Audited Consolidated Telxius Interim Financial Statements (which reflect six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and the Company (the holding company of the Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months of activities (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A.) included elsewhere in this Prospectus and provide investors with historical financial information about the Company's businesses before they were transferred to the Company pursuant to the Reorganisation, this Prospectus also includes certain additional financial information regarding TIWS América, which comprises a significant part of the Cable Segment, as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), although the Company does not consider it representative of the historical evolution of the Cable Segment nor indicative of the evolution of the Company as a whole, as they do not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation.

Specifically, this Prospectus includes certain additional financial information regarding TIWS América, which comprises a significant part of the Cable Segment, as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), including the 2015 Audited Consolidated TIWS América Financial Statements. Although the accounting policies used in preparing the 2015 Audited Consolidated TIWS América Financial Statements are the same as those used by the Company in preparing the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and all applicable mandatory accounting principles were taken into account, the 2015 Audited Consolidated TIWS América Financial Statements are not necessarily indicative of the results that would have been obtained by the Company if it had operated under the same legal structure during these years, or of the business's future results. Furthermore, the financial information as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014) included in the 2015 Audited Consolidated TIWS América Financial Statements may not be directly comparable with the Company's audited consolidated financial information as of and for the six-month period ended 30 June 2016 because the 2015 Audited Consolidated TIWS América Financial Statements do not reflect the full scope of the Cable Segment as they do not include certain other cable assets acquired pursuant to the Reorganisation such as all of the assets and liabilities comprising the Cable Segment in Spain.

Accordingly, the 2015 Audited Consolidated TIWS América Financial Statements are neither indicative of the evolution of the Cable Segment nor indicative of the evolution of the Company as a whole as they do not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation, and investors are cautioned not to place undue reliance on such information.

There are no stand-alone historical financial statements related to the Tower Segment available as the tower infrastructure business was not run as a separate business within the Telefónica Group.

Risks Related to Taxation

The Company may be a passive foreign investment company for U.S. federal income tax purposes in any year, which could result in adverse U.S. federal income tax consequences to U.S. investors

In general, a non-U.S. corporation is a "passive foreign investment company" (a "**PFIC**") for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns directly or indirectly at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and certain royalties and rents derived from related persons). Passive income does not include income attributable to the provision of a service ("**Services Income**").

Based upon the nature of its business, the manner in which the Company currently operates its business lines and Telefónica's expected majority ownership stake in the Company following this Offering, the Company does not expect to be treated as a PFIC for its current taxable year or in the foreseeable future. However, a company's PFIC status is a factual determination that is made on an annual basis and depends on the composition of a company's income and assets and the market value of its assets from time to time. The Company's PFIC status for any year will depend, in large part, upon the extent to which, under applicable rules, (i) the Company's Cable Segment income is considered to be Services Income and (ii) the Company's Tower Segment income is considered to be rents derived from related persons. While the Company believes that most of its Cable Segment and Tower Segment income should currently be so characterized, there is no guarantee that Telefónica will continue to own more than 50% of the Company's share capital and that the income that the Company receives from the Telefónica group will continue to qualify as related-party rental income. Moreover, due to the lack of authority addressing the characterisation of income from cable operations, the appropriate characterisation of the company's Cable income is not entirely clear. Accordingly, there can be no assurance that the Company will not be a PFIC for any taxable year.

If the Company were a PFIC for any taxable year during which a U.S. investor owned the Shares, such U.S. investor may be subject to certain adverse U.S. federal income tax consequences, including increased tax liability on gains from dispositions of the Shares and certain distributions and a requirement to file annual reports with the Internal Revenue Service.

See section *"Taxation—Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment* Company Rules" for more information. Potential U.S. investors are urged to consult their tax advisers with respect to whether the Company may be treated as a PFIC and the tax consequences if so.

Other Risks

Information in this Prospectus about the Company's industry, market share and relative competitive position are based on assumptions and estimates that the Company cannot assure you are accurate or correctly reflect its market position

This Prospectus contains statements regarding the Company's industry and its relative competitive position in the industry that are based on the Company's knowledge of the market in which it operates, on available data and on its own experience. Although the Company believes that these assumptions and estimates are reasonable, the Company cannot assure you that any of these assumptions are accurate or correctly reflect the Company's position in the industry.

Risks Related to the Shares and the Offering

The Company cannot assure that the Offering Price Range will match the future price of the Shares following the Offering

The Offering Price Range has not been established in public trading markets. The Offering Price Range for the Offered Shares (which is indicative and is not binding) has been determined by negotiations between Telefónica and the Joint Global Coordinators, without reliance on any third-party expert to assess the value of the Shares. Following the Offering, the Shares may not trade at price equal to or higher than the purchase price paid by investors per Offered Share and investors may lose all or a portion of their investment.

The market price of the Shares may fluctuate widely in response to different factors

The market price of the Shares may not reflect the value of the underlying assets of the Company and may also be subject to wide fluctuations in response to many factors, some of which may be outside the Company's control, including, among other things, variations in the Company's operating results, additional issuances or future sales of Shares or other securities exchangeable for, or convertible into, Shares in the future, divergence in financial results from stock market expectations, changes in stock market analyst recommendations, a perception that other market sectors may have higher growth prospects, general economic conditions, legislative changes in the Company's industry and other events and factors within or outside the Company's control, announcements of investigations or regulatory scrutiny of the Company's operations or lawsuits filed against the Company, investor perception of the success and impact of the Offering and the Company's strategy, customers or providers, negative publicity, announcements by the Company or its competitors of significant acquisitions, strategic partnerships, and changes among the Company's key personnel. Stock markets have from time to time experienced extreme price and volume volatility, which, in addition to general economic, political and other conditions, could adversely affect the market price for the Shares.

A liquid market for the Shares may fail to develop

Although the Company has applied to list the Shares on the Spanish Stock Exchanges, and the Company expects the Shares to be quoted on the SIBE on or about 3 October 2016 subject to completion of customary procedures in Spain ("**Admission**"), a liquid market for the Shares may fail to develop. Prior to Admission, there has been no public market for the Shares and there is no guarantee that an active trading market will develop or be sustained after Admission. Any delay in the commencement of trading of the Shares would impair the liquidity of the market for the Shares and make it more difficult for shareholders to sell Shares. An active trading market in the Shares may be limited if a large number of Shares are purchased by a small number of investors. If an active trading market for the Shares does not develop, investors may not be able to sell the Shares they purchased at or above the price at which they acquired them or at all. As a result, investors could lose all or part of their investment in the Offered Shares.

There can be no assurance that the Company will be able to make distributions to the Company's shareholders in the future

It is the Company's current intention to pay annual dividends to its shareholders as described in section "*Dividends and Dividend Policy*". Nonetheless, the Company's ability to pay dividends may be adversely affected by the risks described in this Prospectus and may be restricted if certain requirements under the Spanish Companies Act are not met or may be restricted by covenants included in its future financing agreements or the Company's growth strategy. For example, dividends may only be paid to shareholders if its net equity (*patrimonio neto*) is not, and as a result of the payment of dividends would not be, lower than the Company's capital stock.

Dividends depend on the Company's earnings and financial condition, its debt service obligations and debt covenants, its cash requirements (including capital expenditure and investment plans), regulatory and tax requirements and other factors that the Company deems relevant from time to time. As a result, the company's ability to pay dividends in the future cannot be assured and may be limited and/or the Company's dividend policy may change. If dividends are not paid in the future, capital appreciation, if any, of the Shares would be investors' sole source of gains.

Substantial sales of Shares by Telefónica, or the possibility of such sales, may affect the market price of the Shares

Substantial sales of Shares or interests in Shares by Telefónica or the possibility of such sales could cause the market price of the Shares to decline. Telefónica may, following the expiry of a lock-up period (starting on the date of the Underwriting Agreement and ending 180 days following the date of the Prospectus) (subject to certain customary exceptions) sell Shares in the market. The Company is unable to predict whether substantial amounts of Shares will be sold in the open market following expiry of the lock-up arrangements or earlier if the relevant consents are provided. A substantial amount of Shares being sold, or the perception that sales of this type could occur, could cause the market price of the Shares to decline. Both scenarios, occurring either individually or collectively, may make it more difficult for investors to sell the Shares at a time and price that they deem appropriate. Other shareholders will not be subject to any such lock-up arrangement and may sell their Shares at any time.

Investors in this Offering may experience dilution of their ownership interest due to the future issuance of additional Shares or convertible debt

In the event that the Company chooses to raise additional funds from further equity or debt financings, including sales of preferred shares or convertible debt, to finance further acquisitions or otherwise, the Company may issue previously authorised and unissued securities, resulting in the dilution of the ownership interests of purchasers of the Shares offered hereby. Such issuances may also have an impact on the market price of the Shares. The Company may, following the expiry of a lock-up period (starting on the date of the Underwriting Agreement and ending 180 days following the date of the Prospectus) (subject to certain exceptions, including an exception which permits the Company to issue Shares in connection with a merger or acquisition transaction) issue additional Shares to the market. See section "*Plan of Distribution*". The potential issuance of additional Shares or preferred stock or convertible debt may create downward pressure on the trading price of the Shares. In addition, the perception that the Company may in the future sell additional Shares, whether or not accurate, could have a similar effect. The Company may also issue additional Shares or other securities that are convertible into or exercisable for Shares in future public offerings or private placements for capital-raising purposes or for other business purposes, potentially at an offering price, conversion price or exercise price that is below the offering price for the Shares in this Offering.

The Offering may be revoked

If (i) the Underwriting Agreement for the Offering is not signed on or before 3:00 a.m. (Madrid time) on the date following setting of the Offering Price (which is expected to be set on 29 September 2016, or any postponement thereof duly notified to the CNMV; (ii) the Offering is suspended or withdrawn by any judicial or administrative authority; (iii) the Shares are not admitted to listing on the Spanish Stock Exchanges (and therefore, no quotation is made through SIBE either) before 11:59 p.m. (Madrid time) on 31 October 2016; or (iv) the Underwriting Agreement is terminated upon the occurrence of customary termination provisions set forth therein, the Offering (and the arrangements associated with it) will be automatically revoked, and all offers to purchase Shares shall be cancelled and all purchase orders related to the Offering shall be terminated. See section "*Plan of Distribution—Revocation of the Offering*". In that case, if applicable, Telefónica will be obliged to reimburse investors for any amounts paid for the Shares, in addition to any interest (at the legal interest rate currently in effect in Spain, which is, as of the date of this Prospectus, 3.00% per annum) from the date investors paid for the Shares until and including the date investors are reimbursed.

Shareholders in countries with currencies other than the euro face additional investment risk from currency exchange rate fluctuations in connection with their holding of Shares

The Shares will be quoted only in euros and any future payments of dividends, if any, on the Shares will be denominated in euros. The euro has recently declined in value against other world currencies, including the U.S. dollar. The U.S. dollar or other currency equivalent of any dividends paid on the Shares or any distributions made would be adversely affected by the depreciation of the euro against the U.S. dollar or such other currencies. Accordingly, any investment in the Shares by a shareholder whose main currency is not the euro will be exposed exchange rate risk so that any depreciation of the euro *vis-a-vis* such the shareholder's main currency will reduce the value of his equity investment and the value of any dividends received from the Company.

Shareholders in certain jurisdictions may not be able to exercise their preferential subscription rights to acquire further Shares

Pursuant to Spanish Company Act, which restated text was approved Royal Decree Law 1/2010, holders of Shares generally have the right to subscribe and pay for a sufficient number of Shares to maintain their relative ownership percentages prior to the issuance of any new Shares, unless such right is explicitly excluded under special circumstances by a resolution passed by the General Shareholders Meeting or Board of Directors, in accordance with the Spanish Companies Act. However, holders of Shares in certain jurisdictions outside the EU may not be able to exercise preferential subscription rights unless applicable securities law requirements are complied with or exemptions are available, although the option provided under applicable European regulations to passport a prospectus into other member states of the EEA may facilitate the exercise of such rights for residents in the EEA. Such holders, however, may be able to sell their rights in accordance with applicable laws. The Company may determine it is not in its best interests to comply with such formalities, and there can be no assurance that any exemptions will be available. Any affected shareholder may lose those preferential subscription rights and as a result, the proportionate interest of such shareholder in the Company may be diluted. In particular, holders of Shares resident in the United States may not be able to exercise any future preferential subscription rights in respect of the Shares they hold unless a registration statement under the U.S. Securities Act is effective or an exemption from the registration requirements is available. No assurance can be given that the Company would file or have declared effective any such registration statement, that any exemption from such registration requirements would be available to allow for the exercise of the preferential subscription rights of U.S. holders or that the Company would utilize an exemption if one were available.

The ability of shareholders residing outside Spain to service process on the Company or to enforce any foreign court judgments against them may be limited

The Company is a *sociedad anónima* organized and existing under the laws of Spain. The rights of the Company's shareholders are governed by Spanish law and its bylaws (*estatutos* or the

“**Bylaws**”) and may differ from the rights of a shareholder of a foreign corporation. As a result, it may not be possible for the Company’s shareholders to enforce against the Company judgments of foreign courts. See section “*Enforcement of Civil Liabilities*”.

The Offered Shares will not be freely transferable in the United States

Any Offered Shares offered and sold to investors located in the United States will be “restricted securities” (as defined in Rule 144 under the U.S. Securities Act), and such Offered Shares may not be reoffered, resold, pledged or otherwise transferred, except: (i) outside the United States in accordance with Rule 903 or Rule 904 under Regulation S; (ii) to a QIB in a transaction that is exempt from registration under the U.S. Securities Act and that meets the requirements of Rule 144A; (iii) pursuant to an effective registration statement under the U.S. Securities Act; (iv) in accordance with Rule 144 under the U.S. Securities Act; or (v) in another transaction not requiring registration under the U.S. Securities Act; and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Reorganisation

Although the Company was incorporated on 10 October 2012 (as Telefónica America, S.A.), it had no material assets and only limited activities until 31 March 2016 when it acquired from the Telefónica Group the assets and liabilities comprising the Cable Segment (including TIWS América) and the Tower Segment (other than towers acquired in Germany and Chile thereafter) through a series of intra-group transactions including several spin-offs, contributions of assets and purchases of shares and/or assets. As part of TIWS América, the Company also acquired certain VPN, voice, IPX and satellite assets which were disposed of on 31 March 2016. See section "*Business—History*" for more details.

Since the Company had only limited activities and no material assets or subsidiaries prior to 31 March 2016, the Company prepared interim consolidated financial statements for the first time as of and for the three-month period ended 31 March 2016, the first period in which it was the parent company of a consolidated group. Prior to the Offering, the Company is not required to prepare consolidated financial statements as it is part of the Telefónica Group and the parent company Telefónica presents consolidated financial statements in accordance with EU-IFRS (as defined below).

Historical financial information

The Company prepares its financial statements in euro, its reporting currency. The historical financial information of the Company included in section "*Selected Audited Consolidated Financial Information and Other Data*" of this Prospectus has been prepared in accordance with the requirements of the Prospectus Rules.

All the financial statements and other financial information included in this Prospectus, unless expressly specified otherwise, have been prepared in accordance with International Financial Reporting Standards ("**EU-IFRS**") and International Accounting Standard 34 (IAS), as adopted by the European Union, with regard to interim financial reporting.

The Company presents in this Prospectus, in each case prepared under EU-IFRS, the following:

- Telefónica International Wholesale Services América, S.A.'s audited annual consolidated financial statements as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), together with the explanatory notes (the "**2015 Audited Consolidated TIWS América Financial Statements**"); and

- the Company's audited consolidated interim financial statements as of 30 June 2016 and 31 December 2015, and for the six-month periods ended 30 June 2016 and 2015, together with the explanatory notes (the "**1H 2016 Audited Consolidated Telxius Interim Financial Statements**").

The 2015 Audited Consolidated TIWS América Financial Statements together with the 1H 2016 Audited Consolidated Telxius Interim Financial Statements are hereafter referred to as the "**Financial Statements**".

Pursuant to Spanish regulatory requirements, the 1H 2016 Audited Consolidated Telxius Interim Financial Statements have been required to be accompanied by a management report. Investors are strongly cautioned that the management report contains information as of a specific historical date and does not contain a current description of the relevant company's business, affairs or results of operations. The information contained in the management report has been neither audited nor prepared for the specific purpose of this Prospectus. Accordingly, the management report should be read together with the other sections of this Prospectus, and particularly sections "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". Any information contained in the management report is deemed to be modified or superseded by any information contained elsewhere in this Prospectus that is subsequent to or inconsistent with it.

The 2015 Audited Consolidated TIWS América Financial Statements, which were prepared by management and presented to the directors of TIWS América at the board of directors meeting held on 6 September 2016, and the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, which were formally approved (*formuladas*) by the Directors of the Company at the Board of Directors meeting held on 7 September 2016, have been audited by Ernst & Young, S.L., to the extent set forth in their respective unqualified reports thereon. Unless otherwise stated, no other financial information presented in this Prospectus has been audited.

Notwithstanding the above, the auditor points as a matter of emphasis (*párrafo de énfasis*) that the 1H 2016 Audited Consolidated Telxius Interim Financial Statements do not include all the information required for complete consolidated financial statements prepared in accordance with the International Financial Reporting Standards, as adopted by the EU, and therefore, the 1H 2016 Audited Consolidated Telxius Interim Financial Statements shall be read in conjunction with the 2015 Audited Consolidated TIWS América Financial Statements.

The Financial Statements included herein are English translations of the Financial Statements originally issued in Spanish.

1H 2016 Audited Consolidated Telxius Interim Financial Statements

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements included elsewhere in this Prospectus include the Company's statement of financial position as of 30 June 2016 and 31 December 2015 and the consolidated income statement for the six-month periods ended 30 June 2016 and 2015.

The consolidated income statement for the six-month period ended 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and the Company (the holding company of the Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months of activities (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A. Accordingly, any financial information presented herein for periods prior to 30 June 2016 will not be indicative of the Company's results as an independent operating company. The Company's audited consolidated statement of financial position as of 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects all the cable and tower infrastructure acquired pursuant to the Reorganisation from the Telefónica Group.

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements also include a statement of financial position as of 31 December 2015 and an income statement for the six-month period ended 30 June 2015. The information included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements as of 31 December 2015 and for the six-month period ended 30 June 2015 reflects principally TIWS América as the "acquiring entity" in the Reorganisation (and, to a significantly lesser extent, the assets and liabilities and financial results of certain limited activities conducted by Telefónica America, S.A. (now Telxius Telecom, S.A.) during such period). Therefore, the Company does not consider that the financial information as of 31 December 2015 and for the six-month period ended 30 June 2015 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements is representative of the historical evolution of the Cable Segment nor indicative of the evolution of the Company as a whole, as it does not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation.

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements are included in Annex 1 to the Prospectus.

2015 Audited Consolidated TIWS América Financial Statements

In order to supplement the 1H 2016 Audited Consolidated Telxius Interim Financial Statements included elsewhere in this Prospectus and provide investors with additional financial historical information about the Company's businesses before they were transferred to the Company pursuant to the Reorganisation, this Prospectus also includes certain additional financial information regarding TIWS América, which comprises a significant part of the Cable Segment, as of 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), including the 2015 Audited Consolidated TIWS América Financial Statements.

Although the accounting policies used in preparing the 2015 Audited Consolidated TIWS América Financial Statements are the same as those used by the Company in preparing the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and all applicable mandatory accounting principles were taken into account, the 2015 Audited Consolidated TIWS América Financial Statements are not necessarily indicative of the results that would have been obtained by the Company if it had operated under the same legal structure during these years, or of the business's future results. Furthermore, the financial information as of 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), included in the 2015 Audited Consolidated TIWS América Financial Statements may not be directly comparable with the Company's audited consolidated financial information as of and for the six-month period ended 30 June 2016 because the 2015 Audited Consolidated TIWS América Financial Statements do not reflect the full scope of the Cable Segment as they do not include certain other cable assets acquired pursuant to the Reorganisation such as all of the assets and liabilities comprising the Cable Segment in Spain.

Accordingly, the 2015 Audited Consolidated TIWS América Financial Statements are neither indicative of the evolution of the Cable Segment nor indicative of the evolution of the Company as a whole as they do not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation, and investors are cautioned not to place undue reliance on such information.

There are no stand-alone historical financial statements related to the Tower Segment available as the tower infrastructure business was not run as a separate business within the Telefónica Group.

The 2015 Audited Consolidated TIWS América Financial Statements are included in Annex 1 to the Prospectus.

Pro Forma Consolidated Financial Information

The Company presents in this Prospectus Pro Forma Consolidated Financial Information consisting of the pro forma consolidated income statements of the Company for the six-month period ended 30 June 2016 and for the year ended 31 December 2015, which have been derived from, and should be read in conjunction with the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and the 2015 Audited Consolidated TIWS América Financial Statements.

The Company has included the Pro Forma Consolidated Financial Information to illustrate on a pro forma basis the impact on its consolidated income statements for the six-month period ended 30 June 2016 and for the year ended 31 December 2015 of the transactions described therein as if they had occurred on 1 January 2015. Unless otherwise stated, all information included in this Prospectus on a "pro forma basis" has been presented on the basis that the transactions described in the Pro Forma Consolidated Financial Information had occurred on 1 January 2015.

The Pro Forma Consolidated Financial Information contains specific adjustments for the Reorganisation, does not purport to represent what the Company's consolidated results of operations of the Company would have been if the Reorganisation had occurred on the date indicated and is not intended to project the Company's consolidated results of operations for any future period or date, nor is it necessarily indicative of the Company's future results of operations or financial condition.

The Pro Forma Consolidated Financial Information is presented solely for illustrative purposes and reflects estimates and certain assumptions made by the Company's management considered to be reasonable under the circumstances and information existing as of the date of preparation of such Pro Forma Consolidated Financial Information.

The Pro Forma Consolidated Financial Information has been prepared in accordance with the requirements established in European Union Regulation 809/2004, of 29 April, on the application of Directive 2003/71/EC, of 4 November, of the European Parliament and Council with respect to the information contained in prospectuses as well as the format, incorporation by reference, distribution and publication of such prospectuses, with the content of the recommendations of the Committee of European Securities Regulators (CESR) for the consistent implementation of these regulations (ESMA/2011/81) regarding pro forma consolidated financial information, and with the Criteria Report regarding Pro Forma Financial Information published by the CNMV as agreed by its Executive Committee, of 9 February 2012.

The Pro Forma Consolidated Financial Information has not been prepared in accordance with Regulation S-X of the Securities Act or generally accepted practice in the United States. Neither the assumptions underlying the pro forma adjustments nor the Pro Forma Consolidated Financial Information have been audited in accordance with IFRS or with U.S. generally accepted auditing standards and the related report thereon is addressed solely to the Board of Directors of the

Company. See section "*Risk Factors—Risks Related to the Financial Information Included in this Prospectus—The Pro Forma Consolidated Financial Information may not be representative of the Company's future results of operations and financial condition, and investors in the Shares may have limited recourse against the Company's independent auditors".*

The Pro Forma Consolidated Financial Information is included in Annex 2 to the Prospectus.

Management performance measures

In addition to the aforementioned Financial Statements prepared according to EU-IFRS, certain management performance measures ("**MPMs**"), which have not been prepared in accordance with EU-IFRS and have been extracted or derived from the accounting records of the Group, including "OIBDA", "Recurrent Capex", "Non Recurrent Capex", "OIBDA Margin", "Recurrent Operating Cash flow", "Recurrent Levered Cash Flow", "Cash Conversion", "Gross Financial Debt" and "Net Financial Debt", have also been included in this Prospectus. The Company believes that the MPMs contribute to a better understanding of the Group's results of operations by providing additional information on what the Group considers some of the drivers of the Group's financial performance. Furthermore, the Company believes that these measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The MPMs are not audited, reviewed or subject to a pro forma review by the Company's auditors and are not measurements required by, or presented in accordance with, EU-IFRS. These management measures are not measurements of the Group's financial performance under EU-IFRS and should not be considered as alternatives to the information in the Financial Statements or to any performance measures prepared in accordance with EU-IFRS.

The Company believes that the description of these management measures in this Prospectus follows and complies with the European Securities and Markets Authority Guidelines on Alternative Performance Measures (APM) dated 5 October 2015.

"OIBDA", "Recurrent Capex", "Non Recurrent Capex", "OIBDA Margin", "Recurrent Operating Cash flow", "Recurrent Levered Cash Flow", "Cash Conversion", "Gross Financial Debt" and "Net Financial Debt" do not have standardized meanings, and different companies may use different definitions of "OIBDA", "Recurrent Capex", "Non Recurrent Capex", "OIBDA Margin", "Recurrent Operating Cash flow", "Recurrent Levered Cash Flow", "Cash Conversion", "Gross Financial Debt" and "Net Financial Debt". Therefore the Company's definitions of these measures may not be comparable to the definitions used by other companies. While the method of calculation may differ across the industry, the management of the Company believes that these indicators are important to understanding the Company's performance from period to period and that they facilitate comparison with the Company's peers.

The MPMs should not be considered in isolation and investors should not consider such information as alternatives to revenue, profit before tax or cash flows from operations calculated in accordance with EU-IFRS, as indications of operating performance or as measures of the Company's profitability or liquidity. Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with EU-IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these MPMs and are also advised to review them in conjunction with the

Financial Statements and the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus.

For the definition of and a reconciliation to an appropriate measure calculated in accordance with EU-IFRS of "OIBDA", "Recurrent Capex", "Non Recurrent Capex", "OIBDA Margin", "Recurrent Operating Cash flow", "Recurrent Levered Cash Flow", "Cash Conversion", "Gross Financial Debt" and "Net Financial Debt", respectively, see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*".

Recent accounting pronouncements

The International Accounting Standards ("**IAS**") Board issued IFRS 16 ("Leases") in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It will remove the distinction between "operating leases", which are reported on a company's statement of profit or loss and "finance leases", which are reported on a company's statement of financial position. Under the new standard, a lease is defined as a contract that provides the right to use an asset for a period of time in exchange for consideration. Therefore, companies that are lessees are required to recognize a lease liability for the obligation to make lease payments for the right to use the underlying asset for the term of the lease. EFRS 16 will effectively require companies that are lessees, including the Company, to report all leases as assets and liabilities on their statements of financial position. It will become effective from 1 January 2019 but may be implemented by companies prior to this date. Although as of the date of this prospectus, the EU has not yet adopted IFRS 16, the Company is considering the changes required by IFRS 16 and expect to comply with such requirements by the time IFRS 16 comes into effect. The Company is currently analysing the potential impact of the first-time application of this standard on its financial statements. In order to estimate such impact, the Company needs to estimate, among other factors, the term of the relevant leases taking into account whether the agreements may be early terminated or not and whether the terms may be unilaterally extended by one party or not and, in both cases, under which level of certainty, which will depend in turn on the expected use of the assets located in the underlying leased properties. The Company also needs to estimate the discount rate applicable to the rent income. The Company has not yet completed the process, given the recent publication of this standard and the various transition options established by this standard for first-time application. Although there are some exceptions, the Company, as lessees, would be required to record all leases on the balance sheet as liabilities, at the present value of the expected future payments, along with an asset reflecting the right to use the asset over the lease term. Currently, operating leases are accounted for in the income statement as an expense in the period incurred. Given that the Company's business, mainly in the Tower Segment, involves leasing land on which its infrastructure is located, the application of IFRS 16 in 2019 is expected to have a significant impact on the Company's consolidated financial statements.

Currency references

Unless otherwise indicated or otherwise required by the context, all references in this Prospectus to "euro", "€", "EUR" or "eurocent" are to the lawful currency of the participating Member States, including Spain, in the third stage of European Economic and Monetary Union of the Treaty establishing the European Community, as amended from time to time, and all references to "US dollars", "U.S. dollars", "dollars", "U.S.$", "USD" or "$" are to the lawful currency of the United States of America.

Rounding

Certain numerical figures included herein have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding. Figures that are presented in percentages in this Prospectus have not been calculated on the basis of rounded figures, but rather on those values prior to rounding. In addition, when describing the change in a percentage between two periods, the term "pp" means percentage points. As used in this Prospectus, the term "billion" means one thousand million (1,000,000,000).

No profit forecast

No statement in this Prospectus is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per Share after Admission will necessarily be greater or less than the historical earnings or earnings per Share for the Company.

Revenue break-down

Except as otherwise indicated, revenue from third parties within the Cable Segment does not include third-party revenue generated through the Telefónica Group's business units (the "**OBs of the Telefónica Group**").

Metrics included in this Prospectus which refer to the weight of Telefónica and third parties out of total pro forma consolidated revenue of the Company for the year ended 31 December 2015 and the six-month period ended 30 June 2016 are calculated without taking into consideration the adjustments referred to in Note (b.3) – "Pro forma Cable adjustments" and Note (b.6.2) – "Adjustments related to PPA" of the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus.

In addition, metrics included in this Prospectus which refer to the weight of IP revenue and Capacity revenue out of total pro forma consolidated revenue of the Company in the Cable Segment for the year ended 31 December 2015 and the six-month period ended 30 June 2016 are calculated without taking into consideration the adjustments referred to in Note (b.3) – "Pro forma Cable adjustments" and Note (b.6.2) – "Adjustments related to PPA" of the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus.

Fairness opinions

Telxius has engaged Banco Santander, S.A., with registered office at Gran Vía de Hortaleza 3, 28033 Madrid (Spain) and Duff & Phelps, S.L., with registered office at Príncipe de Vergara, 9, Madrid (Spain), as experts to prepare fairness opinions with respect to the consideration agreed between Telxius and Telefónica for some of the assets and liabilities of the Tower Segment and Cable Segment, respectively, acquired in the Reorganisation (the "**Fairness Opinions**"). Both Banco Santander, S.A. and Duff & Phelps, S.L. are qualified to prepare such opinions, with experience in preparing similar opinions as the Fairness Opinions.

The Banco Santander, S.A. Fairness Opinions with respect the Tower Segment are dated 4 August 2016 for Telxius Towers Spain and 8 August 2016 for Telxius Towers Brasil, Towerco Latam Peru and Telxius Towers Germany, and the Duff & Phelps, S.L. Fairness Opinion with respect to the Cable Segment is dated 5 August 2016, and both Banco Santander, S.A. and Duff & Phelps, S.L. have authorised the reproduction of their respective Fairness Opinion in this Prospectus which are attached in Annex 3 "*Fairness Opinions*". The Fairness Opinions have been accurately reproduced and, as far as Telxius is aware and able to ascertain, no facts have been omitted which would render the reproduced Fairness Opinions inaccurate or misleading. However, neither Telxius, Telefónica, the Managers nor any other party involved in the Offering can assure investors of the accuracy and completeness of, and take no responsibility for, such Fairness Opinions.

Forward-Looking Statements

This document contains "forward-looking statements" which are based on estimates and assumptions and subject to risks and uncertainties. Forward-looking statements are all statements other than statements of historical fact or statements in the present tense, and can be identified by words such as "may", "could", "will", "would", "should", "expect", "intend", "estimate", "anticipate" "guidance", "project", "future", "potential", "believe", "seek", "plan", "aim", "expect", "objective", "goal", "project", "strategy", "target", "continue" and similar expressions or their negatives. Since these statements speak as to the future, and are based on known and unknown risks, uncertainties, estimates and assumptions, actual results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies, plans or opportunities could differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements may be found in the sections of this Prospectus entitled "*Risk Factors*", "*Dividends and Dividend Policy*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*". These may include, among other things, statements relating to:

- the Company's Backlog;
- the Company's future operating results;
- the Company's future capital expenditures;
- the Company's future financial position and leverage;
- the Company's dividend policy; and
- the Company's strategy and business expansion plans.

Actual results may differ materially from those described in the forward-looking statements and, therefore, undue reliance should not be placed on any forward-looking statements.

Risks and uncertainties that could cause actual results to vary materially from those anticipated in the forward-looking statements included in this Prospectus include those described in "Risk Factors". The following are certain of the factors described in "Risk Factors" that could cause actual results or events to differ materially from anticipated results or events:

- Slowdown in the demand for the telecom services that the Company provides;
- Dependency of the Company on the Telefónica Group for a significant percentage of its revenues;

- Failure to convert Backlog into revenue;
- Increasing competition in the Company’s industry;
- New technologies or changes in the Company’s customers’ business model that make the Company’s services less desirable;
- Failure to provide uninterrupted or quality services;
- Risks derived from the development, expansion and maintenance of the Company’s infrastructure, including the need for ongoing capital expenditure;
- Failure to retain rights to the Company’s infrastructure;
- Failure of Telefónica or unrelated parties to provide services on which the Company relies;
- Termination of relationships with key suppliers;
- General economic and political conditions, particularly in Latin America;
- Risks inherent in international operations;
- Currency risks;
- Inflation and certain government measures to curb inflation in some Latin American countries;
- Natural disasters and other catastrophic events affecting the Company’s infrastructure for which its insurance may not provide adequate coverage;
- Breaches of the Company’s security measures, or attacks to its services;
- Failure to maintain effective business support systems and uniform standards, controls and policies;
- Risks derived from the expansion or development of the Company’s business, including through acquisitions or other growth opportunities;
- Risks derived from the Company’s indebtedness;
- Failure to obtain required additional capital and other resources in the future;
- Risks inherent to the distribution of content by its customers over its network;
- Dependency on key members of the management team and other qualified personnel;
- Litigation or other legal proceedings (civil, tax administrative or otherwise); and
- Credit and counterparty risks.

Readers should not place undue reliance on any forward-looking statements, which speak only as of the date of this Prospectus. Except as otherwise required by Spanish and other applicable securities law and regulations and by applicable stock exchange regulations, the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in the Company’s expectations with regard hereto, or any other change in events, conditions or circumstances on which any such statement is based.

REASONS FOR THE OFFERING AND USE OF PROCEEDS

The main reasons for the Offering are the following: (i) to meet the shareholding requirements for Admission, (ii) to grant the Company access to capital markets (including debt markets), which may eventually facilitate the provision of financing for the Company's future growth, (iii) to enhance the transparency, reputation and brand image of Telxius as a listed company, and (iv) to increase the liquidity of the Shares by means of the Admission.

The Company will not receive any proceeds from the sale of Offered Shares by the Selling Shareholder in the Offering.

DIVIDENDS AND DIVIDEND POLICY

Dividend Policy

It is the Company's current intention to pay annual dividends corresponding to at least 40% of its previous year Recurrent Levered Cash Flow. Telxius plans to make one single distribution of dividends each July on the basis of the Recurrent Levered Cash Flow of the previous fiscal year.

The Board of Directors currently intends to propose to the General Shareholders' Meeting a cash dividend to be paid in 2017 in an estimated amount of approximately €70 million as of the date hereof, which would be paid against the 2016 result for the period and/or other existing distributable reserves.

The payment of dividends, if any, and the amounts and timing thereof, will depend upon a number of factors, including, but not limited to, legal, tax and regulatory requirements, result for the period attributable to the parent or availability of distributable reserves, the Company's business evolution and growth strategy, inorganic investment opportunities, general economic and business conditions, market returns, credit solvency and such other factors which the Company's Board of Directors may deem relevant. Furthermore, the dividend policy is subject to change, as the Board of Directors will revisit the dividend policy from time to time. In any case, the Company's dividend policy will be approved by the General Shareholders' Meeting, based on the application of the results for each fiscal year proposed by the Board of Directors. See section "*Description of Capital Stock*".

There can be no assurance that any dividends will be declared and paid in the future. Any dividends paid in the future will be subject to tax under Spanish law (see section "*Taxation—Spanish Tax Considerations*"). Spanish law requires companies incorporated in Spain to contribute at least 10% of their net income each year to a legal reserve until the balance of such reserve is equivalent to at least 20% of the respective company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation.

Recurrent Levered Cash Flow means Recurrent Operating Cash Flow, plus or minus current assets and liabilities variation (excluding Net Financial Debt items), plus interest received, minus interest paid and minus any corporate income tax paid, adjusted by material non-recurring impacts. In turn, Recurrent Operating Cash Flow is calculated as OIBDA (operating income before depreciation and amortization) minus Recurrent Capex (capital expenditure devoted to infrastructure maintenance primarily linked to keeping the Company's submarine cables and towers in good working order and which is recurrent in time and in nature, and also including capital expenditures in the Cable Segment to upgrade the capacity of existing cables and to upgrade the IP network investing in routers and additional IP equipment (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*")).

The Company's consolidated financial statements for the period ended 31 December 2016 will reflect the effects of the Reorganisation process. The €70 million mentioned above is not, and investors should not consider it to be, an estimate of the performance of the Company for the year ended 31 December 2016.

Limitations on Dividends and Other Distributions

The conditions under which the Company may declare dividends under Spanish law and the Company's Bylaws are described in section "*Description of Capital Stock—Dividend and Liquidation Rights*".

CAPITALIZATION AND INDEBTEDNESS

The following table represents a statement of capitalization and indebtedness of the Company as of 30 June 2016. The below table has been prepared using the Company's balance sheet as of 30 June 2016.

This table should be read in conjunction with sections "*Selected Audited Consolidated Financial Information and other data*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	As of 30 June 2016
	(in thousands of €, except percentages)
A. Total current liabilities	**246,142**
Guaranteed[(1)]	273
Secured	–
Unguaranteed / unsecured	245,869
B. Total non-current liabilities	**1,343,117**
Guaranteed	–
Secured	–
Unguaranteed / unsecured	1,343,117
C. Shareholders' equity	**1,958,237**
Share capital	250,000
Share premium	1,701,609
Reserves	(104,029)
Result for the year	12,153
Currency translation adjustments	98,504
Minority interest	–
Total capitalization and indebtedness (A+B+C)	**3,547,496**
D. Gross financial liabilities	**703,539**
Current gross financial liabilities	**3,539**
Bilateral loans and credit facilities	1,683
Derivatives	1,855
Other financial liabilities	1
Non-current gross financial liabilities	**700,000**
Bilateral loans and credit facilities	700,000
E. Cash and cash equivalents	**100,616**
F. Net Financial Debt (D-E)	**602,923**
Ratio of Net Financial Debt to equity (F/(C+F))	23.5%

(1) Guaranteed total current liabilities of €273 thousand relate to financial indebtedness of Telxius Cable España, S.L. to Telefónica guaranteed by the Company.

Indirect and Contingent liabilities

In 2016 the States of Rio de Janeiro and Bahia initiated proceedings against Telefonica International Wholesale Services Brasil Ltda. -currently in the process of changing its corporate name to Telxius Cable Brasil Ltda.- related to the payment of indirect taxes on communications (ICMS) for different fiscal years. The aggregate amount claimed in those proceedings as of 30 June 2016 was approximately €24,478 thousand. None of those proceedings has been reported as probable by TIWS Brasil Ltda's respective legal counsels, and therefore no provision has been made with respect thereto.

Working capital

In the opinion of the Company, the working capital available to the Company is sufficient for the Company's present requirements and, in particular, is sufficient for at least the next 12 months from the date of this Prospectus. This will continue to be the case immediately following completion of the Offering.

PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (ANNEX II TO COMMISSION REGULATION (EC) No 809/2004 OF 29 APRIL 2004)

See Annex 2 – Pro Forma Consolidated Financial Information" on page P-1 of this Prospectus.

The Pro Forma Consolidated Financial Information, to which reference will be made throughout this Prospectus, has been subject to procedures performed by the external auditor of Telxius in accordance with International Standard of Assurance Engagements (ISAE) 3420.

SELECTED AUDITED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables present (i) selected financial information of the Company consisting of the audited consolidated statements of financial positions of Telxius as of 30 June 2016 and as of 31 December 2015, and the consolidated income statement and consolidated cash flow statement for the six-month periods ended 30 June 2016 (audited) and 2015 (unaudited), and (ii) selected financial information of Telefónica International Wholesale Services América, S.A ("**TIWS América**") consisting of the audited consolidated statements of financial positions of TIWS América as of 31 December 2015 and 2014 (and for the consolidated statements of financial position unaudited data as of 1 January 2014) and the audited consolidated income statement and consolidated cash flow statement for the years ended 31 December 2015 and 2014.

The selected financial information of the Company mentioned in point (i) in the paragraph above is derived from the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, which are prepared in accordance with EU-IFRS and which are included elsewhere in this Prospectus.

The selected financial information of Telefónica International Wholesale Services América, S.A. (TIWS América) mentioned in point (ii) of the first paragraph above is derived from the 2015 Audited Consolidated TIWS América Financial Statements, which are prepared in accordance with EU-IFRS and which are also included elsewhere in this Prospectus. Financial information regarding Telefónica International Wholesale Services América, S.A. is included in this Prospectus because for accounting purposes this company was considered to be the "acquiring entity" in the Reorganisation and because it comprises a significant part of the Cable Segment.

The following tables should be read in conjunction with sections "*Presentation of Financial and Other Information*," "*Capitalization and Indebtedness*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," the Financial Statements and the Pro Forma Consolidated Financial Information and related notes thereto included elsewhere in this Prospectus.

Telxius Consolidated statements of financial positions

	As of 30 June 2016	As of 31 December 2015
	(in thousands of €)	
	(audited)	
Assets:		
Non-current assets	**3,177,066**	**511,039**
Intangible assets	1,536,098	1,378
Goodwill	276,285	–
Property, plant and equipment	1,269,214	427,674
Non-current tax receivables	5,140	6,889
Non-current financial assets	1,732	41
Non-current prepayments	68,808	61,949
Deferred tax assets	19,789	13,108
Current assets	**370,430**	**375,659**
Inventories	3,998	–
Trade and other receivables	208,113	271,058
Current prepayments	32,154	20,831
Current tax receivables	25,546	23,247
Current financial assets	3	444
Cash and cash equivalents	100,616	39,530
Non-current assets held for sale	–	20,549
Total assets	**3,547,496**	**886,698**
Equity and liabilities:		
Equity	**1,958,237**	**240,032**
Non-current liabilities	**1,343,117**	**169,310**
Non-current interest-bearing debt	700,000	–
Non-current non-financial debt with Group	263	–
Non-current deferred revenue	196,156	162,359
Deferred tax liabilities	293,894	5,508
Non-current provisions	152,804	1,443
Current liabilities	**246,142**	**477,356**
Current interest-bearing debt	3,539	1,494
Current trade and other payables	161,997	407,224
Current deferred revenue	49,473	41,524
Current tax payables	29,412	26,065
Current provisions	1,721	1,049
Total equity and liabilities	**3,547,496**	**886,698**

Telxius Consolidated Income Statement

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Revenue	243,041	177,199
Other operative income	3,332	129
Other income	11,942	–
Supplies	(49,154)	(47,619)
Personnel expenses	(8,626)	(6,746)
Other expenses	(66,041)	(18,618)
Operating income before depreciation and amortization (OIBDA)	**134,494**	**104,345**
Depreciation and amortization	(66,496)	(29,692)
Operating income	**67,998**	**74,653**
Finance income	1,193	717
Exchange gains	5,363	–
Finance expense	(3,293)	(978)
Exchange losses	–	(1,819)
Net financial result	**3,263**	**(2,080)**
Profit before tax	**71,261**	**72,573**
Corporate income tax	(13,938)	(9,435)
Profit for the period from continuing operations	57,323	63,138
Loss after tax for the period from discontinued operations	(45,170)	(50,793)
Result for the period	**12,153**	**12,345**

Telxius Consolidated Cash Flow Statement

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Cash flow provided by operating activities:		
Cash received from customers	259,081	144,384
Cash paid to suppliers and employees	(99,339)	(64,574)
Taxes paid	(6,148)	(5,361)
Net interest (paid)/received	(4,123)	1,478
Net cash flow provided by continuing operations	**149,471**	**75,927**
Net cash flow from discontinued operations	(37,663)	(48,683)
Net cash flow provided by operating activities	**111,808**	**27,244**
Cash flow used in investing activities:		
Payments on investments in property, plant and equipment and intangible assets	(75,072)	(28,231)
Payments on investments in companies, net of cash and cash equivalent acquired	(2,652,750)	–
Cash received from disinvestments in property, plant and equipment and intangible assets	84	–
Cash received from financial investments not included in cash equivalents	2,762	–
Government grants received	7	–
Net cash flow used in investing activities from continuing operations	**(2,724,969)**	**(28,231)**
Net cash flow used in investing activities from continuing operations	19,258	
Net cash flow used in investing activities	**(2,705,711)**	**(28,231)**
Cash flow provided by/(used in) financing activities:		
Proceeds of treasury and other operation with stakeholder	1,951,549	–
Proceeds on issue of debentures and bonds, and other debt	1,903,433	–
Loans, credits and promissory notes prepayments	(1,201,774)	–
Net cash flow provided by/(used in) financing activities from continuing operations	**2,653,208**	–
Net cash flow provided by/(used in) financing activities	**2,653,208**	–
Effect of changes in exchange rates	**1,781**	**3,275**
Net increase (decrease) in cash and cash equivalents during the period	**61,086**	**2,288**
Cash and cash equivalents balance at 1 January	**39,530**	**36,707**
Cash and cash equivalents balance at 30 June	**100,616**	**38,995**

Non EU-IRFS Financial Data of Telxius

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Operating income before depreciation and amortization (OIBDA)	**134,494**	**104,345**

The following table sets forth a reconciliation of OIBDA to Telxius' operating income for the periods discussed herein.

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Operating income for the period..	67,998	74,653
Depreciation and amortization	66,496	29,692
Operating income before depreciation and amortization (OIBDA)	**134,494**	**104,345**

TIWS América Consolidated statements of financial positions

	As of 31 December		As of 1 January
	2015	2014	2014
		(in thousands of €)	
	(audited)		(unaudited)
Assets:			
Non-current assets	**511,039**	**478,887**	**418,614**
Intangible assets	1,378	1,955	2,478
Property, plant and equipment	427,674	403,259	350,099
Non-current tax receivables	6,889	5,522	4,956
Non-current financial assets	41	137	105
Non-current prepayments	61,949	56,274	50,315
Deferred tax assets	13,108	11,740	10,661
Current assets	**375,659**	**298,243**	**246,583**
Trade and other receivables	271,058	229,666	178,106
Current prepayments	20,831	18,996	13,514
Tax receivables	23,247	12,532	8,535
Current financial assets	444	342	45
Cash and cash equivalents	39,530	36,707	46,383
Non-current assets held for sale	20,549	—	—
Total assets	**886,698**	**777,130**	**665,197**
Equity and liabilities:			
Equity	**240,032**	**239,443**	**231,315**
Non-current liabilities	**169,310**	**156,146**	**126,790**
Non-current deferred revenue	162,359	149,469	119,491
Deferred tax liabilities	5,508	5,354	5,718
Non-current provisions	1,443	1,323	1,581
Current liabilities	**477,356**	**381,541**	**307,092**
Current interest-bearing debt	1,494	97	418
Current trade and other payables	407,224	319,850	228,456
Current deferred revenue	41,524	46,129	52,346
Current tax payables	26,065	14,538	20,666
Current provisions	1,049	927	5,206
Total equity and liabilities	**886,698**	**777,130**	**665,197**

TIWS América Consolidated Income Statement

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
Income statements:		
Revenues	334,935	269,155
Other operative income	996	1,439
Supplies	(95,294)	(85,017)
Personnel expenses	(13,018)	(12,251)
Other expenses	(43,540)	(39,694)
Operating income before depreciation and amortization (OIBDA)	**184,079**	**133,632**
Depreciation and amortization	(67,378)	(52,739)
Operating income	**116,701**	**80,893**
Finance income	2,413	1,809
Exchange gains	1,965	1,389
Finance costs	(3,391)	(2,636)
Exchange losses	(12,070)	(3,711)
Net financial result	**(11,083)**	**(3,149)**
Profit before tax	**105,618**	**77,744**
Corporate income tax	(13,686)	(10,429)
Profit after tax from continuing operations	91,932	67,315
Loss after tax from discontinued operations	(118,352)	(88,850)
Result for the year	**(26,420)**	**(21,535)**

TIWS América Consolidated Cash Flow Statement

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
Cash flow provided by operating activities:		
Cash received from customers	310,229	248,305
Cash paid to suppliers and employees	(141,131)	(138,467)
Taxes paid	(8,094)	(6,006)
Net interest paid	1,470	(1,417)
Net cash flow provided by operating activities from continuing operations	**162,474**	**102,415**
Net cash flow provided by operating activities from discontinued operations	(112,191)	(85,821)
Net cash flow provided by operating activities	**50,283**	**16,594**
Cash flow used in investing activities:		
Proceeds on disposals of property, plant and equipment and intangible assets	—	8
Payments on investments in property, plant and equipment and intangible assets	(44,442)	(24,297)
Net cash flow used in investing activities from continuing operations	**(44,442)**	**(24,289)**
Net cash flow used in investing activities from discontinued operations	(6,816)	(6,154)
Net cash flow used in investing activities	**(51,258)**	**(30,443)**
Cash flow provided by/(used in) financing activities:		
Proceeds on issue of debentures and bonds, and other debts	437	—
Cancellation of debentures and bonds, and other debts	(437)	—
Net cash provided by/(used in) financing activities from continuing operations	—	—
Net cash provided by/(used in) in financing activities	—	—
Effect of changes in exchange rates	**3,798**	**4,173**
Net increase (decrease) in cash and cash equivalents during the year	**2,823**	**(9,676)**
Cash and cash equivalents at 1 January	**36,707**	**46,383**
Cash and cash equivalents at 31 December	**39,530**	**36,707**

Non EU-IRFS Financial Data of TIWS América

	For the year ended 31 December	
	2015	2014
	(audited)	
	(in thousands of €)	
Operating income before depreciation and amortization (OIBDA)	184,079	133,632

The following table sets forth a reconciliation of OIBDA to TIWS América's operating income for the periods discussed herein.

	For the year ended 31 December	
	2015	2014
	(audited)	
	(in thousands of €)	
Operating income for the period..	116,701	80,893
Depreciation and amortization	67,378	52,739
Operating income before depreciation and amortization (OIBDA)	**184,079**	**133,632**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Financial Statements and the Pro Forma Consolidated Financial Information, including the accompanying notes, included in this Prospectus. The Financial Statements have been prepared in accordance with EU-IFRS. This discussion and analysis should also be read together with the information contained in section "Business". Some of the information in the discussion and analysis set forth below and elsewhere in this Prospectus includes forward-looking statements that involve risks and uncertainties. See sections "Presentation of Financial and Other Information—Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Prospectus.

Overview

Telxius is an international telecommunication infrastructure company that holds a unique asset portfolio comprised of a combination of submarine fibre-optic cables and telecommunication towers and has as its mission "enabling communication".

The Company owns and manages a variety of assets used mainly by multiple global telecom carriers, wholesale and retail telecom service providers and OTTs in several geographies under various contract standards.

Telxius has a balanced business approach, with exposure to opportunities in diverse markets, in both developed and emerging economies, capturing synergies across its business divisions, currently submarine cable related transmission, interconnection and server co-location as well as telecommunication towers rental.

Its assets devoted to the Tower Segment are located at premier positions in several European and Latin American countries such as Spain, Germany, Brazil, Peru and Chile. Additionally, its fibre-optic submarine cables are one of the largest connectivity networks in the world with unique owned infrastructure in Latin America. Its 71 points of presence in 19 countries via both owned and leased capacity allows Telxius to have an extensive international fibre-optic cable network with more than 65,000 km. As a global player in the provision of telecommunication infrastructure services, Telxius also provides global coverage to its customers through third parties' infrastructure.

The Company intends to pursue an active management of its properties to achieve the desired market positioning and benefits arising from local scale and business synergies.

Recent Trading

Based on preliminary information, the Company's performance since 30 June 2016 has followed the same trends shown in the pro forma results of operations for the six-month period ended 30 June 2016 discussed elsewhere in this Prospectus and has been broadly in line with the Company's expectations.

Based on the foregoing, the Company continues to believe that its consolidated pro forma revenues for the year ended 31 December 2016 will be in line with its pro forma consolidated revenues for the year 2015, both in the Cable and Tower Segments. It also expects a slight erosion of its pro forma OIBDA margin for the year ended 31 December 2016 compared with its pro forma OIBDA margin for the year 2015, excluding non-recurrent effects, as described elsewhere in this Prospectus.

Expected Evolution

The discussion which follows contains certain estimates as of the date of this Prospectus of the Company's estimated future financial and operating results and certain objectives. The prospective information set forth below regarding the Company's expected evolution for 2016 and thereafter and the Company's objectives, in the view of its management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of the Company's management's knowledge and belief, the expected future performance of the Company. However, the Company's expected evolution and objectives reflect numerous estimates and assumptions made by the Company with regard to business, economic, regulatory and market conditions and future events, many of which are difficult to predict and outside the Company's control. Consequently, this information is not fact, is subject to significant risks and uncertainties and should not be relied upon as being necessarily indicative of future results, and investors are cautioned not to place undue reliance on the prospective information. See sections "*Risk Factors*" and "*Presentation of Financial and Other Information—Forward-Looking Statements*" for a discussion of various factors that could cause the Company's evolution to differ from that expected as of the date of this Prospectus or the Company to fail to achieve its short-term or medium-term objectives. All references to expectations for the year ended 31 December 2016 refer to such year on a pro forma basis, giving effect to all of the transactions described in the Pro Forma Consolidated Financial Information as if they were consummated as of 1 January 2015.

In terms of revenue, the Company expects pro forma revenues for the year ended 31 December 2016 to be in line with its pro forma consolidated revenues of the year 2015 (see "*—Pro Forma Results of Operations—Year Ended 31 December 2015*" below), both in the Cable and Tower Segments, as a result of several effects offsetting each other: (i) a positive year-on-year trend in revenues generated from unrelated parties in the Cable Segment; (ii) impacted by the expiry of certain IRUs entered into around the time that SAM-1 was placed in service and the renegotiation of certain cable contracts with the Telefónica Group which are expected to help lead to future growth; and (iii) a limited growth in the Tower Segment compared with the year 2015 on a pro forma basis mainly driven by inflation. For the period between 2016 and 2019, the Company expects mid-single digit annual revenue growth (excluding one-off events from sale of fibre pairs) with similar growth expected for both the Cable and the Towers Segments. Within the Cable Segment, the Company expects growing contribution by third parties and, mainly from 2018 onwards, new cables to positively impact revenues. Within the Tower Segment, the Company expects growth to be generated mainly by increasing the tenancy ratios and by build-to-suit opportunities, the latter mainly in Latin America.

In terms of OIBDA Margin, the Company expects a slight OIBDA Margin erosion for the year ended 31 December 2016, excluding non-recurrent effects, impacted by the expiry of certain IRUs entered into around the time that SAM-1 was placed in service referred to above and the renegotiation of cable contracts as described above, and by higher commercial efforts in the Tower Segment. The Company also expects approximately €10 million of non-recurrent effects impacting its operating expenses in 2016 derived from the acquisition and set-up of both the Cable and the Tower Segments. During the period between 2016 and 2019, the Company expects to return to margin levels equivalent to those experienced during 2015 on a pro forma basis, with potential upside as a result of operating leverage (see "*—Pro Forma Results of Operations—Year Ended 31 December 2015*" below).

In terms of Capital Expenditures, the Company expects to incur on a pro forma basis during 2016 Recurrent Capex in the range of 10% of its pro forma revenues, with mid-single digit for the Tower Segment and low teens for the Cable Segment. Furthermore, the Company expects to incur Non Recurrent Capex of approximately €70 million on a pro forma basis excluding investments in new cables accounted for as "goods to be sold" related to the expected sale of fibre pairs. See "*—Factors Affecting the Company's Results of Operations—Capital expenditures*" and "*—Management Performance Measures*" below for the definition of Recurrent and Non Recurrent Capex. During the period between 2016 and 2019, the Company expects to incur Recurrent Capex in the range of 10% of its revenues, with mid-single digit for the Tower Segment and low teens for the Cable Segment.

In terms of leverage, the Company's overall approach to leverage is commensurate with the Company's growth strategy and dividend policy. The Company's target is to maintain a Net Financial Debt/OIBDA ratio (adjusted for one-time effects and special factors) below 4x in the mid-term, allowing for temporary levels above this threshold if justified by attractive investment opportunities.

Segment Reporting

The Company organizes its activities in two operating segments:

- the Cable Segment, which consists of the provision of wholesale connectivity services (both IP and capacity) for international data transmission through submarine infrastructure and international circuits with over 65,000 km of worldwide fibre-optic (approximately 31,265 km of which are owned submarine cables); and
- the Tower Segment, which consists of the provision of co-location services on multi-tenant telecom towers mainly to wireless service providers and wireless data providers, both to companies of the Telefónica Group and third parties, through a vast portfolio of cellular wireless telecom towers located in Spain, Germany and Latin America (Brazil, Peru and Chile).

See section "*Business*" for further details on the description of each operating segment. For accounting purposes, the Company segments its activities into the same two operating segments. These two segments were established according to the Group's organisational structure in place as of 30 June 2016 taking into account the nature of the services offered.

The Company does not report information on a geographical basis in its historical financial statements because it runs a global business, particularly in the Cable Segment, and believes that geographical segmentation would not be representative of the underlying operations. See Note 2 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements. The Pro Forma

Consolidated Financial Information included elsewhere in this Prospectus presents pro forma financial information on a country-by- country basis for the Tower Segment both for the year ended 31 December 2015 and for the six-month period ended 30 June 2016 because such activity formed part of an integrated business of the relevant Telefónica Group operator in each such country prior to the Reorganisation. See section "*Pro Forma Consolidated Financial Information*". After the Reorganisation, however, the Company organizes its activities in two operating segments without any geographical segmentation for the reasons described above.

Factors Affecting Comparability of the Company's Results of Operations

As a result of the following events, the Company's financial condition and results of operations as of and for certain of the financial periods presented in this Prospectus may not be directly comparable with its financial condition and results of operations as of and for other financial periods discussed herein or future financial periods.

Reorganisation of the Telefónica Group and acquisition by the Company of the Cable Segment and the Tower Segment

Although the Company was incorporated on 10 October 2012 (as Telefónica America, S.A.), it had no material assets and only limited activities until 31 March 2016 when it acquired from the Telefónica Group the assets and liabilities comprising the Cable Segment (including TIWS América and the acquisition of the assets and liabilities of the cable business located in Spain by Telxius Cable España, S.L.) and the Tower Segment (other than towers acquired in Germany and Chile thereafter) through a series of intra-group transactions including several spin-offs, contributions of assets and purchases of shares and/or assets. It also disposed, as of 31 March 2016, of certain VPN, voice, IPX and satellite assets which were held by the TIWS América group. See section "*Business—History*" for more details. Since the Company had only limited activities and no material assets or subsidiaries prior to such acquisition, the Company did not prepare consolidated financial statements. In addition, as the Company is a wholly-owned subsidiary of Telefonica, S.A., it is not required to prepare consolidated financial statements prior to the Offering.

The Company's 1H 2016 Audited Consolidated Telxius Interim Financial Statements are included elsewhere in this Prospectus. The 1H 2016 Audited Consolidated Telxius Interim Financial Statements include the Company's statement of financial position as of 30 June 2016 and 31 December 2015 and the consolidated income statement for the six-month periods ended 30 June 2016 and 2015.

The consolidated income statement for the six-month period ended 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and the Company (the holding company of the Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months of activities (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A.

Accordingly, any financial information presented herein for periods prior to 30 June 2016 will not be indicative of the Company's results as an independent operating company.

The Company’s consolidated statement of financial position as of 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects all the cable and tower infrastructure acquired in the Reorganisation from the Telefónica Group.

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements also include a statement of financial position as of 31 December 2015 and an income statement for the six-month period ended 30 June 2015. The information included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements as of 31 December 2015 and for the six-month period ended 30 June 2015 reflects principally TIWS América as the “acquiring entity” in the Reorganisation (and, to a significantly lesser extent, the assets and liabilities and financial results of certain limited activities conducted by Telefónica América, S.A. (now Telxius Telecom, S.A.) during such period). Therefore, the Company does not consider that the financial information as of 31 December 2015 and for the six-month period ended 30 June 2015 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements is representative of the historical evolution of the Cable Segment nor indicative of the evolution of the Company as a whole, as it does not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation.

In order to supplement the 1H 2016 Audited Consolidated Telxius Interim Financial Statements included elsewhere in this Prospectus and provide investors with additional financial information about the Company’s businesses before they were transferred to the Company in the Reorganisation, this Prospectus also includes certain historical financial information regarding TIWS América, which comprises a significant part of the Cable Segment, as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), and the Pro Forma Consolidated Financial Information.

Specifically, this Prospectus includes the 2015 Audited Consolidated TIWS América Financial Statements. Although the accounting policies used in preparing the 2015 Audited Consolidated TIWS América Financial Statements are the same as those used by the Company in preparing the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and all applicable mandatory accounting principles were taken into account, the 2015 Audited Consolidated TIWS América Financial Statements are not necessarily indicative of the results that would have been obtained by the Company if it had operated under the same legal structure during these years, or of the business’s future results. Furthermore, the financial information as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), included in the 2015 Audited Consolidated TIWS América Financial Statements are not directly comparable with the Company’s audited consolidated financial information as of and for the six-month period ended 30 June 2016 because the 2015 Audited Consolidated TIWS América Financial Statements do not reflect the full scope of the Cable Segment as they do not include certain other IP and capacity cable assets in Spain acquired pursuant to the Reorganisation. Accordingly, the 2015 Audited Consolidated TIWS América Financial Statements are neither indicative of the evolution of the Cable Segment nor indicative of the evolution of the Company as a whole as they do not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation, and investors are cautioned not to place undue reliance on such information.

There are no stand-alone historical financial statements related to the Tower Segment available as the tower infrastructure business was not run as a separate business within the Telefónica Group.

Due to the limited availability of historical financial information related to the Company and the limited comparability of such historical financial information, this Prospectus also includes certain additional Pro Forma Consolidated Financial Information about the Company. In particular, this Prospectus includes the pro forma consolidated income statements for the six-month period ended 30 June 2016 and for the year ended 31 December 2015, together with the accompanying notes thereto, prepared to represent the main effects on the company's consolidated income statement of the transactions described therein as if they had occurred on 1 January 2015. See sections "*Presentation of Financial and Other Information—Pro forma consolidated financial information*" and *"Pro Forma Consolidated Financial Information*".

Acquisitions

As part of the Reorganisation, the Company has made several acquisitions which have changed the size and composition of the Company's business. See section "*Business—History*" for more details. These acquisitions were completed before 30 June 2016 and are therefore reflected in the Company's consolidated statement of financial position as of 30 June 2016. They are also reflected in the Company's consolidated results of operations for the six-month period then ended included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, but only for the period from their respective acquisition through 30 June (i.e. six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and Telxius (holding company of the Telxius Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A.). As a result, the financial information contained in this Prospectus for the six-month period ended 30 June 2016 is not directly comparable with the Company's audited financial information and for any subsequent period, among other reasons, due to the change in the size and composition of the Company's business as a result of these acquisitions.

Furthermore, since the Company intends to continue expanding its infrastructure in the future (see section "*Business—Strategy*"), the information included herein regarding the Company's current business may not be indicative of its future business, financial condition or results of operations. The acquisition of additional infrastructure assets will affect the Company's revenues and result for the period, which may make comparisons between periods difficult.

Purchase price allocation

Pursuant to the Reorganisation the Company acquired from the Telefónica Group the assets and liabilities comprising the Cable Segment (including TIWS América) and the Tower Segment through a series of intra-group transactions including several spin-offs, contributions of assets and purchases of shares and/or assets. See section "*Business—History*".

The different transactions involved in the Reorganisation under which the Company acquired the Cable and the Tower Segments are considered business combinations of entities under common control. Pursuant to IAS 8, the Company applied IFRS 3 (“Business Combinations”*)* to the accounting of such transactions.

Under IFRS 3, business combinations are accounted for using the “acquisition method”, which generally requires a buyer to account for all purchased assets and assumed liabilities and contingent liabilities on a fair value basis as of the acquisition date. In order to do this, it is necessary to allocate the overall purchase price to the different assets and liabilities that have been acquired, including intangible assets, which is referred to as the purchase price allocation. Any excess of the purchase price paid over the fair value of the net identifiable assets acquired is considered goodwill. In addition, in a business combination it is necessary to identify the acquirer for the purpose of applying the acquisition method. For these purposes, the group headed by TIWS America was the business with the largest relative size, in terms of value and financial aggregates, from among the combined groups. TIWS America was also the only group of companies with its own governing body and structure at the date of the business combination and was also the only company that was a separate reporting entity. TIWS America was therefore considered to be the acquirer of all combined businesses. This means that it will maintain the pre-existing carrying amount of its assets and liabilities, whereas the acquisition method will be applied to the other combined businesses.

The main differences identified through the date of the 1H 2016 Audited Consolidated Telxius Interim Financial Statements by the Company between the book value of the acquired assets and their fair value relate to (i) intangible assets (customer relations and network location); (ii) fixed assets (which mainly include assets related to IP devices such as routers, switches and network security in the Cable Segment and antennas support elements and enclosures in the Tower Segment); (iii) deferred income and (iv) deferred tax liabilities. See Note 4 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements for further information.

At the date of preparation of the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, the purchase price allocation performed by the Company pursuant to the Reorganisation was still provisional. Under IFRS 3, the Company has a twelve-month period from the relevant acquisition date to conclude the analysis. The final purchase price allocation may deviate from the one reflected in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Although any potential fair value adjustments are non-cash in nature, any increase in the value assigned to balance sheet items other than goodwill resulting from adjustments to the purchase price allocation might give rise over time to a substantial amount of additional depreciation and amortization charges associated with the relevant assets, which could in turn have a negative effect on the Company’s profitability that is unrelated to the operating performance of its business. Furthermore, there is a possibility that any goodwill arising from the business combinations (whether initially recognised or recognised as part of the final purchase price allocation) might be considered impaired in future periods, with the associated impairment charge reducing the Company’s future earnings.

Factors Affecting the Company’s Results of Operations

The Company’s results of operations and financial condition are affected by a variety of factors, a number of which are outside its control. Set out below is a discussion of the most significant factors that have affected the Company's results during the periods under review and which the Company expects to affect its financial results in the future. Factors other than those set forth below could also have a significant impact on the Company's results of operations and financial condition in the future. See section "*Risk Factors*".

Because the Company did not have material assets or activities prior to the Reorganisation, it has considered certain factors discussed below only from that day onwards and has included certain factors that it believes will affect companies operating in the passive infrastructure industry, including itself, in the foreseeable future. There may be additional factors affecting the Company's financial condition and results that it is as yet unaware of. See section *"Risk Factors—Risks Related to the Company and the Reorganisation—The Company has a limited operating history as a stand-alone company*".

Demand for telecom services

The Company's business depends on the demand for telecom services that it provides as a global telecom infrastructure company. Within the Cable Segment, demand for the Company's wholesale connectivity services depends on the bandwidth demand for broadband services for data transmission, which in turn depends on factors such as overall economic growth, political stability, level of acceptance of communication technologies and government policies and regulations affecting the telecom industry. Within the Tower Segment, demand for telecom sites depends on the demand for antenna space from its customers, mainly the Telefónica Group and increasingly from third parties, which, in turn, depends on the demand for wireless voice and data services by their respective customers. See section "*Risk factors—Risks Related to the Company's Operations and the Business where it Operates—The Company's business depends on the demand for the telecom services that it provides, which it cannot control, and it may be adversely affected by any slowdown in such demand*".

Price competition

The price competition existing in the Cable Segment determines the fees that the Company may charge for its services, affecting its results of operations.

The prices that the Telefónica Group has been able to charge for the capacity services and other related network services that the Company currently provides within the Cable Segment have declined significantly in many markets around the world in the last decade, and such prices may continue to decline or fluctuate in the future.

Advances in technology, particularly in submarine cable optical technology, have enabled operators to upgrade capacity significantly with relatively low capital expenditure and have enabled suppliers to build new cables with substantially greater capacity than in the past. This additional capacity at a significantly lower incremental cost has resulted in further downward pressure on pricing. In Latin America the decline in prices has been less severe than in the United States and Europe due to the more limited existence of infrastructure in the Latin American countries and, therefore, less competition. Notwithstanding this, price levels in Latin America have declined significantly in recent years and are expected to further decline in the coming years.

While there is still a substantial amount of unused capacity in many global submarine cable systems, including within the Company's key routes, cables typically have an estimated useful life of approximately 25 years after which they reach the end of their useful lives unless they are upgraded as necessary. The Company's principal cable, the SAM-1 network, was originally constructed in 2001 and its capacity subsequently upgraded on several occasions. Upon the expiry of a submarine cable system, to the extent necessary, the Company will either build new cables or procure capacity from the open market. To the extent existing submarine cables cannot be upgraded without undue expense and new cable capacity does not sufficiently replace the capacity provided by retiring submarine cables, a convergence between supply and demand may occur. If such convergence between supply and demand occurs, prices may stabilize in the future. The actual occurrence or timing of this convergence cannot be predicted, and the Company's management believes that the general industry trend of declining prices will continue for the foreseeable future.

While pricing for network capacity is becoming increasingly commoditized (that is, of a uniform quality), the following factors may enable an operator to influence pricing to a certain extent:

- Latency. Faster connections are critical to certain customers, such as stock brokerages and investment banks, and cable operators may be able to charge premium pricing for such services. However, demand growth for such faster connections has generally been limited.

- Diversity/redundancy. A single supplier may engage multiple cables on the same route to provide backup services and options for re-routing if there is a breakdown or delay in any single cable on the route. Customers often pay a premium for suppliers who provide alternative cable connections on a single route as they value the consistent service and lower frequency of network delays or breakdowns.

Growth in data traffic and broadband penetration

There has been a rapid increase in the number of internet and broadband internet users in recent years. According to Bell Labs Consulting, demand forecast for per capita bandwidth in the United States, measured as GB/user/month, is expected to increase three times from 2016 to 2020 and by more than 20 times until 2025. According to Telegeography, Cisco and Global Bandwidth Forecast Service, demand for content in Latin America, (data consumption, measured by PB per month), is expected to grow at a 25% CAGR from 2014 to 2019, while demand for speed of data traffic transfer, measured by used international bandwidth in Latin America-U.S. route (Tbps), is expected to grow at a 41% CAGR from 2014 to 2019. See section "*Industry Overview—Submarine Fibre-Optic Cables Market—Cable industry demand drivers*".

The main contributors to this growth in bandwidth usage include the use of multiple devices to access the internet (such as mobile phones and tablets) and the proliferation of content through video, social networks, online gaming, music, file sharing, email and others, as well as the roll-out of 4G, all of which has had a direct bearing on capacity usage of the Company's customers. In response to this growth in data traffic, the Company increased the original capacity of its main cable, SAM-1, from 1.92 Tbps in 2001 to 19.2 Tbps currently, and approximately 35% of its current capacity has been lighted as of the date hereof. The Company believes that developments in technology and widespread social adoption of such new technological developments will positively affect the growth in data traffic and demand for its products and services, and that demand growth will more than offset declining price levels.

Revenue visibility

In connection with the Reorganisation, the Company entered into the Cable MCA and the Tower MLAs with the Telefónica Group. See section "*Material Contracts*". As a result of these agreements, the Company has good visibility of its future revenues and the Company believes that its recurring revenues from such agreements is a primary factor supporting the stability and growth of its revenues and cash flows. For example, although the revenue model varies among jurisdictions (e.g., constant fixed rate year-on-year versus growing rate), the Cable MCA contains a minimum purchase commitment from the counterparty to ensure a minimum value during its initial term of five years, which may be extended. Regarding the Tower MLAs, under most of them the Company charges annual rates per site payable on a monthly basis for periods between 10 and 15 years. See section "*Material Contracts*".

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, the Telefónica Group accounted for 63% and 65%, respectively, of the Company's pro forma consolidated revenues (44% and 47%, respectively, of the Company's pro forma consolidated revenues from the Cable Segment and 88% and 88%, respectively, of the Company's pro forma consolidated infrastructure revenues from the Tower Segment).

The Cable MCA is for an initial term of five years with an automatic renewal for a three year term thereafter, unless there is no agreement on the new economic terms. The Tower MLAs, under which Telefónica will be the Company's anchor tenant in the relevant towers, are generally for an initial term of 10 years (15 years in the case of Germany), and may generally be renewed following the expiration of their initial term for three additional periods of five years each (only two periods in the case of Germany), after which the term of the contract becomes indefinite. Telefónica may in certain limited cases terminate the MLAs. Accordingly, the Company believes that revenue from its agreements with the Telefónica Group is recurring revenue that it should continue to receive at least for the term of the relevant agreements. Nevertheless, if these agreements were terminated prior to their respective terms or not renewed, the Company's business, results of operations, financial condition and cash flows would be adversely affected. See section "*Risks Factors—Risks Related to the Company's Relationship with Telefónica—The Cable MCA and the Tower MLAs with Telefónica may be subject to early termination under certain circumstances or not renewed*".

The Company also benefits from recurring revenue derived from short to medium-term lease contracts with unrelated parties both in the Cable Segment and the Tower Segment.

Furthermore, in the Cable Segment, the Company has entered into IRU agreements for the provision of capacity services pursuant to which the Company transfers the use of certain capacity on its network to a third party for a period of typically 10 to 15 years. During this period, the customer is entitled to unconditionally and exclusively use exclusive bandwidth of the Company's fibre network in exchange for a fee payable upfront. As the fee paid is recorded as revenue over the life of the IRU, the Company guarantees recurrent revenue at least during the long-term life of the IRU. See "*—Explanation of Pro Forma Income Statement Items—Revenues*" below for further details on the IRU model.

At the beginning of SAM-1 commercial operations in April 2001, and during the following years until approximately 2006, the IRU contracts signed by the Company referred specifically to the SAM-1 cable, which at that time had an estimated useful life of 15 years (until 2016, which subsequently was extended). As a consequence, during that period, the Company signed a significant number of IRUs lasting until 2016, which was the maximum tenor coinciding with the end of the expected useful life of SAM-1 at that time. As a result, the Company will experience the termination of an exceptionally high number of IRU contracts during 2016, which will adversely affect the Company's revenues during the year. After 2006, under the new IRU contracts entered into by the Company, the Company committed to provide the capacity services associated with the IRU contracts without making any reference to a specific cable infrastructure (including the SAM-1 cable). The termination of IRUs signed after that period are therefore evenly spread over time depending on the contracts' duration (generally 10 or 15 years).

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, the Group's pro forma consolidated revenues derived from IRU capacity contracts accounted for €18,229 thousand and €40,799 thousand, respectively. Moreover, new IRU sales during the six-month period ended 30 June 2016 and during the year 2015 accounted for €4,575 thousand and €39,354 thousand, respectively. Out of the total deferred revenue accounted for in the Company's consolidated statements of financial positions as of 30 June 2016 (€245,629 thousand), deferred revenue from IRU contracts amounted to €211,815 thousand.

Backlog

Apart from revenues generated from its contracts with the Telefónica Group, the Company believes it also benefits from strong revenue visibility from unrelated customers, many of which are long-term customers and have high value contracts with the Company, such as some of the main global carriers and global OTT.

The Company defines its estimated Backlog presented in this Prospectus as the estimated future revenues to be recorded from signed contracts stated in the Company's reporting currency, the euro, as of the relevant date, excluding the sale of ownership of pairs of fibre, any inflation adjustment, any type of contract renewal and traffic levels in excess of minimum contracted quantities.

On the foregoing basis, the Company's estimated aggregate Backlog as of 1 January 2016, on a pro forma basis, including contracts entered into through 30 June 2016, was €4.7 billion, of which €1.8 billion corresponded to the Cable Segment and €2.9 billion to the Tower Segment, and of which €3.6 billion corresponded to contracts with the Telefónica Group and €1.2 billion to contracts with unrelated parties. As these Backlog amounts are presented as of 1 January 2016, they include revenues recorded thereafter and prior to 30 June 2016. By jurisdiction, Spain and Germany (within the Tower Segment) accounted for 52% of the total Backlog. The table below shows the breakdown of the Company's Backlog by segment, by type of customer and, in the case of the Tower Segment, by jurisdiction, as of 1 January 2016, on a pro forma basis, including contracts entered into through 30 June 2016.

	With Telefónica	With unrelated parties	Total	
	(in millions of €) (unaudited)			%
Cable Segment	897	929	1,826	39%
Tower Segment				
Spain	1,778	112	1,890	40%
Germany	495	89	584	12%
Brazil	227	32	259	5%
Peru	105	—	105	2%
Chile	63	4	67	1%
Total Tower Segment	2,668	237	2,905	61%
Total Backlog	**3,565**	**1,166**	**4,731**	**100%**

The Company's pro forma Backlog of €4.7 billion is expected to be converted into revenue during the next 9.2 years on average from 1 January 2016. The Company's pro forma Backlog with the Telefónica Group of €3.6 billion is expected to be converted into revenue during the next 9.6 years on average from 1 January 2016 and the Company's pro forma Backlog with unrelated parties of €1.2 billion is expected to be converted into revenue during the next 8.1 years on average from 1 January 2016, with €685 million expected to be converted into revenue during 2016 (€392 million corresponding to the Cable Segment and €293 million to the Tower Segment), including revenues recorded prior to 30 June 2016. The weighted average length of remaining contract value is calculated by the Company as an average of the contract length for each contract weighted by the total contribution of each contract to total Backlog.

The Company believes its Backlog and the resulting predictable cash flows significantly reduce the volatility of its operating results. See section "*Business—Competitive Strengths—The revenues of the Company are highly visible and well supported by long-term contractual relationships with blue chip clients as well as Telefónica*". Contracts for services are occasionally modified by mutual consent of the parties and in some instances may be cancelled under certain specific circumstances by the customer on short notice without penalty. Furthermore, many of the Company's contracts with its customers are denominated in U.S. dollars (the vast majority of the contracts within the Cable Segment) or other non-euro currencies (mainly in the case of the Tower Segment contracts in Latin America), whereas the Company's estimated Backlog is set forth in euros based on the prevailing exchange rate as of the date the estimated Backlog is presented or, in the case of the pro forma Backlog as of 1 January 2016 included herein, the following exchange rates: euro/U.S. dollar exchange rate of U.S. dollar 1.08=1.00 euro; euro/Brazilian real exchange rate of Brazilian real 4.104=1.00 euro; euro/Peruvian sol exchange rate of Peruvian sol 3.483=1.00 euro; and euro/Chilean peso exchange rate of Chilean peso 739.8=1.00 euro. If there are variations in exchange rates between such currencies and the euro in the future, the amount the Company actually records as revenue from its Backlog will differ from the Company's estimated Backlog. As a result, the Company's estimated Backlog as of any particular date may not be indicative of its revenues for any future period. See section "*Risk Factors—Risks Related to the Company's Operations and the Business where it Operates—The Company's Backlog estimates are based on certain assumptions and are subject to unexpected adjustments and cancellations and thus may not be timely converted to* *revenues in any particular fiscal period, if at all, or be a fully accurate indicator of the Company's future revenue or earnings*".

Expenses

The Company's expenses predominantly consist of supplies (rebilling), which generally include ground leases and energy, and other supplies, which in turn mainly include maintenance costs. See section "*—Explanation of Pro Forma Income Statement Items—Expenses*" below. Supplies (rebilling) accounted for 31% and 33% of its pro forma consolidated expenses for the six-month period ended 30 June 2016 and the year ended 31 December 2015, respectively, while supplies (other) accounted for 33% and 36% of its pro forma consolidated expenses for the six-month period ended 30 June 2016 and the year ended 31 December 2015, respectively.

The tables below show the relative weight of each component of the Company pro forma expenses for the six-month period ended 30 June 2016 and for the year ended 31 December 2015, respectively, on a segment by segment basis.

Cable Segment	**For the six-month period ended 30 June 2016**		**For the year ended 31 December 2015**	
	(pro forma)	**%**	**(pro forma)**	**%**
	(in thousands of €)		**(in thousands of €)**	
Supplies (rebilling)	—	—	—	—
Supplies (other)	47,532	48%	104,544	53%
Personnel expenses	7,141	7%	13,433	7%
Other expenses	45,227	45%	79,601	40%
Total expenses	**99,900**	**100%**	**197,578**	**100%**

Tower Segment	**For the six-month period ended 30 June 2016**		**For the year ended 31 December 2015**	
	(pro forma)	**%**	**(pro forma)**	**%**
	(in thousands of €)		**(in thousands of €)**	
Supplies (rebilling)	55,133	75%	116,789	75%
Supplies (other)	10,170	14%	22,204	14%
Personnel expenses	525	1%	—	—
Other expenses	7,660	10%	17,532	11%
Total expenses	**73,488**	**100%**	**156,525**	**100%**

The components of the Company's expenses may vary between the two segments but a significant part consists of fixed costs required to maintain and operate the Company's infrastructure during its estimated useful life.

In the Cable Segment, pro forma expenses for the year ended 31 December 2015 consisted of: i) cost of sales for an amount of €56,289 thousand (95% of which corresponded to supplies (other) and 5% to other expenses), which consist mainly in acquisition of circuits and capacity from other carriers in order to provide off-net services and mainly have a variable nature; ii) commercial costs for an amount of €11,131 thousand (17% of which corresponded to personnel expenses and 83% to other expenses) which are linked to the Company's capacity to generate new sales; iii) network & operations costs for an amount of €89,344 thousand (57% of which corresponded to supplies (other), 6% to personnel expenses and 37% to other expenses) which are mostly fixed by nature, and consist in circuits from third parties to configure the Company's IP network, housing, maintenance, supervision, planning and services provisioning; and iv) selling, general & administrative and other expenses for an amount of €40,814 thousand (1% of which corresponded to supplies (other), 15% to personnel expenses and 84% to other expenses), of which a significant portion relates to rates and operating taxes related to the volume activity, and the remaining correspond to structure costs and overheads.

In the Tower Segment, pro forma expenses for the year ended 31 December 2015 consisted mainly of ground rents (€87,623 thousand), which are passed-through to customers in all geographies except Germany, and energy expenses (€37,258 thousand), which relate only to the Spanish tower business and are also passed-through to customers. Other expenses amounted to €31,644 thousand and refer to maintenance, security, personnel and other general expenses

The Company incurs a significant part of operating expenditure regardless of the volume of customer orders it receives, and generally does not incur significant incremental expenses as customer orders increase (especially for network & operation Costs and a portion of selling, general & administrative and other expenses for the Cable Segment and the majority of the operating costs for the Tower Segment). Variations in such expenses may arise due to the increase of the asset base or certain risks inherent in large-scale, complex undersea and overland fibre-optic telecom systems, such as physical damage or equipment breakdown as a result of natural disasters or other circumstances. For a further description of such risks, see section "*Risk Factors*". Accordingly, although the operating costs may be affected by significant events or circumstances, the Company expects that the fixed nature of the majority of such costs and the Company's high operating leverage will enable it to increase margins and profitability if it generates increased revenue. Conversely, if revenues were to decrease, the Company may not be able to reduce its costs in order to manage its profitability.

Expenses represented 53% and 53% of the Company's pro forma consolidated revenues for the six-month period ended 30 June 2016 and the year ended 31 December 2015, respectively.

Capital expenditures

The Company has significant infrastructure requirements and therefore its operating results and cash flows are significantly affected by its capital expenditure. The Company incurs capital expenditure for maintenance, upgrades and expansion of its worldwide telecom infrastructure, including both its undersea cable systems and its telecom towers. The Company classifies its capital expenditure in two main categories: (i) "Recurrent Capex", which includes capital expenditure in relation to infrastructure maintenance such as investment in infrastructure, equipment and IT systems and is primarily linked to keeping its submarine cables and towers in good working order and which is recurrent in time and in nature, and it as well includes capital expenditures in the Cable Segment to upgrade the capacity of existing cables, mainly by improving equipment in the Landing Stations to "lit" more parts of the cable, and to upgrade the IP network investing in routers and additional IP equipment, needed to provide additional IP traffic, and (ii) "Non Recurrent Capex", which includes capital expenditure not falling within the prior category and mainly relates to the expansion and improvement of the Company's infrastructure, such as capital expenditure associated with the construction of new submarine cables or the expansion of a cable and the deployment of new tower sites, the acquisition of land or investment for increasing the capacity of existing towers. See "*—Management performance measures*" below for further details on how the Company calculates each measure.

The Company's pro forma total capital expenditures amounted to €44,066 thousand in the six-month period ended 30 June 2016, representing 13% of the Company's pro forma consolidated revenues for the six-month period ended 30 June 2016. Of this amount, an estimated €9,166 thousand related to Recurrent Capex and €34,900 thousand related to Non Recurrent Capex. By segment, an estimated €38,349 thousand of the pro forma aggregate amount for the period related to the Cable Segment (€4,720 thousand of Recurrent Capex and €33,629 thousand of Non Recurrent Capex), an estimated €5,366 thousand related to the Tower Segment (all Recurrent Capex, except for €920 thousand), and an estimated €351 thousand related to the holding entity (all Non Recurrent Capex).

The Company's pro forma total capital expenditures amounted to €96,745 thousand in the year ended 31 December 2015, representing 14% of the Company's pro forma consolidated revenues for the year. Of this amount, an estimated €78,042 thousand related to Recurrent Capex and €18,703 thousand related to Non Recurrent Capex. By segments, an estimated €67,321 thousand of the pro forma aggregate amount for the period related to the Cable Segment (€64,708 thousand of Recurrent Capex and €2,613 thousand of Non Recurrent Capex) and an estimated €29,424 thousand related to the Tower Segment (€13,333 thousand of Recurrent Capex and €16,091 thousand of Non Recurrent Capex).

Within the Cable Segment, pro forma Recurrent Capex for the period primarily related to (i) maintenance costs (investments in equipment linked to keeping the Landing Stations in good working order and which is recurrent in time and nature); and (ii) expenses related to upgrading existing cables (mainly by improving equipment in Landing Stations to "lit" more parts of the cable) and IP upgrade expenses (expenses related to routers and additional IP equipment needed to provide additional IP traffic). Pro forma Recurrent Capex for the period 2015 within the Cable Segment, was significantly higher than in previous years (€35,043 thousand of Recurrent Capex in 2014, although positively affected by the U.S. Dollar exchange evolution as the majority of the capital expenditures for cable are USD denominated, compared to €64,708 thousand in 2015), as the Company invested to accommodate the significant traffic derived from the incorporation of GVT in the Telefónica Group. Pro forma Non Recurrent Capex for 2015 mainly related to PCCS and Unisur and represented costs needed to design and deploy a cable and to build and equip the related Landing Stations.

Within the Tower Segment, approximately two-thirds of the Company's pro forma total capital expenditures for the year ended 31 December 2015 were devoted to investments in Spain and Germany and one-third to investments in Latin America. Recurrent Capex for the period mainly comprised activities for the maintenance of the Tower Passive Infrastructure in Spain, Germany and Latin America and replacement or repair of equipment for climate and energy, the latter in the specific case of Spain. Non Recurrent Capex for the period involved (i) investments for increasing capacity of towers, such as foundation strengthening, height extension, tower reinforcements and backup power generators, to accommodate new tenants on the existing sites; and (ii) the construction of new sites and climate and other equipment associated with those new sites. Pro forma Non Recurrent Capex for 2015 did not include investments to purchase land but it could be part of the Company's strategy in specific cases under a disciplined capital allocation strategy.

In the Cable Segment, the Company's submarine cable system is capable of supporting significant growth in demand incurring in incremental cost and capital expenditure for capacity upgrades due to the availability of unlit capacity. As at 30 June 2016, the design capacity at 100G was 19.2 Tbps, 80 Tbps and 2 Tbps on the SAM-1, PCCS and Unisur submarine cable systems, respectively, aggregating to 101.2 Tbps of total design capacity at 100G, of which 6.6 Tbps had been utilized as at 30 June 2016.

The Company expects to incur significant amounts of Non Recurrent Capex mainly in relation to the BRUSA and Marea projects and the expansion of SAM-1 to the Dominican Republic. The Company currently expects that its share of the aggregate investment in these projects will total approximately $380 million (€352 million) during the period 2016-2018, the vast majority of which will be allocated to BRUSA. By years, the Company currently expects to invest approximately 20% of the total estimated investment during 2016, approximately 55% during 2017 and the remaining 25% during 2018.

The Company expects to use a variety of means to finance the aggregate investment for the three projects mentioned above, including internally generated cash flows (from the Company's regular operations), sale of capacity through the IRU model and sale of ownership of fibre pairs. In this regard, the Company has already agreed to sell one fibre pair of its BRUSA project to partially finance it, and may elect to sell additional fibre pairs in the future to finance additional portions of its expected investment in such project. It also has entered into IRU agreements with clients selling the capacity associated to an additional fibre pair for periods between 15 and 20 years. As a result of these sales of fibre pairs and IRUs, the Company has already contracted for approximately $160 million of funding for the expected investment needed for the three projects mentioned above (representing approximately 50% of the total amount to be funded through sale of fibre pairs and IRUs), with this funding scheduled to be received over the 2016-2020 period (approximately 20% in 2016, 20% in 2017, 40% in 2018 and the remaining 20% in the 2019-2020 period). The Company has recently extended the payment terms in respect of one of the IRU sales, in the amount of $60 million, which is included within the approximately $160 million of funding to be received over the 2016-2020 period, but without impacting the schedule of receipt of such funding mentioned above. No assurance can be given that the contracted funding will be received on a timely basis or at all. Revenue from the sale of fibre pairs is recorded when delivery is considered to be made, which in this case is expected in 2018. The Company has also entered into respective lines of credit facilities with various financial institutions and may also finance its capital expenditures in the future through loans or equity contributions. See "*—Liquidity and Capital Resources*" below.

Extension of submarine cable systems and number of towers in operation

In order to operate as a global infrastructure company in the telecom industry, the Company needs to have access to a worldwide best-in-class infrastructure network.

In the Cable Segment, it needs submarine cable infrastructure that connects different points in the world and the more routes it covers, the more customers it is potentially able to reach. As of

30 June 2016, the Company operated approximately 65,000 km of submarine cables, approximately 31,265 km of which were its own property.

In the Tower Segment revenues are generated from telecom operators who lease the Company's telecom towers. The annual rental payments vary considerably depending upon numerous factors, such as the number of towers used, tower location, the number and type of tenant equipment on the tower or at the site, ground space required by the tenant, the tenancy ratio (the average number of tenants per site), and the remaining tower capacity. The Company's global network of towers consists of 15,931 towers as of the date hereof which are located in Spain, Germany, Brazil, Peru and Chile.

The Company believes that its future growth will depend on its ability to expand its submarine cable infrastructure, to selectively build new telecom tower sites in the future and, potentially, to identify and consummate additional acquisitions of sites both from the Telefónica Group and unrelated parties.

Tenancy ratio and impact of co-location by MNOs

In the Tower Segment, the Company can generate additional revenues by attracting new tenants at existing sites and by adding additional equipment to existing towers with little additional cost. This phenomenon of hosting several service providers at a single site is known as "co-location". The Company's customers in the Tower Segment, other than the Telefónica Group companies, are mainly MNOs which increasingly seek to reduce their costs through sharing passive infrastructure. While the Tower Segment has historically had low tenancy ratios when this activity was not separately undertaken within the Telefónica Group, the Company aims to increase its utilisation rates and its return on investment by adding new tenants and installing new equipment for existing tenants now that this activity is operated as part of a dedicated infrastructure company. As of 30 June 2016, the Company's average co-tenancy ratio (defined as the average number of tenants per site, taking into account changes in the consolidation perimeter) was 1.24 for its towers in Spain, 1.37 for its towers in Germany, 1.55 for its towers in Brazil, 1.00 for its towers in Peru and 1.13 for its towers in Chile. Due to the relatively fixed nature of the Company's costs in the Tower Segment, if the Company succeeds in attracting additional tenants to its infrastructure sites or add additional equipment to such sites, may create significant value for its business. See section "*Business—Tower Segment*" for further details.

Effects of exchange rates

The Company's audited financial statements are presented in euros, but its operations outside the Eurozone account for a significant portion of its revenues. For the year ended 31 December 2015, the majority of the pro forma consolidated revenues generated by the Tower Segment was derived in euro (83% of the pro forma consolidated revenues generated by the Tower Segment during 2015 came from Spain and Germany), whereas the vast majority of the pro forma consolidated revenues generated by the Cable Segment in such year was derived from U.S. dollar denominated contracts.

The Company conducts a significant portion of its business using the U.S. dollar, as its main contracts with customers in the Cable Segment, including the Telefónica Group, are U.S. dollar denominated, although in some cases contracts are payable in local currency at the exchange rate of the payment date or billing date. Most of the Company's contracts in the Tower Segment in Latin America are in other non-euro local currencies.

Fluctuations in the value of foreign currencies (particularly the U.S. dollar) in relation to the euro may affect the Company's operating results. Impacts associated with fluctuations in foreign currency are discussed in more detail under "*—Quantitative and Qualitative Disclosure about Market Risk—Foreign currency risk*" below and in "*Risk Factors—Risks Related to the Company's Operations and the Business where it Operates—The Company is exposed to currency risks, due to its operations in multiple geographic areas".* In subsidiaries with functional currency other than the euro, such as TIWS América, assets and liabilities are translated into euros using end-of-period exchange rates, with revenue, expenses and cash flows translated using average rates of exchange. Currency variations between the euro and the currencies of the Company's non-European subsidiaries, particularly the U.S. dollar, therefore affect the Company's results of operations as reported in euros.

In particular,

- a strengthening of the U.S. dollar compared with the euro of 5% and 10% would have had a positive impact on the Company's pro forma consolidated revenues for the year ended 31 December 2015 of 2.9% and 6.2%, respectively; likewise, a weakening of the U.S. dollar compared with the euro of 5% and 10% would have had a negative impact on the Company's pro forma consolidated revenues for the year ended 31 December 2015 of 2.6% and 5.0%, respectively; and

- a strengthening of the U.S. dollar compared with the euro of 5% and 10% would have had a positive impact on the Company's pro forma OIBDA for the year ended 31 December 2015 of 3.5% and 7.4%, respectively; likewise, a weakening of the U.S. dollar compared with the euro of 5% and 10% would have had a negative impact on the Company's pro forma OIBDA for the year ended 31 December 2015 of 3.2% and 6.0%, respectively.

Out of the Company's pro forma consolidated revenues for the year ended 31 December 2015, approximately 55% of such revenues were generated in U.S. dollars, 38% in euro and 7% in other currencies.

Inflation

Most of the Company's service contracts in the Tower Segment, and in particular, the Tower MLAs, are indexed to inflation, as are certain of the Company's other contracts. The Company's results of operations will therefore be affected by inflation and/or deflation, although the Tower MLAs with the Telefónica Group are protected against deflation, as the indexation includes a floor at 0%. Inflationary pressure has been a recurrent problem in Latin America and certain countries where the Company operates such as Argentina have recently experienced significant inflation. On the other hand, signs of deflation have recently appeared in other jurisdictions mainly in Europe. See section "*Risk Factors—Risks Related to the Company's Operations and the Business where it Operates—Inflation and certain government measures to curb inflation in some Latin American countries may have adverse effects on their economies and the Company's business and operations in those locations*".

Effects of interest rates

In order to finance its operations, the Company has incurred indebtedness. As of the date of this Prospectus the Company had €140,000 thousand of long-term debt outstanding subject to floating interest rates and €560,000 thousand of long-term debt outstanding with fixed interest rates. As a result, the Company's financial expenses are exposed to changes in interest rates. In particular, approximately 20% of the Company's long-term indebtedness as of the date of this Prospectus is subject to floating interest rates calculated on a Euribor plus spread basis. To mitigate the interest rate risk, the Company may consider using long-term interest rate swaps or interest rate options which, in exchange for a fee, offer protection against a rise in interest rates. The Company's results of operations can be affected by changes in interest rates with respect to the unhedged portion of its indebtedness that bears interest at floating rates.

Regulatory matters

The Company operates in a regulated industry. Its results of operations and financial condition have been, and will continue to be, affected by regulatory actions and changes. In the United States, for example, the regulator assesses the regulatory fees charged by the service providers it regulates within the telecom industry, including subsidiaries of the Company. Those fees vary by the particular type of license and service and are periodically revised, usually on annual basis. See section "*Regulation*" for further details.

Key Performance Indicators

In addition to the factors described above, the Company closely monitors the following key drivers of its businesses. The table below shows the Company's key performance indicators as of 30 June 2016.

	As of 30 June 2016
	(unaudited)
Cable Segment	
Total network length (at period end)	~65,000 km
Proprietary network length (at period end)	~31,265 km
Tower Segment	
Total number of sites (at period end)	15,931
Spain	10,741
Germany	2,359
Peru	849
Brazil	1,655
Chile	327
Tenancy ratio[(1)]	
Spain	1.24
Germany	1.37
Peru	1.00
Brazil	1.55

Chile..	1.13

(1) Tenancy ratio corresponds to the average number of tenants per site. Tenancy ratio is calculated by dividing the aggregate number of tenants in the sites by the total number of sites at the relevant date.

Critical Accounting Policies and Estimates

The preparation of the Company's financial statements requires it to make certain estimates, judgments and assumptions under EU-IFRS that it believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The Company believes that, as reflected in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, the following significant accounting policies involve a high degree of judgment: intangible assets; goodwill; property, plant and equipment; impairment of non-current assets; leases; financial assets and liabilities; provisions and deferred income taxes.

The accounting policies and estimates described below are substantially consistent with the ones described in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and the 2015 Audited Consolidated TIWS América Financial Statements. See Note 3 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements for a more detailed description of such accounting policies.

Intangible assets

Intangible assets are initially recognised at acquisition or production cost and subsequently carried at cost minus accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over their useful lives, except for those with indefinite useful lives, such as goodwill, which are not amortized. The useful life of intangible assets is evaluated based on the Company's estimates. The carrying amount of intangible assets is reviewed for possible impairment when certain events or changes indicate that their carrying amount may not be recoverable.

Intangible assets include computer software, which refers principally to the amounts paid for ownership or for rights to use computer programs, when they are expected to be used over several years. Computer software is recognised at acquisition cost and amortized on the basis of its useful life (between two and five years).

Intangible assets also include intangible assets acquired in business combinations, which are measured at their fair value at the acquisition date and which mainly comprise:

- *Customer relations*: The main intangible assets within "Customer relations" are generated in the business combinations corresponding to the Tower Segment. This heading primarily consists of tower leasing agreements entered into with companies of the Telefónica Group and third parties co-located at the date of the relevant business acquisition. These assets are measured based on estimated cash flows derived from such agreements over their contractual term, taking into consideration the renewals clauses. In the case of lease agreements with Telefónica Group companies, which imply a significant portion of the revenues from the Tower Segment, these clauses include an initial mandatory term of 10 years (15 years in the case of Germany), and three additional extensions of five years each (two additional extensions of five years each in the case of Germany). After a 25-year period, the lease agreements will have an indefinite duration. The useful life of these assets is between 25 and 35 years, based on the estimated period over which the customer base is expected to generate economic benefits that will flow to the Company. Customer relations of the Cable Segment in Spain are also included in this heading, the useful life of which has been estimated at between 14 and 15 years. These intangibles assets are amortized on a straight-line basis.

- *Network location*: This heading includes potential incremental growth of revenues and cash flows from leasing surplus capacity of the existing towers at the date of the purchase of the businesses. The network location is considered an intangible asset given that the surplus capacity is separable from the "Customer relations" intangible asset, and may be sold, transferred, rented to, or exchanged with, third parties. Network location is estimated to have an economic useful life between 30 and 48 years, based on the estimated period over which the economic benefits associated with this excess capacity are expected to accrue to the company. It is amortized on a straight-line basis.

As of 30 June 2016 the Company had €1,536,098 thousand of intangible assets, mainly composed of 1,305,670 thousand of customer relations and 227,603 of network location. The Company anticipates depreciating and amortizing its intangible assets in the ordinary course of business. See note 5 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Goodwill

Goodwill generated in various business combinations represents the excess of the cost over the fair or market value of all of the identifiable net assets of the company acquired at the acquisition date. Goodwill is not amortized. After initial recognition, goodwill is carried at cost, less any accumulated impairment losses. Goodwill is recognised as an asset denominated in the currency of the company acquired and is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable. The potential impairment loss is determined by assessing the recoverable amount, based on the business plan approved by the Board of Directors. As of 30 June 2016, the carrying amount of goodwill held by the Company was €276,285 thousand derived from acquisitions in Spain, Brazil and Peru. See Note 6 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and section "*Pro Forma Consolidated Financial Information*" for further details.

Property, plant and equipment

Under EU-IFRS, property, plant and equipment are recorded at acquisition cost minus depreciation and any accumulated impairment losses.

In the case of tower infrastructure, acquisition cost includes the present value of the future estimated dismantling costs of the sites where the towers are located whenever there is an obligation to incur in such costs. In addition, cost includes, among others direct labour used in installation and the allocable portion of the indirect costs required for the related asset. The latter two items are recorded as income under the concept “Own work capitalized” of the “Other income” caption.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized by the Company. Qualifying assets are those assets that require a period of at least 18 months to bring the assets to the condition necessary for their intended use or sale.

The Company’s subsidiaries depreciate their property, plant and equipment, from the time they can be placed in service, amortizing the cost of the assets, net of their residual values on a straight-line basis over the assets’ estimated useful lives, which are calculated in accordance with technical studies that are revised periodically in light of technological advances and the rate of dismantling. The estimated useful lives of the Company’s property, plant and equipment range from two to 40 years, depending on the particular asset.

Impairment of non-current assets

The Company assesses, at each reporting date, whether there is an indication that non-recurrent assets may be impaired. If any such indication exists, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of fair value less costs to sell and value in use. To estimate value in use, the future cash flows that the asset is expected to generate are projected and then discounted to their present value using a discount rate that reflects the current time value of money and the risks specific to the assets (risk premium). The projection of such cash flows and the determination of the applicable discount rate inherently involve a high degree of judgment and uncertainty and are subject to change due to general market conditions.

Examples of indications of impairment are unexpected cancellations of lease agreements and difficulties in obtaining new agreements to replace them, the external development of new technologies that result in anticipated obsolescence of non-current assets of the Company, significant economic and political developments, especially in Latin America, material devaluations of the functional currencies, other than the euro, of the countries where the Company provides its services and natural disasters that may affect the Company’s infrastructure.

To calculate impairment, the Company takes into consideration projected cash flows based on strategic business plans that normally cover a period of five years. Starting with the sixth year, an expected constant growth rate is applied.

Leases

The determination of whether an arrangement constitutes or contains a lease is based on the analysis of the nature of the agreement and requires assessing whether the fulfilment of the obligation thereunder is dependent on the use of a specific asset and whether the agreement conveys the right to use the asset.

Under IAS 17, leases are classified as operating leases when substantially all of the risks and rewards relating to ownership of an asset are attributable to the lessor. If the lease meets these criteria, the related costs, net of incentives granted by the lessor, are expensed on a straight line basis over the term of the lease through the consolidated income statement. Those lease agreements that transfer substantially all of the risks and rewards incidental to the ownership of the underlying asset to the lessee are classified as finance leases.

The IAS Board issued IFRS 16 ("Leases") in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It will remove the distinction, for lessees, between "operating leases", which are reported on a company's consolidated income statement and "finance leases", which are reported on a company's consolidated statement of financial position. Under the new standard, companies that are lessees are required to recognise a right of use asset and a lease liability for the obligation to make lease payments for the right to use the underlying asset for the term of the lease. IFRS 16 will effectively require companies that are lessees, including the Company, to report all leases as assets and liabilities on their statements of financial position. It will become effective from 1 January 2019 but may be implemented by companies prior to this date. As of the date of this Prospectus, the EU has not yet adopted IFRS 16. The Company is considering the changes required by IFRS 16 and expects to comply with such requirements by the time IFRS 16 comes into effect. The Company is currently analysing the potential impact of the first-time application of this standard on its financial statements. In order to estimate such impact, the Company needs to estimate, among other factors, the term of the relevant leases taking into account whether the agreements may be early terminated or not and whether the terms may be unilaterally extended by one party or not and, in both cases, under which level of certainty, which will depend in turn on the expected use of the assets located in the underlying leased properties. The Company also needs to estimate the discount rate applicable to the rent income. The Company has not yet completed the process, given the recent publication of this standard and the various transition options established by this standard for first-time application. Although there are some exceptions, the Company, as lessees, would be required to record all leases on the balance sheet as liabilities, at the present value of the expected future payments, along with an asset reflecting the right to use the asset over the lease term. Currently, operating leases are accounted for in the income statement as an expense in the period incurred. Given that the Company's business, mainly in the Tower Segment, involves leasing land on which its infrastructure is located, the application of IFRS 16 in 2019 is expected to have a significant impact on the Company's consolidated financial statements.

Financial assets and liabilities

Financial assets and liabilities mainly include two types of assets:

- *Trade and other receivables.* This caption includes credits arising from commercial and non-commercial transactions, including financial assets with fixed or determinable payments that are not traded in an active market and for which the Company generally expects to recover all of its initial investment. Trade and other receivables are initially recognised at fair value, which is generally equivalent to the fair value of the consideration paid plus directly attributable transaction costs. After initial recognition, these financial assets are generally measured at amortised cost.

- *Trade and other payables.* They include financial liabilities resulting from the purchase of goods and services by the Company and payables arising from non-commercial transactions, which are not derivatives. These assets are initially recognised at fair value, which is generally equivalent to the fair value of the consideration paid plus directly attributable transaction costs. After initial recognition, these financial liabilities are generally measured at amortised cost. Accrued interest is recorded in the income statement, by applying the effective interest rate method.

Provisions

Provisions cover present obligations at the reporting date arising as a result of past events which are expected to give rise to a loss for the Company, and which are considered certain as to their nature but uncertain as to their amount and/or timing. Provisions are expensed through the income statement in the period in which they can be reasonably estimated.

The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the statement of financial position date, including the opinions of independent experts such as legal or financial counsel. Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognised originally on the basis of the estimates.

One of the main provisions is the asset retirement obligation liability, which mainly applies to the Tower Segment. Such provision represents the best estimate of the costs associated with the Company's legal obligation to dismantle and remove a property, plant and equipment item and restoring the site on which it is located, such as the obligation incurred by mobile telecommunications operators in connection with their operating infrastructure (telecom towers). Fair value estimates of asset retirement obligations involve discounting of estimated future expenditures associated with decommissioning these assets in the future, considering all information available at the end of the reporting period.

The main assumptions used in estimating the provisions for the asset retirement obligation liability are the estimated associated costs, discount rates and expected timing of retirement costs, which are reassessed on a yearly basis or whenever facts and circumstances occur that may affect the amount required to settle the obligation. Changes in these assumptions are recognised as an increase or decrease, as applicable, in the value of the corresponding assets. If there is a decrease in the provision for the asset retirement obligation liability, the amount deducted from the cost of the asset shall not exceed its carrying amount. Any excess shall be recognised immediately in the income statement, under the "Depreciation and amortization" line item.

As of 30 June 2016, the Company had €152,804 thousand of non-current provisions and €1,721 thousand of current provisions. Non-current provisions were mainly related to dismantling provision accrued in Spain and Germany. The table below shows the breakdown of the Company's provisions as of 30 June 2016 and 31 December 2015. See Notes 3(h) and 14 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements for further details.

	As of 30 June 2016		**As of 31 December 2015**	
	Non-current	**Current**	**Non-current**	**Current**
	(in thousands of €)			
Dismantling of assets	151,462	–	–	–
Employee benefits	1,016	–	821	–

	As of 30 June 2016		As of 31 December 2015	
	Non-current	Current	Non-current	Current
	(in thousands of €)			
Other provisions	326	1,721	622	1,049
Total	**152,804**	**1,721**	**1,443**	**1,049**

Deferred income taxes

The deferred taxes are calculated using the balance sheet liability method based on the temporary differences that arise between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements, according to the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date and which are expected to apply when the corresponding deferred tax asset is realized or the deferred tax liability is settled. Deferred tax liabilities that arise from temporary differences with subsidiaries, jointly controlled entities and/or associates are always recognised, unless the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not be reversed in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which to offset the deductible temporary differences or the unused tax losses or unused tax credits can be utilised. Any deferred tax assets that arise due to temporary differences with subsidiaries, jointly controlled entities and/or associates are recognised if, in addition, it is probable that they will be reversed in the foreseeable future.

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. Such recoverability ultimately depends on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections that are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realisation of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Explanation of Pro Forma Income Statement Items

In order to better understand the below discussion of the Company's pro forma results of operations, details regarding the composition of certain line items included in the pro forma income statement are provided below.

Revenues

Revenues are recognised on an accrual basis regardless of when the actual payments occur. Revenues are measured at the fair value of the consideration received, net of discounts and taxes. Most of the Company's revenues relate to what the Company believes are recurrent revenues as they are derived from services provided under the terms of medium- or long-term contracts. See section "*—Factors Affecting the Company's Results of Operations—Revenue visibility*". There are no material seasonal effects in the Company's revenues.

The revenues line item is composed of three sources: (i) IP and capacity cable revenues, (ii) tower co-location and (iii) other revenues.

IP and capacity cable revenues

Revenues from the Cable Segment primarily consists of revenues from the provision of IP services, from the sale of capacity, and from operating and maintenance services provided to customers.

Revenues received from the provision of IP services within the Cable Segment are typically billed under flat-fee or, to a lesser extent, pay-as-you-go agreements. In both cases, the customer makes an initial non-recurring payment on the access port, and thereafter services are billed on monthly or quarterly basis.

The Company uses two different types of agreements for the provision of its capacity services: (i) the IRU model and (ii) the capacity "lease" model.

- *IRU model.* Under the IRU model the Company transfers the use of certain capacity on its network to a third party for a period of time, typically 10 to 15 years. During this period, the customer is entitled to unconditionally and exclusively use certain bandwidth of the Company's fibre network in exchange for a fee. The service price for the full contract is received upfront by the Company and accounted for as deferred revenue on its balance sheet, and the revenue is then recognised on a straight-line basis over the contractual period. Deferred revenue is classified as current deferred revenue if revenue is linked to the normal operating cycle, which is generally considered to be one year, and non-current deferred revenue otherwise. Due to this timing difference, the IRU model could generate different income statement and cash flow inputs, with cash inflows being received earlier than revenues are recorded. The net impact for a specific year in the cash flow of the Company will ultimate depend on the total amount of revenue recorded coming from the IRU model and the cash generated on that year from the sale of new IRUs contracts. IRUs represent a small portion out of total Cable Segment revenues. The Company also receives operation and maintenance fees collected during the IRU life, which are accounted for and collected when the related operations or maintenance service is provided. As a result of the use of the IRU model, the Company is often able to finance expansion of its network using funds obtained from its customers.

- *Capacity "lease" model.* Under this model, the customer pays an annual fee for the use of certain relevant bandwidth. Such fee is collected on a regular basis (generally monthly or quarterly) and the customer is not required to make any upfront payment. Under this model the Company normally enters into multi-year agreements where the customer commits to specific capacity levels at a predefined unitary price. Despite the contractual name of these agreements, from an accounting perspective they are not leases under IAS 17 or IFRS-16, as they do not relate to a specific asset. Instead, they are considered as service agreements.

Tower co-location

Revenues in the Tower Segment are mainly generated from co-location services provided to customers in the Company's tower infrastructure, by which revenue is derived from leasing antenna space on multi-tenant communications sites to the Company's customers in exchange for a fee that is generally payable on a tower-per-tower basis in accordance with the terms of the relevant lease agreements.

Other revenues

This category mainly includes pass-through revenues derived from the Tower Segment. It basically consists of the re-invoicing of energy costs to customers (this applies only to the Tower Segment in Spain) and, in all countries except Germany, the pass-through of the ground lease expenses to them.

The table below shows the pro forma revenues generated on a country-by-country basis for the six-month period ended 30 June 2016 and the year ended 31 December 2015 within the Tower Segment. It is not possible to provide such detail for the Cable Segment.

	For the six-month period ended 30 June 2016					
	Spain	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower Segment**
			(pro forma)			
			(in thousands of €)			
Tower collocation............................	48,418	9,279	2,981	1,900	23,119	85,697
Other revenues.................................	47,775	5,566	2,363	1,938	258	57,900
Revenues..	**96,193**	**14,845**	**5,344**	**3,838**	**23,377**	**143,597**

	For the year ended 31 December 2015					
	Spain	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower Segment**
			(pro forma)			
			(in thousands of €)			
Tower collocation............................	96,955	19,739	6,061	3,929	45,118	171,802
Other revenues.................................	101,937	11,895	4,373	3,782	584	122,571
Revenues..	**198,892**	**31,634**	**10,434**	**7,711**	**45,702**	**294,373**

The IP and capacity cable revenues, Tower co-location, and Other revenues concepts included within the Revenues line item of the pro forma income statement included in the Pro Forma Consolidated Financial Information are accounted for within the Revenue and the Other operative income line items of the historical income statement included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Other income

Other income includes, in accordance with IFRS 3 ("Business Combinations"*)*, the excess of fair value over the purchase price paid for the acquisition by the Company of the Tower business in Chile. Other income has been adjusted on a pro forma basis to eliminate such excess, as it is a one-off positive impact recorded in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Expenses

Expenses are also recognised by the Company on an accrual basis regardless of when the actual payments occur. The Company distinguishes four main categories of expenses: (i) supplies (rebilling), (ii) supplies (other), (iii) personnel expenses and (iv) other expenses.

Supplies (rebilling)

Supplies (rebilling) expenses include the amounts relating to the ground lease and to the supply of electricity in locations in property of third parties or Telefónica Group companies where the total costs are initially assumed by the Company for subsequent billing to the Telefónica Group or unrelated parties. The ground lease expenses are generally recharged to customer except in Germany. In Spain, these expenses also include the amounts relating to the wholesale supply of electricity, as Spain is the only country where the Company operates the supply of electricity, assuming its associated costs for subsequent billing to its customers.

Supplies (other)

Supplies (other) includes expenses derived primarily from the acquisition of circuits and capacity from other carriers in order to provide off-net services and to configure the Company's IP network within the Cable Segment, commercial payroll costs derived from the provision from the Telefónica Group of IP and Capacity sales support, factory subcontractors, maintenance and housing costs incurred in the Cable Segment and maintenance costs and ground leases in Germany in the Tower Segment.

The Supplies (rebilling), Supplies (Other), and Other expenses concepts included within the pro forma income statement included in the Pro Forma Consolidated Financial Information are accounted for within the Supplies line item and the Other expenses line item of the historical income statement included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Personnel expenses

Personnel expenses consist principally of wages and salaries, social security contributions, accruals related to share-based payment, retirement benefits and other contingencies, commitments or personnel expenses.

Other expenses

Other expenses consisted primarily of external services and operating taxes within the Cable Segment, and security, surveillance and other general expenses within the Tower Segment.

Depreciation and amortization

This line item principally includes property, plant and equipment depreciation charges and amortization of intangible assets, such as goodwill.

Net financial result

Net financial result reflects finance income less finance costs. Finance income consists principally of interest and other finance income such as income earned on deposits. Finance costs represent principally the interest expense on loans from the Telefónica group and others.

Corporate income tax

Corporate income tax consists of current tax payable on the taxable profit for the year after applying allowable deductions, changes in deferred tax assets and liabilities, other adjustments and tax credits.

Management performance measures

Below is a discussion of certain non-EU-IFRS financial information. Such financial information is not defined under EU-IFRS, and other companies may calculate such financial information differently or may use such measures for different purposes than we do, limiting the usefulness of such measures as comparative measures.

The MPMs should not be considered in isolation and investors should not consider such information as alternatives to revenue, profit before tax or cash flows from operations calculated in accordance with EU-IFRS, as indications of operating performance or as measures of the Company's profitability or liquidity. Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with EU-IFRS included elsewhere in this Prospectus. Investors are cautioned not to place undue reliance on these MPMs and are also advised to review them in conjunction with the Financial Statements and the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus.

This Prospectus contains certain financial measures that are not defined or recognised under EU-IFRS, including "OIBDA", "Recurrent Capex", "Non Recurrent Capex", "OIBDA Margin", "Recurrent Operating Cash flow", "Recurrent Levered Cash Flow", "Cash Conversion", "Gross Financial Debt" and "Net Financial Debt". Each of these measures is described below. The Company uses these measures because it believes that the MPMs contribute to a better understanding of the Group's results of operations by providing additional information on what the Group considers some of the drivers of the Group's financial performance. Furthermore, the Company believes that these measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity in comparing the performance of businesses on a consistent basis, which can vary significantly depending upon accounting methods. See section "*Presentation of financial and other information—Management performance measures*".

The Company believes that the description of these management measures in this Prospectus follows and complies with the European Securities and Markets Authority Guidelines on Alternative Performance Measures (APM) dated 5 October 2015.

OIBDA

The Company calculates OIBDA as operating income for the period before depreciation and amortization. OIBDA is not a measurement of performance under EU-IFRS and investors should not consider OIBDA as an alternative to operating income or result for the period, as a measure of the Company's operating performance or cash flows from operating, investing or financing activities or as a measure of its ability to meet its cash needs, or any other measures of performance under generally accepted accounting principles. The Company believes that OIBDA is a useful indicator of the Company's ability to incur and service its indebtedness and can assist securities analysts, investors and other parties to evaluate the Company. OIBDA and similar measures are used by different companies for different purposes and are often calculated in ways that reflect the circumstances of those companies. OIBDA may not be indicative of the Company's historical operating results, nor is it meant to be predictive of potential future results. See section "*Presentation of Financial and Other Information—Alternative performance measures*".

The following table sets forth a reconciliation of OIBDA to the Company's operating income for the periods discussed herein.

	1H 2016 Audited Consolidated Telxius Interim Financial Statements	**Pro Forma Consolidated Financial Information**	
	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2016**	**Year ended 31 December 2015**
		(in thousands of €)	
Operating income	67,998	56,926	126,543
Depreciation and amortization	66,496	101,475	196,933
Operating income before depreciation and amortization (OIBDA)	**134,494**	**158,401**	**323,476**

OIBDA Margin

The Company calculates OIBDA Margin as OIBDA divided by total revenue.

Recurrent Capex

The Company calculates Recurrent Capex as the sum of capital expenditure devoted to infrastructure maintenance, primarily linked to keeping its submarine cables and towers in adequate working order, and which is recurrent in time and in nature, and capital expenditure in the Cable Segment necessary to upgrade the capacity of existing cables and to upgrade the IP network through the investment in routers and additional IP equipment. See section "*Factors Affecting the Company's Results of Operations—Capital expenditures*" above.

Non Recurrent Capex

The Company calculates Non Recurrent Capex as capital expenditure related to the expansion and improvement of the Company's infrastructure, such as capital expenditure associated with the construction of new submarine cables or the expansion of a cable and the deployment of new tower sites, the acquisition of land or increasing the capacity of existing towers. See section "*Factors Affecting the Company's Results of Operations—Capital expenditures*" above.

Recurrent Operating Cash flow

The Company calculates Recurrent Operating Cash Flow as OIBDA minus Recurrent Capex (as defined in "*—Factors Affecting the Company's Results of Operations—Capital expenditures*").

Recurrent Levered Cash Flow

The Company calculates Recurrent Levered Cash Flow as OIBDA, minus Recurrent Capex (as defined in "*—Factors Affecting the Company's Results of Operations—Capital expenditures*"), plus or minus current assets and liabilities variation (excluding Net Financial Debt items), plus interest received, minus interest paid and minus any corporate income tax paid, adjusted by material non-recurring impacts.

Cash Conversion

The Company calculates Cash Conversion by dividing Recurrent Operating Cash Flow by OIBDA

Gross Financial Debt

The Company calculates Gross Financial Debt as long-term financial indebtedness plus short-term financial indebtedness plus derivative instruments plus other financial liabilities.

Net Financial Debt

The Company uses Net Financial Debt, a non-EU-IFRS measure, as a liquidity metric. The Company calculates Net Financial Debt as Gross Financial Debt less Cash and cash equivalents.

The Company believes that Net Financial Debt is meaningful for investors because it shows a manner of viewing the Company's solvency using the same measures used by the Company's management. The Company uses Net Financial Debt to calculate certain solvency and leverage ratios used by management.

Pro Forma Results of Operations

The Pro Forma Consolidated Financial Information included elsewhere in this Prospectus reflects adjustments to the 2015 Audited Consolidated TIWS América Financial Statements and 1H 2016 Audited Consolidated Telxius Interim Financial Statements to give effect to the transactions described therein as if they had occurred on 1 January 2015. See section "*Pro Forma Consolidated Financial Information*" and "*Presentation of Financial and Other Information*" for further details on how the Pro Forma Consolidated Financial Information was prepared. See also section "*Risks Factors—Risks Related to the Financial Information Included in this Prospectus—The Pro Forma Consolidated Financial Information may not be representative of the Company's future results of operations and financial condition, and investors in the Shares may have limited recourse against the Company's independent auditors*".

Six-month period ended 30 June 2016

The table below shows the results of operations of the Company on a pro forma basis for the six-month period ended 30 June 2016 and further below is a discussion of such results.

For the six-month period ended 30 June 2016

(pro forma)

(in thousands of €)

	Cable business consolidated comprehensive income statement	Other Cable historical operating results	Pro forma Cable adjustments	Other Pro forma Cable Adjustments related to PPA	Telxius Cable business	Tower business consolidated comprehensive income statement	Other Tower historical operating results	Pro forma Tower adjustments	Other Pro forma Tower Adjustments related to PPA	Telxius Tower business	Telxius holding consolidated comprehensive income statement	Other pro forma adjustments	Total pro forma consolidated comprehensive income statement
IP and capacity cable revenues	178,060	12,669	1,037	(211)	191,555	–	–	–	–	–	–	–	191,555
Tower collocation	–	–	–	–	–	38,077	31,347	16,173	100	85,697	–	–	85,697
Other revenues	3,332	–	–	–	3,332	26,904	25,687	5,309	–	57,900	–	–	61,232
Revenues	**181,392**	**12,669**	**1,037**	**(211)**	**194,887**	**64,981**	**57,034**	**21,482**	**100**	**143,597**	–	–	**338,484**
Other income	–	–	–	–	–	–	–	–	–	–	11,942	(11,942)	–
Supplies (rebilling)	–	–	–	–	–	(25,572)	(28,840)	(722)	–	(55,134)	–	–	(55,134)
Supplies (other)	(44,487)	(3,585)	540	–	(47,532)	(3,614)	(5,392)	(1,164)	–	(10,170)	–	–	(57,702)
Personnel expenses	(6,940)	(2,143)	1,942	–	(7,141)	(525)	–	–	–	(525)	(1,161)	(2,347)	(11,174)
Other expenses	(37,906)	(2,355)	(4,966)	–	(45,227)	(1,319)	(2,145)	(4,196)	–	(7,660)	(2,297)	(889)	(56,073)
Expenses	**(89,333)**	**(8,083)**	**(2,484)**	–	**(99,900)**	**(31,030)**	**(36,377)**	**(6,082)**	–	**(73,489)**	**8,484**	**(15,178)**	**(180,083)**
Operating income before depreciation and amortization (OIBDA)	**92,059**	**4,586**	**(1,447)**	**(211)**	**94,987**	**33,951**	**20,657**	**15,400**	**100**	**70,108**	**8,484**	**(15,178)**	**158,401**
Depreciation and amortization	(40,479)	(1,244)	–	(3,279)	(45,002)	(26,017)	(18,036)	–	(12,420)	(56,473)	–	–	(101,475)
Operating income	**51,580**	**3,342**	**(1,447)**	**(3,490)**	**49,985**	**7,934**	**2,621**	**15,400**	**(12,320)**	**13,635**	**8,484**	**(15,178)**	**56,926**
Net financial result	5,219	–	–	–	5,219	(781)	(8)	705	(8)	(92)	(1,175)	(3,298)	654
Profit (loss) before tax	**56,799**	**3,342**	**(1,447)**	**(3,490)**	**55,204**	**7,153**	**2,613**	**16,105**	**(12,328)**	**13,543**	**7,309**	**(18,476)**	**57,580**
Corporate income tax	(15,069)	(836)	8,897	872	(6,136)	(25)	72	(6,444)	4,213	(2,184)	1,156	1,634	(5,530)
Result for the period	**41,730**	**2,506**	**7,450**	**(2,618)**	**49,068**	**7,128**	**2,685**	**9,661**	**(8,115)**	**11,359**	**8,465**	**16,842**	**52,050**

Revenues

Pro forma consolidated revenues for the six-month period ended 30 June 2016 were €338,484 thousand and consisted primarily of IP and Capacity Cable revenues, tower co-location and other revenues.

By segment, pro forma consolidated revenues from the Cable Segment for the six-month period ended 30 June 2016 were €194,887 thousand (representing 58% of the consolidated pro forma revenues) and pro forma consolidated revenues from the Tower Segment were €143,597 thousand (representing 42% of the consolidated pro forma revenues).

By customer, Telefónica Group companies represented 63% of the consolidated pro forma revenues for the six-month period ended 30 June 2016 and unrelated parties represented the remaining 37%.

By currency, the majority of the pro forma consolidated revenues generated by the Tower Segment for the six-month period ended 30 June 2016 were derived in euro (83% of the pro forma consolidated revenues generated by the Tower Segment during the six-month period came from Spain and Germany) whereas the vast majority of the pro forma consolidated revenues generated by the Cable Segment were derived from U.S. dollar denominated contracts.

IP and Capacity Cable revenues

Pro forma IP and Capacity Cable revenues from operations for the six-month period ended 30 June 2016 were €191,555 thousand and consisted of revenue generated by the sale of IP and capacity within the Cable Segment.

Revenues generated by the provision of IP services represented 62% of the Company's pro forma consolidated revenues from the Cable Segment for the six-month period ended 30 June 2016. Revenues generated by the sale of capacity represented 38% of the Company's pro forma consolidated revenues from the Cable Segment for the six-month period ended 30 June 2016.

Pro forma revenues within the Cable Segment during the six-month period ended 30 June 2016 were in line with the Company's expectations as a result of several effects offsetting each other: (i) an increase in revenues generated from unrelated parties; (ii) a decrease in revenues from the Telefónica Group compared with the previous year due to the agreement to a five-year tenor of the Cable MCA for the provision of IP transit services (which generally was longer than the term of the agreements previously in place with the Telefónica Group) and (iii) the expiry in the second quarter of 2016 of certain IRU agreements entered into around the time SAM-1 was placed in service.

Tower co-location

Pro forma revenues from tower co-location for the six-month period ended 30 June 2016 were €85,697 thousand and consisted primarily of revenue received from the Telefónica Group and unrelated parties from co-location services on multi-tenant telecom towers.

Other revenues

Other pro forma revenues for the six-month period ended 30 June 2016 were €61,232 thousand and consisted primarily of tower pass-through revenues, the majority of which (€47,775 thousand) were generated in Spain and related to ground lease and energy costs. It also includes other revenues from the Cable Segment amounting to €3,332 thousand.

Pro forma revenues generated by the Tower Segment during the period were adversely affected in Spain by the decline in energy prices, although it had no impact on the Company's results due to the direct pass-through nature of such expenses in Spain.

Other income

Other income includes, in accordance with IFRS 3 ("Business Combinations"*)*, the excess of fair value over the purchase price paid for the acquisition by the Company of the Tower business in Chile. Other income has been adjusted on a pro forma basis to eliminate such excess, as it is a one-off positive impact recorded in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements. Therefore, the pro forma income statement for the six-month period ended 30 June 2016, included in the Pro Forma Consolidated Financial Information, does not show any amount for Other income.

Expenses

Pro forma consolidated expenses for six-month period ended 30 June 2016 were €180,083 thousand and consisted primarily of supplies (rebilling), supplies (other), personnel expenses and other expenses. By segment, €99,900 thousand were expenses related to the Cable Segment and €73,489 thousand were expenses related to the Tower Segment. The remaining €6,694 thousand related to certain pro forma adjustments.

Supplies (rebilling)

Pro forma supplies (rebilling) for the six-month period ended 30 June 2016 were €55,134 thousand and consisted primarily of ground leases within the Tower Segment and energy costs in the case of the Tower Segment in Spain, which are passed through to customers (in Germany the total amount of the ground lease is assumed by the Company and accounted for within Supplies (other)).

Supplies (other)

Pro forma supplies (other) as for the six-month period ended 30 June 2016 were €57,702 thousand and consisted primarily of the acquisition of circuits and capacity from other carriers in order to provide off-net services and to configure the Company's IP network within the Cable Segment, commercial payroll costs derived from the provision from the Telefónica Group of IP and Capacity sales support, factory subcontractors, maintenance and housing costs incurred in the Cable Segment and maintenance costs and ground leases in Germany in the Tower Segment.

Personnel expenses

Pro forma personnel expenses for the six-month period ended 30 June 2016 were €11,174 thousand and consisted primarily of wages and salaries.

Other expenses

Pro forma other expenses for the six-month period ended 30 June 2016 were €56,073 thousand and consisted primarily of external services and operating taxes within the Cable Segment, and security, surveillance and other general expenses within the Tower Segment.

Depreciation and amortization

Pro forma depreciation and amortization expenses for the six-month period ended 30 June 2016 were €101,475 thousand and consisted primarily of property, plant and equipment depreciation charges and amortization of intangible assets resulting from the purchase price allocation related to acquisitions.

Operating income

As a result of the factors described above, pro forma operating income for the six-month period ended 30 June 2016 were €56,926 thousand.

Net financial result

Pro forma net financial result for the six-month period ended 30 June 2016 was income of €654 thousand mainly as a result of positive exchange rate differences, offset in part by interest expenses derived from long-term loans with the Telefónica Group. Pro forma interest expense for the period was €4,466 thousand.

On 27 May 2016, Telefónica granted the Company financing for an aggregate amount of €700,000 thousand. This financing was divided into two loans: one for €560,000 thousand at fixed interest rates divided in turn into three tranches (€280,000 thousand maturing in 2022, €140,000 thousand maturing in 2024 and €140,000 thousand maturing in 2026) and another loan for €140,000 thousand at a floating rate that matures in 2021 (which may be extended for two additional one-year periods if requested by the Company and agreed to by Telefónica). With these loans, the Company partially cancelled the short-term line of credit that it held with Telfisa Global, B.V. ("**Telfisa**"). See section "—*Liquidity and Capital Resources*" below.

Profit/(loss) before tax

As a result of the above, pro forma profit before tax from continuing operations for the six-month period ended 30 June 2016 were €57,580 thousand.

Corporate income tax

Pro forma corporate income tax for the six-month period ended 30 June 2016 was €5,530 thousand and included a positive non-cash deduction of €7,362 thousand related to the quarterly reversal of the deferred tax liability associated with the depreciation and amortization of the purchase price allocation mainly for the acquisition of the entity holding towers in Spain. The purchase price allocation amortization expense registered on a consolidated basis is generally non-tax deductible.

Result for the period

As a result of the above, the pro forma result for the period for the six-month period ended 30 June 2016 was €52,050 thousand.

OIBDA

Pro forma OIBDA for the six-month period ended 30 June 2016 was €158,401 thousand. By segment, OIBDA related to the Cable Segment was €94,987 thousand and OIBDA related to the Tower Segment was €70,108 thousand. The difference of €6,694 is the result of holding costs and pro forma adjustments. See Notes (b.1.3, b.6 and b.6.3) to the Pro Forma Consolidated Financial Information.

The table below shows the distribution of the pro forma OIBDA in the Tower Segment on a country-by-country basis. It is not possible to provide such detail for the Cable Segment.

	For the six-month period ended 30 June 2016					
	Spain	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower Segment**
			(pro forma)			
			(in thousands of €)			
Tower collocation	48,418	9,279	2,981	1,900	23,119	85,697
Other revenues	47,775	5,566	2,363	1,938	258	57,900
Total revenues	**96,193**	**14,845**	**5,344**	**3,838**	**23,377**	**143,597**
Supplies (rebilling)	(45,468)	(5,565)	(2,162)	(1,939)	–	(55,134)
Supplies (other)	(3,554)	(1,544)	(168)	(147)	(4,757)	(10,170)
Other expenses	(4,637)	(1,328)	(562)	(412)	(1,246)	(8,185)
Expenses	**(53,659)**	**(8,437)**	**(2,892)**	**(2,498)**	**(6,003)**	**(73,489)**
Operating income and before depreciation and amortization (OIBDA)	**42,534**	**6,408**	**2,452**	**1,340**	**17,374**	**70,108**

OIBDA Margin

Pro forma OIBDA Margin for the six-month period ended 30 June 2016 was 47%. By segment, pro forma OIBDA Margin related to the Cable Segment was 49% and pro forma OIBDA Margin related to the Tower Segment was 49%.

Year Ended 31 December 2015

The table below shows the results of operations of the Company on a pro forma basis for the year ended 31 December 2015 and further below is a discussion of such results.

	For the year ended 31 December 2015								
	TIWS America consolidated comprehensi ve income statement – Cable business	**Other historical Cable operating results**	**Pro forma Cable adjustments**	**Telxius Cable business**	**Tower historical operating results**	**Pro forma Tower adjustments**	**Telxius Tower business**	**Other pro forma adjustments**	**Total pro forma Consolidated Comprehensi ve Income Statement**
					(pro forma)				
					(in thousands of €)				
IP and capacity cable revenues	335,931	56,612	4,123	396,666	—	—	—	—	396,666
Tower co-location	—	—	—	—	31,874	139,928	171,802	—	171,802

	For the year ended 31 December 2015								
	TIWS America consolidated comprehensive income statement – Cable business	Other historical Cable operating results	Pro forma Cable adjustments	Telxius Cable business	Tower historical operating results	Pro forma Tower adjustments	Telxius Tower business	Other pro forma adjustments	Total pro forma Consolidated Comprehensive Income Statement
					(pro forma) (in thousands of €)				
Other revenues	—	—	—	—	3,700	118,871	122,571	—	122,571
Revenues	**335,931**	**56,612**	**4,123**	**396,666**	**35,574**	**258,799**	**294,373**	—	**691,039**
Supplies (rebilling)	—	—	—	—	(108,196)	(8,593)	(116,789)	—	(116,789)
Supplies (other)	(95,294)	(12,115)	2,865	(104,544)	(20,601)	(1,603)	(22,204)	—	(126,748)
Personnel expenses	(13,018)	(9,707)	9,292	(13,433)	—	—	—	(7,014)	(20,447)
Other expenses	(43,540)	(13,870)	(22,191)	(79,601)	(1,131)	(16,401)	(17,532)	(6,446)	(103,579)
Expenses	**(151,852)**	**(35,692)**	**(10,034)**	**(197,578)**	**(129,928)**	**(26,597)**	**(156,525)**	**(13,460)**	**(367,563)**
Operating income before depreciation and amortization (OIBDA)	**184,079**	**20,920**	**(5,911)**	**199,088**	**(94,354)**	**232,202**	**137,848**	**(13,460)**	**323,476**
Depreciation and amortization	(67,378)	(4,699)	—	(72,077)	(62,697)	—	(62,697)	(62,159)	(196,933)
Operating income	**116,701**	**16,221**	**(5,911)**	**127,011**	**(157,051)**	**232,202**	**75,151**	**(75,619)**	**126,543**
Net financial result	(11,083)	—	—	(11,083)	—	—	—	(9,584)	(20,667)
Profit (loss) before tax	**105,618**	**16,221**	**(5,911)**	**115,928**	**(157,051)**	**232,202**	**75,151**	**(85,203)**	**105,876**
Corporate income tax	(13,686)	(4,642)	—	(18,328)	45,319	(67,476)	(22,157)	28,981	(11,504)
Result for the period	**91,932**	**11,579**	**(5,911)**	**97,600**	**(111,732)**	**164,726**	**52,994**	**(56,222)**	**94,372**

Revenues

Pro forma consolidated revenues for the year ended 31 December 2015 were €691,039 thousand and consisted primarily of IP and Capacity Cable revenues, tower co-location and other revenues.

By segment, pro forma consolidated revenues from the Cable Segment were €396,666 thousand (representing 57% of the consolidated pro forma revenues) and pro forma consolidated revenues from the Tower Segment were €294,373 thousand (representing 43% of the consolidated pro forma revenues).

By jurisdiction, within the 43% of consolidated pro forma revenues derived from the Tower Segment, revenues generated in Spain represented 29%, revenues generated in Germany represented 7% and revenues generated in Latin America represented the remaining 7%.

By customer, Telefónica Group companies represented 65% of the consolidated pro forma revenues from the year ended 31 December 2015 and unrelated parties represented the remaining 35%.

By currency, the majority of the pro forma consolidated revenues generated by the Tower Segment were derived in euro (83% of the pro forma consolidated revenues generated by the Tower Segment during 2015 came from Spain and Germany) and the pro forma consolidated revenues generated by the Cable Segment were derived in its vast majority from U.S. dollar denominated contracts. Out of the Company's pro forma consolidated revenues for the year ended 31 December 2015, approximately 55% of such revenues were generated in U.S. dollars, 38% in euro and 7% in other currencies.

Out of the pro forma consolidated revenues generated by the Tower Segment during the period, 88% was derived from the Telefónica Group and 12% from unrelated parties. By jurisdiction, Spain and Germany together represented 83% of the pro forma consolidated revenues of the Tower Segment.

IP and Capacity Cable revenues

Pro forma IP and Capacity Cable revenues for the year ended 31 December 2015 were €396,666 thousand and consisted primarily of revenues derived from the provision of IP services and the sale of capacity.

Revenues generated by the provision of IP services represented 60% of the Company's pro forma consolidated revenues from the Cable Segment for the year ended 31 December 2015 and revenues generated by the sale of capacity represented 40%.

Of the revenues generated by the provision of IP services, 66% were derived from the Telefónica Group and 34% from unrelated parties. Of the revenues generated by the sale of capacity, 19% were derived from the Telefónica Group and 81% from unrelated parties. As such, of the revenues in the Cable Segment, 47% were derived from the Telefónica Group and 53% from unrelated parties.

Tower co-location

Pro forma revenues from tower co-location for the year ended 31 December 2015 were €171,802 thousand and consisted primarily of revenues generated by the lease of space within the Company's tower infrastructure.

Other revenues

Other pro forma revenues for the year ended 31 December 2015 were €122,571 thousand and consisted primarily of tower pass-through revenues, the majority of which (€101,937 thousand) were generated in Spain and related to ground lease and energy costs, followed by Brazil, Peru and, to a lesser extent, Chile. This pass-through mechanism does not apply in the German tower business.

Expenses

Pro forma consolidated expenses for the year ended 31 December 2015 was €367,563 thousand and consisted primarily of supplies (rebilling), supplies (other), personnel expenses and other expenses. By segment, €197,578 thousand were expenses related to the Cable Segment and €156,525 thousand were expenses related to the Tower Segment.

Supplies (rebilling)

Pro forma supplies (rebilling) for the year ended 31 December 2015 were €116,789 thousand and mainly related to tower pass-through expenses (ground leases costs and in the case of Spain energy costs).

Supplies (other)

Pro forma expenses for supplies (other) for the year ended 31 December 2015 were €126,748 thousand and consisted primarily of the acquisition of circuits and capacity from other carriers in order to provide off-net services and to configure the Company's IP network within the Cable Segment, commercial payroll costs derived from the provision from the Telefónica Group of IP and Capacity sales support, factory subcontractors, maintenance and housing costs incurred in the Cable Segment and maintenance costs and ground leases in Germany in the Tower Segment.

Personnel expenses

Pro forma personnel expenses for the year ended 31 December 2015 were €20,447 thousand and consisted primarily of wages and salaries.

Other expenses

Pro forma other expenses for the year ended 31 December 2015 were €103,579 thousand and consisted primarily of external services and operating taxes within the Cable Segment, and security, surveillance and other general expenses within the Tower Segment.

Depreciation and amortization

Pro forma depreciation and amortization expenses for the year ended 31 December 2015 were €196,933 thousand and consisted primarily of property, plant and equipment depreciation charges and amortization of intangible assets resulting from the purchase price allocation related to acquisitions.

Operating income

As a result of the factors described above, pro forma operating income for the year ended 31 December 2015 was €126,543 thousand.

Net financial result

Pro forma net financial result for the year ended 31 December 2015 was an expense of €20,667 thousand (an expense of €11,083 thousand in the Cable Segment and an expense of €9,584 thousand associated with the long-term indebtedness held with the Telefónica Group in the amount of €700,000 thousand, considered on a pro forma basis as if such indebtedness was outstanding on 1 January 2015). See "*—Liquidity and Capital Resources—Borrowings—Long-term inter-company financing with Telefónica*" below. The finance expense in the Cable Segment was mainly due to negative exchange rate differences of €10,105 thousand and interest expenses of €978 thousand related to borrowings outstanding during the period.

Profit/(loss) before tax

As a result of the above, pro forma profit before tax from continuing operations for the year ended 31 December 2015 was €105,876 thousand.

Corporate income tax

Pro forma profit income tax expense for the year ended 31 December 2015 was €11,504 thousand and included a positive non-cash deduction of €16,417 thousand related to the annual reversal of the deferred tax liability associated with the depreciation and amortization of the purchase price allocation, mainly for the acquisition of the entity holding towers in Spain. The purchase price allocation amortization expense registered on a consolidated basis is generally non-tax deductible.

Result for the period

As a result of the above, the pro forma result for the period for year ended 31 December 2015 was €94,372 thousand.

OIBDA

Pro forma OIBDA for the year ended 31 December 2015 was €323,476 thousand. By segment, OIBDA related to the Cable Segment was €199,088 thousand and OIBDA related to the Tower Segment was €137,848 thousand. The difference of €13,460 is the result of a pro forma adjustment. See Note (b.6) to the Pro Forma Consolidated Financial Information.

The table below shows the distribution of the pro forma OIBDA in the Tower Segment on a country-by-country basis. It is not possible to provide such detail for the Cable Segment.

	For the year ended 31 December 2015					
	Spain	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower Segment**
			(pro forma)			
			(in thousands of €)			
Tower collocation	96,955	19,739	6,061	3,929	45,118	171,802
Other revenues	101,937	11,895	4,373	3,782	584	122,571
Total revenues	**198,892**	**31,634**	**10,434**	**7,711**	**45,702**	**294,373**
Supplies (rebilling)	(97,066)	(11,895)	(4,046)	(3,782)	—	(116,789)
Supplies (other) supplies	(6,971)	(4,982)	(554)	(203)	(9,494)	(22,204)
Other expenses	(10,111)	(2,768)	(1,383)	(849)	(2,421)	(17,532)
Expenses	**(114,148)**	**(19,645)**	**(5,983)**	**(4,834)**	**(11,915)**	**(156,525)**
Operating income and before depreciation and amortization (OIBDA)	**84,744**	**11,989**	**4,451**	**2,877**	**33,787**	**137,848**

OIBDA Margin

Pro forma OIBDA Margin for the year ended 31 December 2015 was 47%. By segment, OIBDA Margin related to the Cable Segment was 50% and OIBDA Margin related to the Tower Segment was 47%.

Results of Operations of the Company for the Six-Month Period Ended 30 June 2016

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements included elsewhere in this Prospectus include the Company's statement of financial position as of 30 June 2016 and 31 December 2015 and the consolidated income statement for the six-month periods ended 30 June 2016 and 2015.

The consolidated income statement for the six-month period ended 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects six months of activities of the TIWS América group (TIWS América was considered the "acquiring entity" in the Reorganisation) and Telxius (holding company of the Group), three months of activities (April to June 2016) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C., and two months of activities (May and June 2016) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A. Accordingly, any financial information presented herein for periods prior to 30 June 2016 will not be indicative of the Company's results as an independent operating company.

The Company's consolidated statement of financial position as of 30 June 2016 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements reflects all of the cable and tower infrastructure acquired pursuant to the Reorganisation from the Telefónica Group.

The 1H 2016 Audited Consolidated Telxius Interim Financial Statements also include a statement of financial position as of 31 December 2015 and an income statement for the six-month period ended 30 June 2015. The information included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements as of 31 December 2015 and for the six-month period ended 30 June 2015 reflects principally TIWS América as the "acquiring entity" in the Reorganisation (and, to a significantly lesser extent, the assets and liabilities and financial results of certain limited activities conducted by Telefónica America, S.A. (now Telxius Telecom, S.A.) during such period). Therefore, the Company does not consider that the financial information as of 31 December 2015 and for the six-month period ended 30 June 2015 included in the 1H 2016 Audited Consolidated Telxius Interim Financial Statements is representative of the historical evolution of the Cable Segment nor indicative of the evolution of the Company as a whole, as it does not reflect the Tower Segment and the business of Telxius Cable España S.L.U., which were acquired during 2016 pursuant to the Reorganisation. See section "*Presentation of Financial and Other Information*" and "*—Factors Affecting Comparability of the Company's Results of Operations*" above.

The table below shows the Company's historical results of operations for the six-month periods ended 30 June 2016 and 2015. For details on income, expenses and results assigned by management to the Cable Segment and the Tower Segment, see Note 2 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

	For the six-month period ended 30 June	
	2016	**2015**
	(in thousands of €)	
	(audited)	**(unaudited)**
Revenue	243,041	177,199
Other operative income	3,332	129
Other income	11,942	–
Supplies	(49,154)	(47,619)
Personnel expenses	(8,626)	(6,746)
Other expenses	(66,041)	(18,618)
Operating income before depreciation and amortization (OIBDA)	**134,494**	**104,345**
Depreciation and amortization	(66,496)	(29,692)
Operating income	**67,998**	**74,653**
Finance income	1,193	717
Exchange gains	5,363	–
Finance expense	(3,293)	(978)

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Exchange losses	–	(1,819)
Net financial result	**3,263**	**(2,080)**
Profit before tax	**71,261**	**72,573**
Corporate income tax	(13,938)	(9,435)
Profit for the period from continuing operations	57,323	63,138
Loss after tax for the period from discontinued operations	(45,170)	(50,793)
Result for the period	**12,153**	**12,345**

Revenue

Revenue increased by 37% to €243,041 thousand in the six-month period ended 30 June 2016 from €177,199 thousand during the same period of the prior year.

Other operative income

Other operative income increased to €3,332 thousand in the six-month period ended 30 June 2016 from €129 thousand during the same period of the prior year.

Telefónica Group companies accounted for 71% of the aggregate revenue and other operative income generated by the Company during the six-month period ended 30 June 2016, increasing by 6% compared with the same period of the prior year. The breakdown of the aggregate of revenues from operations and other operative income between amounts accounted for by Telefónica Group companies and others, respectively, for the six-month periods ended 30 June 2016 and 2015 was as follows:

	For the six-month period ended 30 June	
	2016	2015
	(in thousands of €)	
	(audited)	(unaudited)
Telefónica Group companies	174,383	115,718
Other	71,989	61,610
Total	**246,372**	**177,328**

Other income

Other income was €11,942 thousand in the six-month period ended 30 June 2016, reflecting, in accordance with IFRS 3 (“Business Combinations”*)*, an extraordinary impact from the acquisition of the Tower business in Chile.

Supplies

Supplies increased by 3% to €49,154 thousand in the six-month period ended 30 June 2016 from €47,619 thousand during the same period of the prior year.

Personnel expenses

Personnel expenses increased by 28% to €8,626 thousand in the six-month period ended 30 June 2016 from €6,746 thousand during the same period of the prior year. The expenses increased because the average number of employees changed during the period.

The table below shows the average number of employees of the Group for the six-month periods ended 30 June 2016 and 2015, excluding employees working in discontinued operations. In six-month periods ended 30 June 2016 and 2015, the average number of employees associated with discontinued operations was 115. See section "*Business—Employees*" for further details.

	For the six-month period ended 30 June	
	2016	**2015**
Men	136	95
Women	45	23
Total	**181**	**118**

Other expenses

Other expenses increased to €66,041 thousand in the six-month period ended 30 June 2016 from €18,618 thousand during the same period of the prior year.

Depreciation and amortization

Depreciation and amortization increased to €66,496 thousand in the six-month period ended 30 June 2016 from €29,692 thousand during the same period of the prior year mainly due to the acquisitions of tangible and intangible assets during the period. In particular, the increase was mainly caused by the increase in customer relations, network location and property, plant and equipment resulting from business combinations during the first half of 2016.

Operating income

As a result of the above, operating income for the period decreased by 9% to €67,998 thousand in the six-month period ended 30 June 2016 from €74,653 thousand during the same period of the prior year.

Finance income

Finance income increased by 66% to €1,193 thousand in the six-month period ended 30 June 2016 from €717 thousand during the same period of the prior year.

Exchange gains

Exchange gains were €5,363 thousand in the six-month period ended 30 June 2016. There were no exchange gains in the six-month period ended 30 June 2015.

Finance expense

Finance expense increased to €3,293 thousand in the six-month period ended 30 June 2016 from €978 thousand during the same period of the prior year.

Exchange losses

There were no exchange losses in the six-month period ended 30 June 2016 compared with €1,819 thousand of exchange losses during the same period of the prior year.

Net financial result

As a result of the above, net financial result was income of €3,263 thousand in the six-month period ended 30 June 2016 compared with a net financial result expense of €2,080 thousand during the same period of the prior year.

Profit before tax

As a result of the foregoing, the Company's profit before tax decreased by 2% to €71,261 thousand in the six-month period ended 30 June 2016 from €72,573 thousand during the same period of the prior year.

Corporate income tax

The Company's corporate income tax increased by 48% to €13,938 thousand in the six-month period ended 30 June 2016 from €9,435 thousand during the same period of the prior year.

The most relevant component of the corporate income tax expense relates mainly to foreign exchange gains in Telxius Brazil materialized for tax purposes in the first half of 2016, amounting to €6,804 thousand. This resulted from the settlement of certain accumulated receivables and payables between group companies.

Profit for the period from continuing operations

As a result of the foregoing, the Company's profit for the period from continuing operations decreased by 9% to €57,323 thousand in the six-month period ended 30 June 2016 from €63,138 thousand during the same period of the prior year.

Loss after tax for the period from discontinued operations

The Company's loss after tax for the period from discontinued operations decreased by 11% to €45,170 thousand in the six-month period ended 30 June 2016 from €50,793 thousand during the same period of the prior year. Discontinued operations consisted of certain businesses divested by TIWS América in the context of the Reorganisation that do not fall within the scope of the services the Company provides, mainly voice services, SMS, VPN and satellite. Those assets, which were considered non-current assets held for sale, were sold by the Company on 31 March 2016 to other companies in the Telefónica Group. See Note 18 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements for further details on the Company's discontinued operations.

Result for the period

As a result of the foregoing, the Company's result for the period decreased by 2% to €12,153 thousand in the six-month period ended 30 June 2016 from €12,345 thousand during the same period of the prior year

Additional Information Regarding the Results of Operations of TIWS América for 2015 and 2014

In order to supplement the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, certain supplementary historical financial information is presented herein regarding TIWS América, which comprises a significant portion of the Cable Segment, as of and for the years ended 31 December 2015 and 2014 (and for the consolidated statement of financial position unaudited data as of 1 January 2014), including the 2015 Audited Consolidated TIWS América Financial Statements. The financial information below, however, is not directly comparable with the Company's audited consolidated financial information as of and for the six-month period ended 30 June 2016 because the 2015 Audited Consolidated TIWS América Financial Statements also include certain businesses of TIWS América, such as IPX, VNPs, voice or satellite, that were divested by the Company in the Reorganisation. These businesses were considered as held-for-sale and therefore presented as discontinued operations in the 2015 Audited Consolidated TIWS América Financial Statements and subsequently sold in March 2016.

Furthermore, the 2015 Audited Consolidated TIWS América Financial Statements do not reflect the full scope of the Cable Segment as they do not include certain other IP and capacity cable assets in Spain acquired pursuant to the Reorganisation.

Accordingly, the 2015 Audited Consolidated TIWS América Financial Statements are neither indicative of the evolution of the Cable Segment nor indicative of the evolution of the Company as a whole as they do not reflect the Tower Segment and the business of Telxius Cable España, S.L.U., which were acquired during 2016 in the context of the Reorganisation, and investors are cautioned not to place undue reliance on such information. See section "*Presentation of Financial Information*" and "*—Factors affecting Comparability of the Company's Results of Operations*" above.

The following table shows the results of operations of TIWS América for the periods indicated below.

	For the year ended 31 December	
	2015	**2014**
	(in thousands of €) **(audited)**	
Revenues	334,935	269,155
Other operative income	996	1,439
Supplies	(95,294)	(85,017)
Personnel Expenses	(13,018)	(12,251)
Other expenses	(43,540)	(39,694)
Operating income before depreciation and amortization (OIBDA)	**184,079**	**133,632**
Depreciation and amortization	(67,378)	(52,739)

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
Operating income	**116,701**	**80,893**
Finance income	2,413	1,809
Exchange gains	1,965	1,389
Finance costs	(3,391)	(2,636)
Exchange losses	(12,070)	(3,711)
Net financial result	**(11,083)**	**(3,149)**
Profit before tax	**105,618**	**77,744**
Corporate income tax	(13,686)	(10,429)
Profit after tax from continuing operations	**91,932**	**67,315**
Loss after tax from discontinued operations	(118,352)	(88,850)
Result for the year	**(26,420)**	**(21,535)**

Revenues

Revenues increased by 24% to €334,935 thousand during the year ended 31 December 2015 from €269,155 thousand during the year ended 31 December 2014 principally due to an increase in the provision of capacity services by the Company to its customers in the United States and in Peru, and due to the effect of the appreciation of the U.S. dollar versus the euro. See Note 15 to the 2015 Audited Consolidated TIWS América Financial Statements for a breakdown of net sales and services rendered.

During 2015 TIWS América experienced a significant increase in its revenues, with revenues derived from the Telefónica Group increasing by 18% and revenues derived from unrelated parties increasing by 40% (in both cases in euro terms and positively affected by the appreciation of the U.S. dollar versus the euro).

Other operative income

Other operative income decreased by 31% to €996 thousand during year ended 31 December 2015 from €1,439 thousand during the year 2014.

Telefónica Group companies accounted for 68% of the revenue and other income generated by TIWS América during the year ended 31 December 2015, decreasing from 71% during the prior year.

Supplies

Supplies expense increased by 12% to €95,294 thousand during year ended 31 December 2015 from €85,017 thousand during the year ended 31 December 2014 principally due to the effect of the depreciation of the euro versus the U.S. dollar.

Personnel expenses

Personnel expenses increased by 6% to €13,018 thousand during the year ended 31 December 2015 from €12,251 thousand during the year ended 31 December 2014 principally due to an increase in the number of employees during the year and the depreciation of the euro versus the U.S. dollar. See Note 15 to the 2015 Audited Consolidated TIWS América Financial Statements for further details on the composition of the employee base of TIWS América during the period.

Other expenses

Other expenses increased by 10% to €43,540 thousand during the year ended 31 December 2015 from €39,694 thousand during the year ended 31 December 2014 principally due to an increase in fees for outsourced services and in taxes and the depreciation of the euro versus the U.S. dollar. The table below shows the components of other expenses for the periods discussed.

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
External services	26,319	23,972
Taxes other than income tax	16,372	14,933
Change in trade provisions	849	789
Total from continuing operations	**43,540**	**39,694**
Other expenses from discontinued operations	12,664	12,474
Total	**56,204**	**52,168**

Depreciation and amortization

Depreciation and amortization increased by 28% to €67,378 thousand during the year ended 31 December 2015 from €52,739 thousand during the year ended 31 December 2014 principally due to the increase in property, plant and equipment during 2015, particularly in cable, technical facilities and others. During 2015 TIWS América invested in the maintenance and construction of new ground stations from which the data transferred through the cable system is distributed.

The table below shows the split of the depreciation and amortization charges between intangible assets and property, plant and equipment.

	For the year ended 31 December	
	2015	2014
	(in thousands of €) (audited)	
Depreciation of property, plant and equipment	66,310	51,643
Amortization of intangible assets	1,068	1,096
Total from continuing operations	**67,378**	**52,739**
Total from discontinued operations	3,234	1,378
Total	**70,612**	**54,117**

Operating income

As a result of the factors described above, operating income increased by 44% to €116,701 thousand during the year ended 31 December 2015 from €80,893 thousand during the year ended 31 December 2014.

Finance income

Finance income increased by 33% to €2,413 thousand during the year ended 31 December 2015 from €1,809 thousand during the year ended 31 December 2014.

Exchange gains

Exchange gains increased by 41% to €1,965 thousand during the year ended 31 December 2015 from €1,389 thousand during the year ended 31 December 2014.

Finance costs

Finance costs increased by 29% to €3,391 thousand during the year ended 31 December 2015 from €2,636 thousand during the year ended 31 December 2014.

Exchange losses

Exchange losses increased to €12,070 thousand during the year ended 31 December 2015 from €3,711 thousand during the year ended 31 December 2014 principally due to fluctuations in local currencies compared to the U.S. dollar (TIWS América's functional currency), mainly in TIWS Brasil Ltda and TIWS Chile.

Fluctuations in exchange rates positively impacted the evolution of the income statement of TIWS América for 2015 (expressed in euros), mainly due to the depreciation of the euro against the U.S. dollar.

Net financial result

As a result of the above, net financial result increased to an expense of €11,083 thousand during the year ended 31 December 2015 from an expense of €3,149 thousand during the year ended 31 December 2014. The table below shows the breakdown of net financial result for the periods described.

	For the year ended 31 December	
	2015	**2014**
	(in thousands of €) **(audited)**	
Interest income:	2,074	1,384
Interest income Telefónica Group companies	339	271
Profit on disposal of financial investment	—	154
Subtotal	**2,413**	**1,809**
Interest expenses	(3,326)	(2,519)
Interest expenses Telefónica Group companies	(2)	—
Losses on disposal of financial assets	—	(117)
Accretion of provisions and other liabilities	(63)	—
Subtotal	**(3,391)**	**(2,636)**
Net finance costs excluding foreign exchange differences	**(978)**	**(827)**
Exchange differences	(10,105)	(2,322)
Net financial result	**(11,083)**	**(3,149)**

Profit before tax

As a result of the factors described above, profit before tax increased by 36% to €105,618 during the year ended 31 December 2015 from €77,744 during the year ended 31 December 2014.

Corporate income tax

Corporate total corporate income tax increased by 31% to €13,686 thousand during the year ended 31 December 2015 from €10,429 thousand during the year ended 31 December 2014.

Profit after tax from continuing operations

Profit after tax from continuing operations increased by 37% to €91,932 thousand during the year ended 31 December 2015 from €67,315 thousand during the year ended 31 December 2014 mainly due to the factors described above.

Loss after tax from discontinued operations

Loss after tax from discontinued operations increased by 33% to €118,352 thousand during the year ended 31 December 2015 from €88,850 thousand during the year ended 31 December 2014. TIWS América decided in December 2015 to focus its business activity on IP and capacity services provided by its submarine cable property. Because of this decision, TIWS América put up for sale non-strategic assets linked to other businesses, mainly voice service, SMS, VPN and satellite. Consequently, these assets have been considered as a disposable group held for sale and classified as discontinued operations for both the years ended 31 December 2015 and 2014. Those assets were sold by the Company on 31 March 2016.

Revenues from discontinued operations decreased by 40%, to €15,163 thousand during 2015 and where mainly concentrated in Global Customer Service.

The increase in loss after tax from discontinued operations during the year ended 31 December 2015 was mainly due to a decrease in revenue and increase in supplies and personnel expenses during the period. See Note 17 to the 2015 Audited Consolidated TIWS América Financial Statements for further details.

Result for the year

As a result of the factors described above, the result for the year increased to a loss of €26,420 thousand during the year ended 31 December 2015 from a loss of €21,535 thousand during the year ended 31 December 2014.

Liquidity and Capital Resources

The Company's principal liquidity and capital resource requirements consist of the following:

- Capital expenditures for existing and new operations (see "*—Factors Affecting the Company's Results of Operations—Capital expenditures*" above);
- Dividends and other shareholders remuneration;

- Debt service requirements related to the Company's existing and future debt; and
- Costs and expenses related to the operations of the Company's business.

The Company's main funding sources are cash flows from operations, financing from the Telefónica Group and bank financing. The Company's liquidity position is bolstered by the strong cash conversion of both the Cable and the Tower Segments due to their high operating leverage and low Recurrent Capex requirements. As of 30 June 2016, total available liquidity was €175,933 thousand, consisting of the elements shown in the table below.

	As of 30 June 2016			
	Maturity	Limit	Nominal amount drawn down	Available
	(in thousands of €)			
Working capital facility with Telefónica Group companies [1]	31 December 2016	77,000	1,683	75,317
Cash and cash equivalents				100,616
Total				**175,933**

(1) Aggregate amount of several deposit and cash management agreements entered into between the Group and Telefónica Group companies. The Company pays floating interest rate (between 0.35 and 0.65% as of 30 June 2016) over any debit balance.

In addition, as of the date of this Prospectus the Company has also entered into respective lines of credit facilities with various financial institutions for a total amount of €190,000 thousand for potential additional funding needs. No amount has been drawn as of the date hereof.

Working capital statement

In the opinion of the Company, the working capital available to the Company is sufficient for the Company's present requirements and, in particular, is sufficient for at least the next 12 months from the date of this Prospectus. This will continue to be the case immediately following completion of the Offering.

Cash flow analysis

The following table sets forth the Company's consolidated cash flow data for the six-month period ended 30 June 2016 and 2015, which may not be representative of the Company's future consolidated cash flow. The Company's consolidated cash flow for the six-month period ended 30 June 2016 mainly reflects: (i) the cash flow of the TIWS América group and the cash flow of the Company as the holding company of the Group for such period and (ii) the cash flow related to the Cable business located in Spain and to the tower infrastructure companies since their respective acquisition dates. The Company's consolidated cash flow for the six-month period ended 30 June 2016 reflects all the investing and financing activities during the period related to the Reorganisation.

	For the six-month period ended 30 June	
	2016	**2015**
	(in thousands of €)	
	(audited)	**(unaudited)**
Cash flow provided by operating activities:		
Cash received from customers	259,081	144,384
Cash paid to suppliers and employees	(99,339)	(64,574)
Taxes paid	(6,148)	(5,361)
Net interest (paid)/received	(4,123)	1,478
Net cash flow provided by continuing operations	**149,471**	**75,927**
Net cash flow from discontinued operations	(37,663)	(48,683)
Net cash flow provided by operating activities	**111,808**	**27,244**
Cash flow used in investing activities:		
Payments on investments in property, plant and equipment and intangible assets	(75,072)	(28,231)
Payments on investments in companies, net of cash and cash equivalent acquired	(2,652,750)	–
Cash received from disinvestments in property, plant and equipment and intangible assets	84	–
Cash received from financial investments not included in cash equivalents	2,762	–
Government grants received	7	–
Net cash flow used in investing activities from continuing operations	**(2,724,969)**	**(28,231)**
Net cash flow used in investing activities from continuing operations	19,258	
Net cash flow used in investing activities	**(2,705,711)**	**(28,231)**
Cash flow provided by/(used in) financing activities:		
Proceeds of treasury and other operation with stakeholder	1,951,549	–
Proceeds on issue of debentures and bonds, and other debt	1,903,433	–
Loans, credits and promissory notes prepayments	(1,201,774)	–
Net cash flow provided by/(used in) financing activities from continuing operations	**2,653,208**	–
Net cash flow provided by/(used in) financing activities	**2,653,208**	–
Effect of changes in exchange rates	**1,781**	**3,275**
Net increase (decrease) in cash and cash equivalents during the period	**61,086**	**2,288**
Cash and cash equivalents balance at 1 January	**39,530**	**36,707**
Cash and cash equivalents balance at 30 June	**100,616**	**38,995**

Operating activities

For purposes of the Company's consolidated statements of cash flows, operating activities include its principal revenue-producing activities and other activities that are not investing or financing activities.

Net cash flow provided by operating activities increased to €111,808 thousand in the six-month period ended 30 June 2016 from €27,244 thousand in the same period of the prior year. The increase was mainly due to the increase experienced during the period in cash received from customers and the decrease in net cash flow from discounted operations.

Investing activities

For purposes of the Company's consolidated statements of cash flows, investing activities include the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

Net cash flow used in investing activities increased to €2,705,711 thousand in the six-month period ended 30 June 2016 from €28,231 thousand in the same period of the prior year. The increase was mainly due to the acquisition of the Cable and Tower businesses as part of the Reorganisation and, to a lesser extent, the increase in payments on investments in property, plant and equipment and intangible assets.

Financing activities

For purposes of the Company's consolidated statements of cash flows, financing activities include activities that result in changes in the size and composition of the Group's equity and borrowings.

Net cash flow provided by financing activities was €2,653,208 thousand in the six-month period ended 30 June 2016 and mainly came from proceeds from the capital increases and financing received to acquire the Cable and Tower businesses as part of the Reorganisation. There was no net cash flow from financing activities for the six-month period ended 30 June 2015.

Net Financial Debt

The Company uses Net Financial Debt, a non-EU-IFRS measure, as a liquidity metric. The Company calculates Net Financial Debt as Gross Financial Debt less cash and cash equivalents. The Company believes that Net Financial Debt is meaningful for investors because it shows a manner of viewing the Company's solvency using the same measures used by the Company's management. The Company uses Net Financial Debt to calculate internally certain solvency and leverage ratios used by management.

The Company's Net Financial Debt amounted to €602,923 thousand as of 30 June 2016 (Gross Financial Debt of €703,539 thousand less €100,616 thousand of cash and cash equivalents as of such date). The following table sets forth the elements of Gross Financial Debt and a reconciliation of Net Financial Debt as of 30 June 2016 to Gross Financial Debt as of such date.

	As of 30 June 2016
	(in thousands of €)
	(audited)
Long-term financial indebtedness	700,000
Short-term financial indebtedness	1,683
Derivative instruments	1,855
Other financial liabilities	1
Gross Financial Debt	**703,539**
Cash and cash equivalents	(100,616)
Net Financial Debt	**602,923**

Borrowings

The following is a discussion of the Company's material financing agreements as of the date of this Prospectus.

Long-term inter-company financing with Telefónica

On 27 May 2016, Telefónica granted the Company financing for an aggregate amount of €700,000 thousand. This financing was divided into two loans: one for €560,000 thousand at fixed interest rates divided in turn into three tranches (€280,000 thousand maturing in 2022, €140,000 thousand maturing in 2024 and €140,000 thousand maturing in 2026) and another loan for €140,000 thousand at a floating rate that matures in 2021 (which may be extended for two additional one-year periods if requested by the Company and agreed to by Telefónica). With these loans and the capital increase of 27 May 2016 described elsewhere in this Prospectus, the Company cancelled the short-term line of credit that it held with Telfisa. The main terms of such financing are summarized in the table below.

	Fixed rate interest facilities			**Floating rate interest facilities**
	Tranche 1	**Tranche 2**	**Tranche 3**	
Amount (in thousands of euros)	280,000	140,000	140,000	140,000
Interest (to be paid quarterly)	1.09%	1.46%	1.82%	E3M [1]+0.85%
Maturity	2022	2024	2026	2021[2]

[1] Three-month Euribor.

[2] This facility has a five-year term but may be extended for two additional one-year-periods if requested by the Company and agreed to by Telefónica.

Credit facilities

As of 30 June 2016, the Company had working capital facilities with the Telefónica Group with a total limit of €77,000 thousand maturing on 31 December 2016 and the balance drawn down as of such date was €1,683 thousand. Under the facilities, the Company pays floating interest rate over Euribor of between 0.35 and 0.65% as of 30 June 2016 over any debit balance. Interest rates are subject to adjustments based on the liquidity ratio and creditworthiness of the borrower.

In addition, as of the date of this Prospectus the Company has also entered into respective lines of credit facilities with various financial institutions for a total amount of €190,000 thousand for potential additional funding needs. No amount has been drawn as of the date hereof.

Covenants in the Company's borrowings

The Company's outstanding loan agreements contain certain restrictive covenants, including, among others, with respect to disposals of assets, creation of liens, and mergers and consolidations. Upon any event of default, the facilities will be accelerated and all amounts owing under the facilities will become immediately due for repayment. Events of default under each loan agreement include, among others, breach of the loan agreement, in particular a payment breach, an insolvency or similar event, a breach of payment obligations with respect to other indebtedness, and if the Company experiences a change of control.

As of the date of this Prospectus, none of the outstanding loan agreements of the Company contain covenants that require the Company to meet specified financial ratios or that limit the Company's ability to distribute dividends.

Guarantees provided to third parties, other contingent assets and liabilities and other commitments

Companies of the Group are required on occasion to furnish certain guarantees within their regular commercial activity and guarantees in connection with competitive auctions. Nevertheless, no additional liabilities are expected to arise from the guarantees and warranties furnished. As of 30 June 2016, the guaranties and warranties in force were not material. See Note 17 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Contractual obligations

The following table sets forth the Company's contractual obligations as of 30 June 2016. The contractual obligations set forth in the table below reflect mainly those agreements and obligations the Company believes that in the ordinary course of its operations are customary and necessary in light of the activities in which it engages. In particular, many of the obligations set forth below are designed to maintain or grow the Company's operations through medium- to long-term investments. The Company believes that its cash flow from operations will be sufficient to satisfy its obligations set forth below, as well as its other operating costs and remuneration to its shareholders.

		Non-current					Total
	2016	2017	2018	2019	2020	2021 and subsequent years	
				(in thousands of €) (unaudited)			
Long-term financial debt	–	–	–	–	–	**700,000**	**700,000**
Operating lease obligations with:	**44,566**	**76,778**	**67,347**	**58,620**	**49,080**	**163,222**	**459,614**
Telefónica Group companies	6,354	8,725	8,648	8,665	8,677	43,496	84,565
Unrelated parties	38,212	68,053	58,699	49,955	40,403	119,727	375,048
Purchase and other contractual obligations with:	**26,880**	**149,366**	**53,035**	**4,643**	**2,839**	**2,685**	**239,448**
Telefónica Group companies	3,108	2,892	2,010	1,282	1,011	1,440	11,744
Unrelated parties	23,773	146,474	51,025	3,361	1,828	1,244	227,705
Total	**71,446**	**226,144**	**120,382**	**63,263**	**51,919**	**865,907**	**1,399,062**

The above table does not include the Company's other credit facilities with Telefónica and other financial institutions, respectively, described above.

Operating lease obligations relate mainly to ground lease commitments, which are principally related to the Tower Segment. The main purchase and other contractual obligations at 30 June 2016 relate to future investments to be made in the BRUSA project.

Quantitative and Qualitative Disclosure about Market Risk

The Company has implemented the risk management policies of the Telefónica Group, through which it was able to monitor the most significant risks that may affect it. A corporate model allows the Company to assess the importance of each of the risks that may affect the Company, as well as the degree of control necessary for each risk.

In compliance with this corporate model, the Company applies certain recommendations with regard to the following actions:

- creation of control units that are responsible for designing, establishing and verifying compliance with the control objectives established by management to mitigate the main risks identified in the Company.

- preparation of regulations that include control mechanisms; and

- determination of control mechanisms to be implemented in the processes of centralized services.

The Company's activities are exposed to various risks, including regulatory, legal, market competition (price and market share), financial market (including foreign currency risk and interest rate risk), liquidity and credit risks. The Group's financial department has established a number of procedures and controls designed to make it possible to identify, measure and manage risks arising from the activity involving financial instruments.

Exchange rate risk

Exchange rate risk arises from a possible loss caused by variations in the fair value, or in the future cash flows, of a financial instrument due to fluctuations in the exchange rate.

In the Cable Segment, a significant portion of the business is carried out in U.S. dollars, because the majority of the contracts, including those signed with the Telefónica Group, are denominated in that currency. In some countries, although revenue is tied to the U.S. dollar, billing is carried out in the local currency. Consequently, the Group assumes the risk of exchange rate fluctuations between the billing date and the collection date.

At the date of preparation of the 1H 2016 Audited Consolidated Telxius Interim Financial Statements, the Group had entered into new contracts with certain operators under which the latter assumes most of the exchange rate risk between the billing date and the collection date. Consequently, the Company expects the exchange rate risk of the Group to be further mitigated.

In the Tower segment, most business is conducted in euros and the exchange rate risk is therefore limited.

Liquidity risk

Liquidity risk arises from a mismatch between cash requirements of the Group and the sources thereof. In particular, it relates to the possibility that the Group will not be able to draw down, or access, liquid funds, in a sufficient amount and at a reasonable cost to meet its payment obligations at all times.

The Company carries out prudent management of liquidity risk, which involves maintaining cash and/or lines of credit and having access to a sufficient amount of finance through borrowings with financial entities or with the Telefónica Group. The Group's liquidity needs are supported by lines of credit held with the Telefónica Group and financial institutions, as described above.

Interest rate risk

Interest rate risk relates mainly to variations in interest rates that affect the financial costs of the borrowings with a variable interest rate (or short-term borrowings likely to be renewed) as a consequence of fluctuations in interest rates, and the value of the long-term liabilities with fixed interest rates.

The Company is exposed to interest rate risk through its current and non-current borrowings. Borrowings issued at floating rates expose the Company to cash flow interest rate risk, while fixed-rate borrowings expose it to fair value interest rate risk. The purpose of managing interest rate risk is to achieve a balance in the Company's debt structure that enables volatility in the income statement to be minimized over several years. As of the date of this Prospectus, approximately 20% of the Company's long-term indebtedness paid floating interest rates calculated on a Euribor plus spread basis (three month Euribor + 0.85%).

Inflation risk

Most of the Company's services contracts, particularly in the Tower Segment, are indexed to inflation and also part of the Company's operating expenses and rents under its ground lease agreements are indexed to inflation. The same is true for certain of its other contracts. The Company has not arranged any hedging instruments since the majority of the flow of income and expense is tied to CPI. The Company's results of operations will therefore be affected by inflation and/or deflation, although the Tower MLAs with the Telefónica Group are protected against deflation, as the indexation includes a floor at 0%.

INDUSTRY OVERVIEW

The Company's business activities are concentrated in two main markets:

- Provision of wholesale telecommunication connectivity services, mainly IP and Capacity, for international data transmission through submarine fibre-optic cables and network equipment and international circuits, and

- Provision of space on multi-tenant telecommunication towers to host the receiving and transmitting equipment used for the mobile services provided by MNOs and the rendering of maintenance services. The information below provides an overview of the main structure and dynamics of the markets where the Group operates.

Telefónica established Telxius as a standalone company with the objective of more effectively capturing the value from operators' use of the infrastructure to satisfy the significant telecommunication traffic growth expected over the next years. As an example, the number of smartphone mobile users is estimated to grow by 35% in Latin America and by 13% in Western Europe between 2015 and 2020, and the number of broadband users is expected to increase by 4% in Latin America and Europe between 2014 and 2019. Data per user (Gb/month) is expected to increase 6.7x in Latin America and by 5.9x in Western Europe between 2015 and 2020 coupled with a doubling in average speed (Mbps) in both regions between 2014 and 2019 (source: Cisco Systems Visual Networking Index Mobile Forecast Highlights (2014-2019)).

	Historical			Forecasts						
Capacity (gbps)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Total used capacity	8,098	12,166	17,422	24,694	34,749	48,395	67,140	95,519	126,921	173,242
Capacity used for internet	6,810	9,761	13,711	19,192	26,682	36,719	50,423	68,883	93,900	127,672
Capacity used for private networks	1,276	2,396	3,705	5,497	8,064	11,674	16,715	23,635	33,020	45,569
Capacity used for voice	12	9	6	5	3	2	2	1	1	1

	Changes									
Capacity (gbps)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**CAGR 2015-2022**
Total used capacity	50%	43%	42%	41%	39%	39%	38%	37%	36%	39%
Capacity used for internet	43%	40%	40%	39%	38%	37%	37%	36%	36%	38%
Capacity used for private networks	88%	55%	48%	47%	45%	43%	41%	40%	38%	43%
Capacity used for voice	27%	27%	27%	27%	27%	27%	27%	27%	27%	(27%)

This expected exponential data growth is requiring significant infrastructure investments in the telecommunications sector to enable connectivity. As a consequence, telecommunications companies are being incentivised to move toward asset-light models, focus on core competencies and maximise returns on invested capital by sharing overlapping infrastructure.

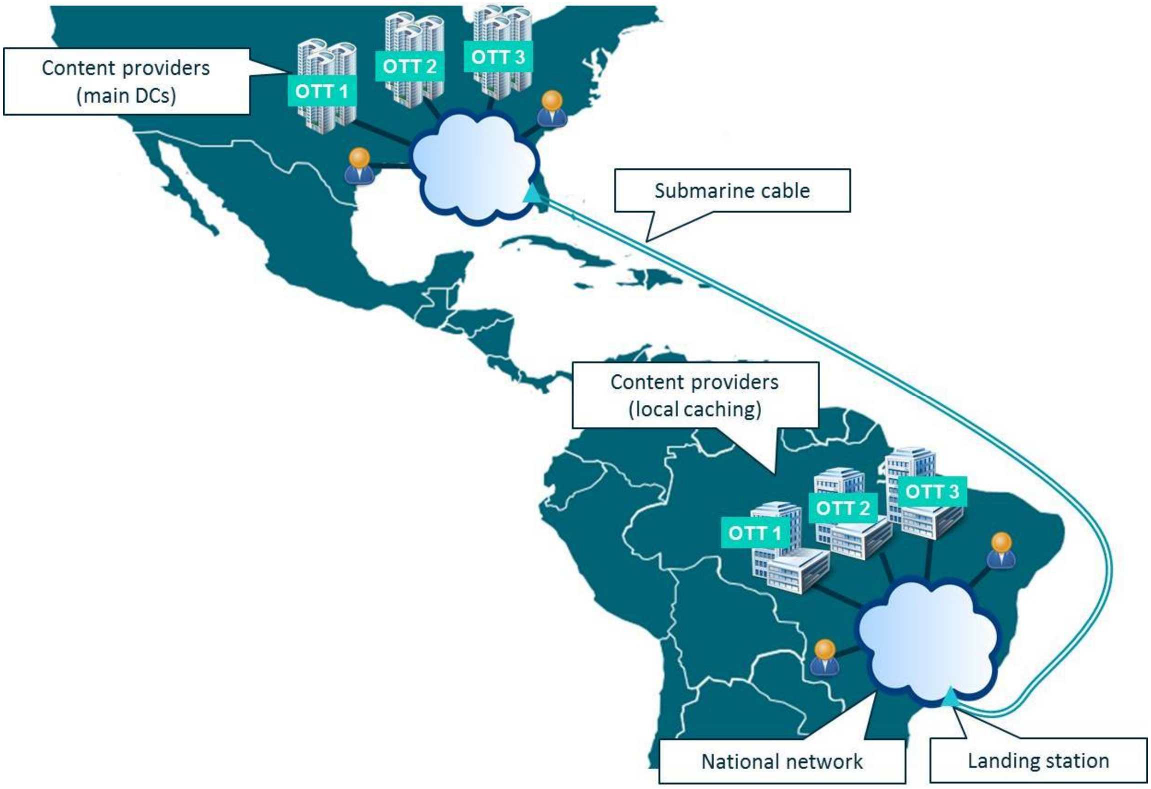
Submarine Fibre-Optic Cables Market

Most of international data traffic is transmitted through submarine cables and auxiliary infrastructure which allow for the connection between content providers, carriers, etc. and local end-consumers (either personal internet connections or larger private networks) and vice-versa.

In Latin America 74% of consumers' retail internet traffic is hosted outside of national networks, of which 92% is transported by submarine cables (source: Telxius analysis based on Cisco

Visual Networking Index Forecast and Global Bandwidth Forecast Service Q1 2016 Findings – TeleGeography).

Cable bandwidth is used both for (i) internet traffic of local users to access content that is not available in the national network; and (ii) private network traffic to interconnect datacentres (e.g. OTTs feeding local caches).



Source: Telxius analysis based on Cisco Visual Networking Index Forecast and Global Bandwidth Forecast Service Q1 2016 Findings – TeleGeography

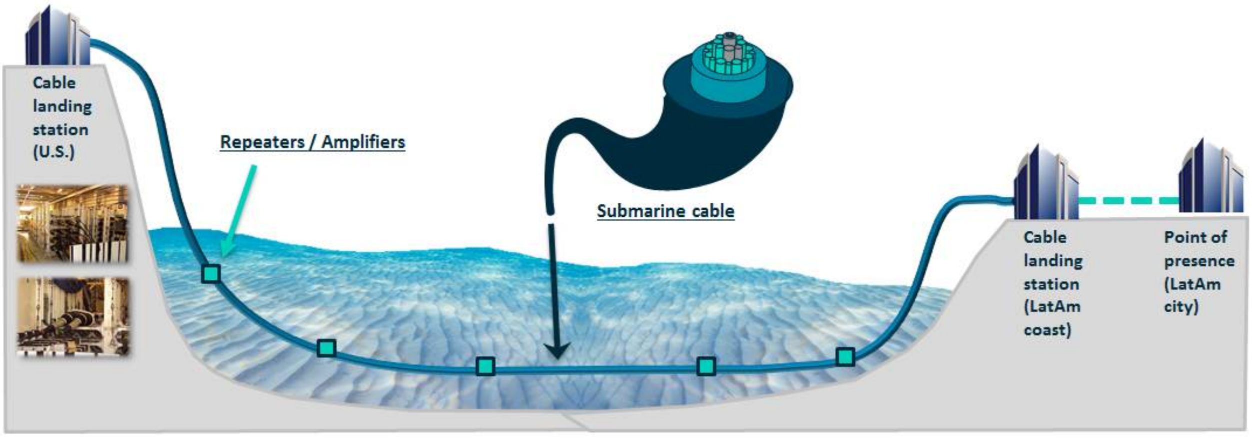
Submarine cable infrastructure

Submarine cables and their integrated ground infrastructure form the backbone of data traffic transportation.

A submarine cable is composed of a number of optical fibres, which are grouped into "pairs" to ensure a two-way flow. A submarine cable has repeaters/amplifiers throughout its extension that support the transportation of data across its whole extension.

The submarine cable ground infrastructure also includes the Landing Stations, where the submarine cable connects with the terrestrial infrastructure and hosts terminal equipment, routers, network management as well as power feeding equipment. Submarine cable service providers also have PoPs in terrestrial areas, to help connect clients with the submarine cable infrastructure. These PoPs are connected with the cable Landing Stations, through local terrestrial cables usually owned and operated by local carriers.

The image below shows the submarine cables and ancillary infrastructure required for the transmission of data traffic.


Cable landing station (U.S.)
Repeaters / Amplifiers
Submarine cable
Cable landing station (LatAm coast)
Point of presence (LatAm city)

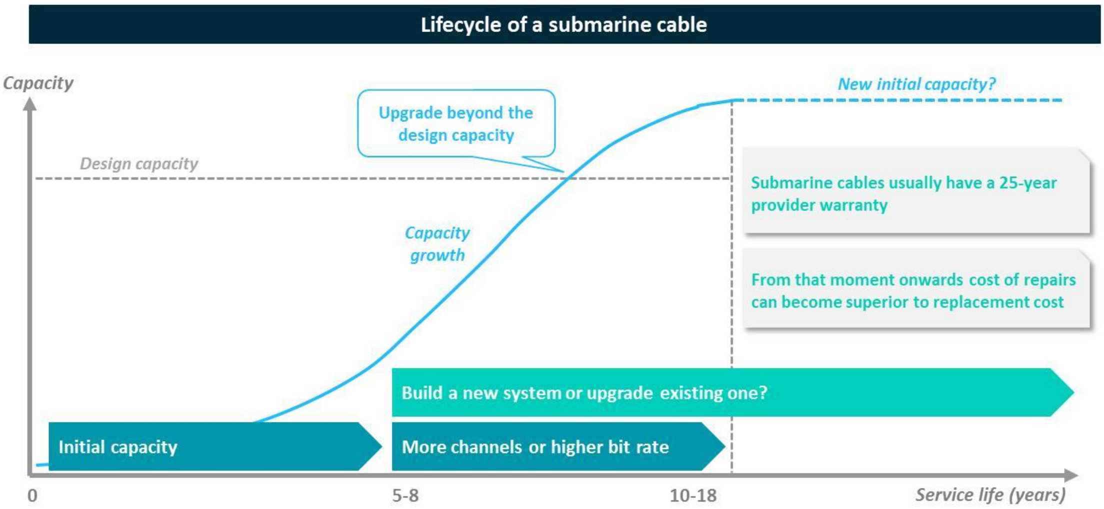
Submarine cable lifecycle

The lifecycle of a submarine cable is of approximately 25 years which also corresponds to the industry standard warranty period provided by cable developers to cable operators. Upon approaching the 25-year threshold, the cost of repairs and service guarantees can become higher than the replacement cost, and submarine cable operators will likely opt to replace existing cables to serve their existing clients.

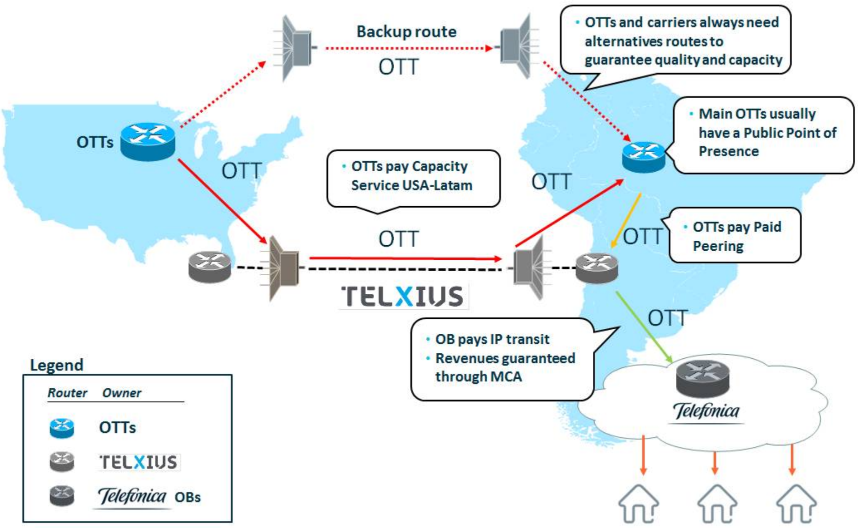
In parallel and throughout the useful life of a submarine cable, the growth in data traffic and the cable usage level will support cable operators' decision to realize upgrades that allow the cable to handle additional traffic beyond its original capacity or to deploy new cables.

The timeframe for the construction, fabrication and deployment of a new submarine cable will vary in accordance with factors such as its capacity, extension and location and can last from approximately two to three years.

The lifecycle of a submarine cable is the following:



Submarine cable services


Backup route
OTT
• OTTs and carriers always need alternatives routes to guarantee quality and capacity
OTTs
OTT
• Main OTTs usually have a Public Point of Presence
• OTTs pay Capacity Service USA-Latam
OTT
OTT
OTT
• OTTs pay Paid Peering
TELXIUS
OTT
• OB pays IP transit
• Revenues guaranteed through MCA
Telefónica
Legend
Router Owner
OTTs
TELXIUS
Telefónica OBs

Submarine cables provide fast and broad global interconnection to OTTs and carriers, with IP and Capacity being the key transportation services within the international wholesale business from a provider perspective and key to serving the increasing usage of data and content consumption.

IP services

Submarine cables allow the transportation of data through internet access for local telecom companies and OTTs, allowing communication between end customers and content providers.

Cable operators offer two key types of IP traffic options:

- IP transit: is the most prevalent type of traffic exchange, which is a service offered by the provider that customarily allows access to all global routes on the Internet. Any entity desiring access to all of the global Internet routes accessible through the operator (e.g. Telxius) network could purchase IP transit services from it.

  These services are charged on a flat rate basis and/or usage basis.

- IP peering: is another type of traffic exchange arrangement which provides mutual access to a subset of routes, and may or may not involve payment between the two parties. Operators could enter into a wide variety of traffic exchange agreements, some of which combine elements of traditional IP transit service with elements typically associated with IP free "peering" agreements.

  IP free peering agreements allow parties to reach the subset of routes accessible through the operator network to exchange traffic with customers that pay the operator for exchange of that Internet traffic. The primary objective of a peering arrangement is to enable each party to deliver high-quality service to its customers. The backbone cost burden associated with settlement-free peering traffic exchange should be equitably shared. Regardless of the direction or type of traffic exchanged between the networks, the routing practices and location of interconnection points should be such that each party bears a reasonably equal share of backbone costs.

Most IP peering agreements set forth provisions establishing payments to offset imbalances in the exchange of Internet traffic (i.e., the party sending more traffic would compensate the other party). Nevertheless, in some cases, instead of a payment provision, these agreements set out clauses providing for restrictions in the increase of exchange capacity between the parties.

Capacity services

Capacity services provide for a pre-determined maximum bandwidth data between two fixed points specified by a cable operator client.

Capacity services are sold either through long term contracts defined as IRU or short term leases.

- IRU is the effective long-term lease of a portion of the capacity of an international cable. The customer purchases the right to use a certain amount of the capacity of the system, for a specified number of years (between 10 and 15 years). IRUs are specified in terms of a certain number of channels of a given bandwidth. An IRU gives a large-scale Internet service provider (ISP) the ability to assure its own customers of international service on a long-term basis. These contracts require the purchaser to pay a portion of the operating costs, and the costs of maintaining the cable, including any costs incurred repairing the cable after mishaps. The right of use is indefeasible, so the capacity purchased is also nonreturnable, and maintenance costs incurred become payable, mandatory and non-reimbursable.

- Short term leases usually last one to five years.

IP and Capacity service customer trends

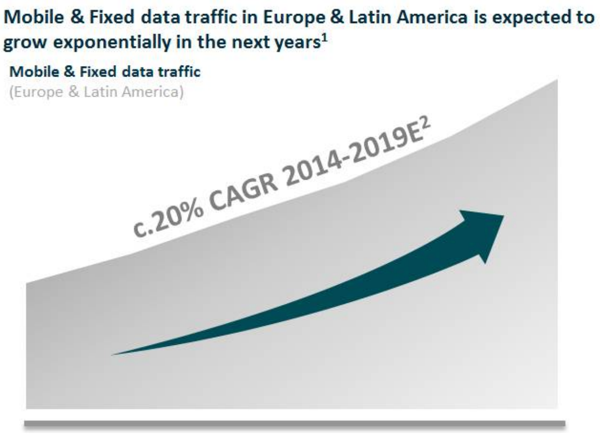
- IP transit: driven by requirements of local Latin American carriers based on the expansion of fixed and mobile penetration and rapid increase in the use of video.

- IP peering: aligned with the increase of OTTs local PoPs and traffic interchange to satisfy the expansive demand for data by local customers.

- Capacity: On one hand, OTTs increasing the capillarity and bandwidth at local level to satisfy customers’ demand. Although in some cases they build their own fibres, OTTs continue to need several alternative routes to ensure reliability and quality. One the other hand, global carriers need to reinforce the capacity of their international backbone in order to cope with and satisfy the rapidly expanding demand of their corporate customers for private and public cloud.

Cable industry demand drivers

Mobile and fixed data traffic is driving the worldwide increasing demand in global data transportation.

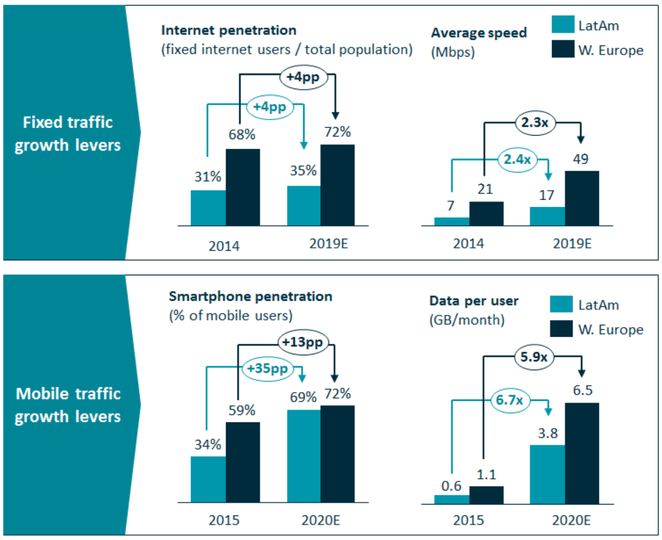


(1) Cisco Visual Networking Index dated May 27, 2015 (2) Mobile & Fixed data traffic 14-19E CAGR for Latin America and Western Europe.

A number of factors are driving data explosion across fixed and mobile users, including:

- Fixed traffic: Internet penetration, measured as fixed internet users by total population, in Latin America and Western Europe is expected to increase 4% between 2014 and 2019 with significant room for further penetration, while the average internet speed is expected to more than double during the same period in both regions (source: Cisco Global Cloud Index; Cisco Visual Networking Index dated 27 May 2015).

- Mobile traffic: smartphone penetration, measured as number of smart phone users as a percentage of total mobile users, in Latin America and Western Europe is expected to increase 35% and 13%, respectively between 2015 and 2020, while the data per user, measured as GB/month, is expected to increase by more than 6.7 and 5.9 fold in each of the aforementioned regions, respectively (source: Cisco Global Cloud Index; Cisco Visual Networking Index dated 27 May 2015).

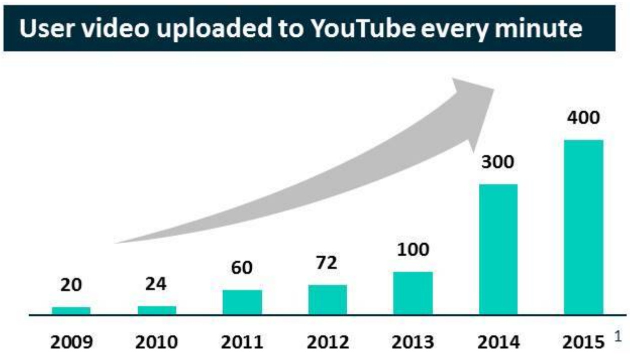


Source: Cisco Global Cloud Index; Cisco Visual Networking Index dated 27 May 2015

At the same time a growing number of OTTs and the global expansion of content constitute a driving force for customers' increasing data consumption.

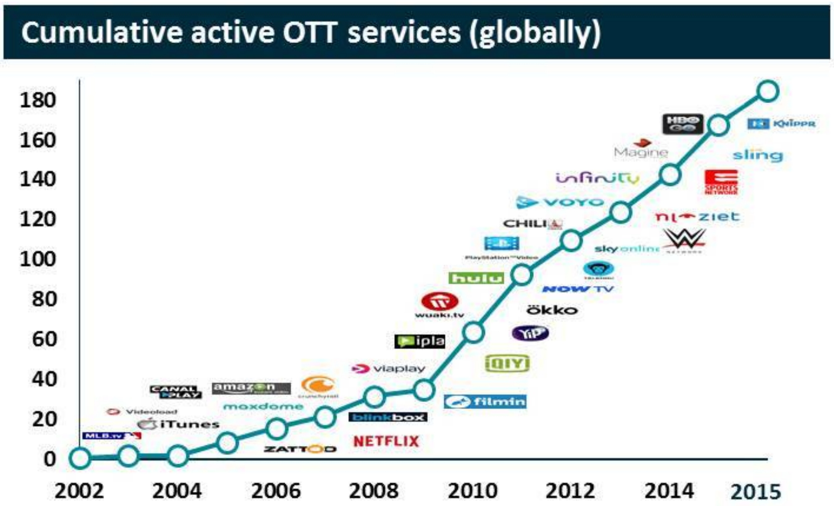
- Increasing content consumption and production:

- User video uploads to YouTube per minute has increased from 20 in 2009 to 400 in June 2015 (source: Statista).

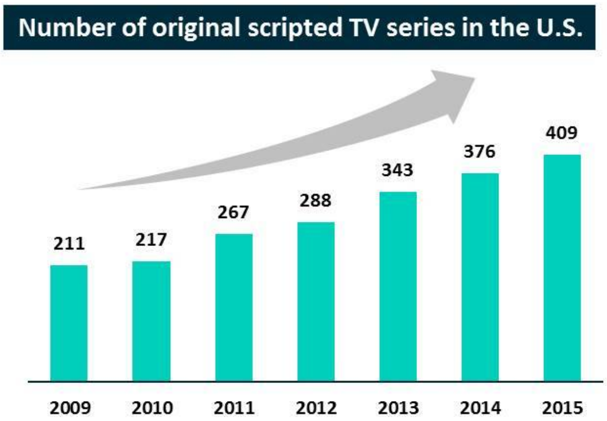


[(1)] Data until June 2015

- Number of active OTT service providers has globally increased more than nine fold from 2005 to 2015 (source: Analysys Mason).

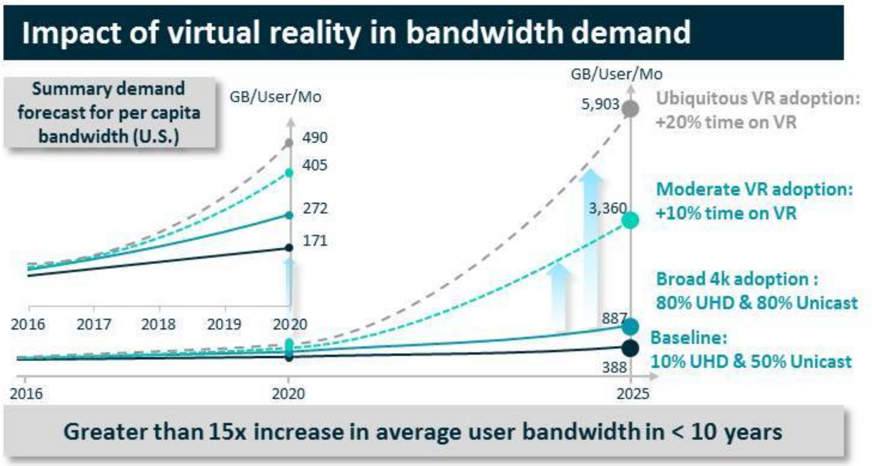


- The number of original scripted TV series in the U.S. has increased from 211 in 2009 to 409 in 2015 (source: Statista).



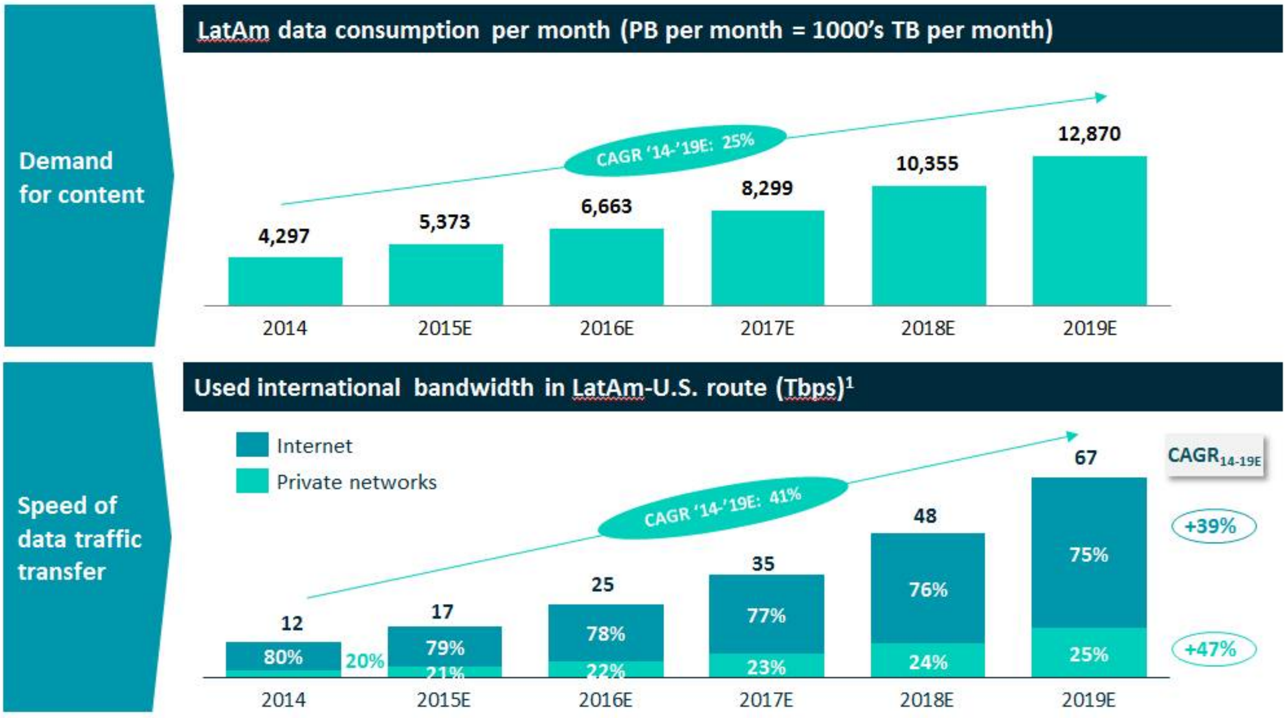
- Virtual reality could be transformational in terms of driving future data growth. According to Bell Labs Consulting demand forecast for per capita bandwidth in the U.S., measure as GB/user/month, is expected to increase three times from

2016 to 2020 and +20 times until 2025 assuming a moderate virtual reality adoption scenario.



Overall, the increasing global and Latin America data consumption is expected to continue to be reflected in the increased data consumption and traffic in the US-Latin America route.

In particular, demand for content in Latin America, e.g. data consumption, measured by PB per month, is expected to grow at a 25% CAGR from 2014 to 2019, while demand for speed of data traffic transfer, measured by used international bandwidth in Latin America-U.S. route (Tbps), is expected to grow at a 41% CAGR from 2014 to 2019, as illustrated below.

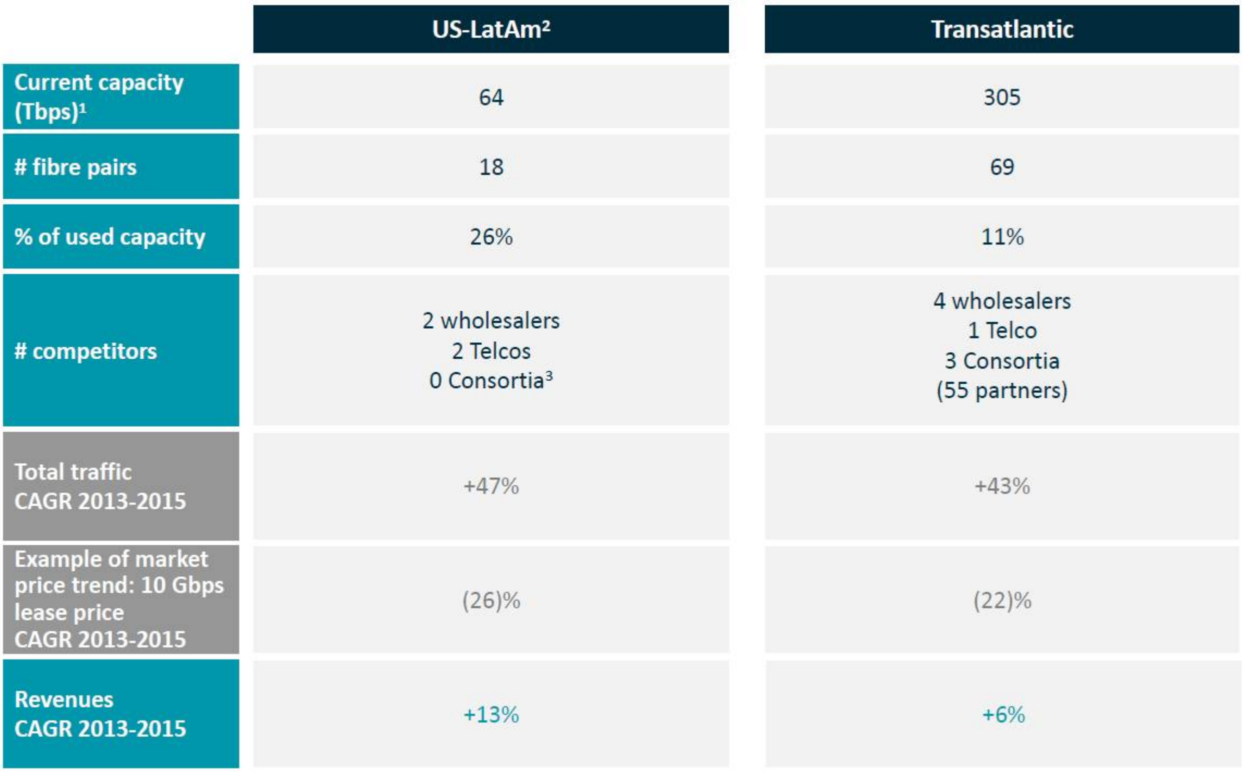


Source: Cisco Visual Networking Index dated 27 May 2015 (Latin America data consumption); Global Bandwidth Forecast Service Q1 2016 Findings – TeleGeography (used international bandwidth in Latin America-U.S. route); (1) Excluding Mexico

Historically, within the international bandwidth market, the U.S.–Latin America route experienced a large expansion in terms of revenues as compared to other international routes, and in particular posted a 13% revenue CAGR from 2013 to 2015, as compared to a 6% revenue

CAGR in the Transatlantic route in the same period, according to TeleGeography (Global Bandwidth Forecast Service Q1 2016 Findings).

Such revenue growth is a combination of the explosive traffic growth more than offsetting the declining trend of market prices. International bandwidth traffic has grown at a 47% CAGR from 2013 to 2015 in the U.S.-Latin America route and 43% CAGR in the Transatlantic route. In contrast, the 10 Gbps lease price, for example, decreased at a 26% CAGR from 2013 until 2015 in the U.S.–Latin America route and 22% CAGR in the Transatlantic route, as a result of the continuous technological improvements, available capacity and competitive pressure. A more comprehensive comparison of both routes is below.



	US-LatAm[2]	Transatlantic
Current capacity (Tbps)[1]	64	305
# fibre pairs	18	69
% of used capacity	26%	11%
# competitors	2 wholesalers 2 Telcos 0 Consortia[3]	4 wholesalers 1 Telco 3 Consortia (55 partners)
Total traffic CAGR 2013-2015	+47%	+43%
Example of market price trend: 10 Gbps lease price CAGR 2013-2015	(26)%	(22)%
Revenues CAGR 2013-2015	+13%	+6%

Source: Global Bandwidth Forecast Service Q1 2016 Findings – TeleGeography (revenues, traffic and lease prices); Telxius (other information); (1) Potential capacity with current technology for deployed cables; (2) Americas-II cable also covers the U.S.-Latin America route, but it is excluded due to its very reduced capacity (2.5 Gbps); (3) Excludes non comparable players in terms of capacity and length

Industry characteristics

A number of characteristics position the submarine cable industry as highly attractive:

- Infrastructure business
  - Capital intensive industry: the submarine fibre-optic cables market requires large amounts of financial resources to be deployed, mainly during the initial stages (i.e. during the construction phase and any upgrades).
  - Long term deployment period: the submarine cables are subject to a long term deployment period, which vary in accordance with factors such as capacity, extension and location.

    - Mission critical services: the services provided by Telxius are fully integrated in the value chain of telecommunication operators and are essential (mission critical) to provide transmission services because they provide network operators with the infrastructure necessary to compete in their respective market.
    - Highly specific technical expertise required to efficiently, securely and reliably operate the submarine cable infrastructure: the services offered are complex and depend on the integration of in-house and third-party technology and services.
- Scale and best in class service
    - Anchor client relationships are paramount to achieve the required scale to become competitive.
    - Track record of operational excellence and reliability: this is of critical importance to providers and customers.
- Industry and local knowledge
    - Local relationships with governments and providers are key in order to obtain the necessary permits and licences to build and operate a submarine cable infrastructure.
- Reduced relevant competition
    - Lack of comparable infrastructures: Only one sizable player in Latin America aside from Telxius, i.e. Level 3.
    - Retail market has limited players: Telefónica and América Móvil represent approximately 55% of mobile and fixed customers in Latin America (source: Telxius analysis based on: BAML – Wireless Matrix 2015 Q4; Pyramid research – Latin America fixed operator market share forecast, March 2016; ANATEL; and Subtel).
    - Last market entrant over 5 years ago.
    - New investment planes are focused on Brazil with most projects currently delayed in terms of public past announcements.
    - OTTs are hesitant to invest in non-core business.

Competitive landscape

Telxius faces competition from various sources, such as other telecommunications companies (including locally based and global operators) and existing, newly developed, planned and consortium cable systems along some of its Cable Segment's existing and planned network routes. In the existing market structure, there are various competitors that serve different markets, with Telxius' SAM-1 network representing the largest independent network providing high capacity in the Latin America–U.S. route (approximately 40% market share of Latin America-US internet traffic) and the fifth largest in the world (source: TeleGeography).

The Submarine Cable industry is capital intensive at initial stages and requires specific technical expertise, which must be considered by competitors wishing to enter the market. The services offered are complex and depend on the integration of in-house and third party technology and services, which must meet key quality requirements. Thus, a limited number of players currently manage the vast majority of the market. For example, in the markets in which Telxius operates five key players manage 70% of the market share as at 2015 (source: “GIG-capacity-traffic-trends” report issued by TeleGeography in August 2015). Specifically, Telefónica and América Móvil play a key role in Latin American markets, managing over 55% of mobile and fixed customers market in 2015. The key difference between América Móvil and Telxius is that América Móvil does not commercialise international transmission services to third parties.

There is currently only one infrastructure asset in Latin America which is comparable to the SAM-1 network, which is the so-called SAC, operated by Level 3. There are, however, alternative undersea cables connecting different countries in North American, the Caribbean Area and South American such as SAC, Globenet, AMX-1 or Americas-II operated by one or more of its competitors, such as Level 3, GlobeNet, América Móvil and C&W Networks, respectively. In Latin America, as at the end of 2015, 70% of the lit capacity is concentrated in three cables (Telxius’ SAM-1, SAC and Globenet). Under this scenario, in South America, in which submarine cable interconnections transport more than 90% international traffic (the remaining 10% is carried over terrestrial routes), Telxius plays a key role in the global telecommunications markets in the region.

The Group believes that its key competitors for the Cable Segment are Level 3, Globenet, America Móvil and Cable & Wireless.

The Wireless Telecom Tower Infrastructure Market

The Company acts primarily as an owner and operator of telecommunication infrastructure assets required to provide services to enterprises in the communications and media industry, including MNOs and other mobile operators. In order to provide wireless communication services to their customers, mobile operators require high quality transmission network and access network infrastructure. The Company focuses on providing transmission network services, which include the provision of intermediate links between the core network and the wireless access sites, and access network services, which include the operation of physical tower infrastructure. The Company’s assets and the quality of its services play a crucial role in the Company’s customers’ ability to serve their clients. Therefore, the various market dynamics which affect its business in each business segment can be classified in two different categories:

- The dynamics of the markets in which the Company’s clients operate. The Company’s clients’ evolving operating and technological environments have long term implications on the Company’s business’s growth opportunities, such as the evolution of mobile networks and the various different generations of radio transmission technologies (e.g. GSM, Edge, 3G and 4G) improving performance in terms of transmission speed and latency times that have required that operators redesign their wireless coverage and modify the transmission systems that link radio devices to the network

- The structure and trends affecting the infrastructure markets where the Company and similar infrastructure companies operate. The Company operates in an industry where typically only a very limited number of players provide similar services and that poses a number of major economic and regulatory obstacles.

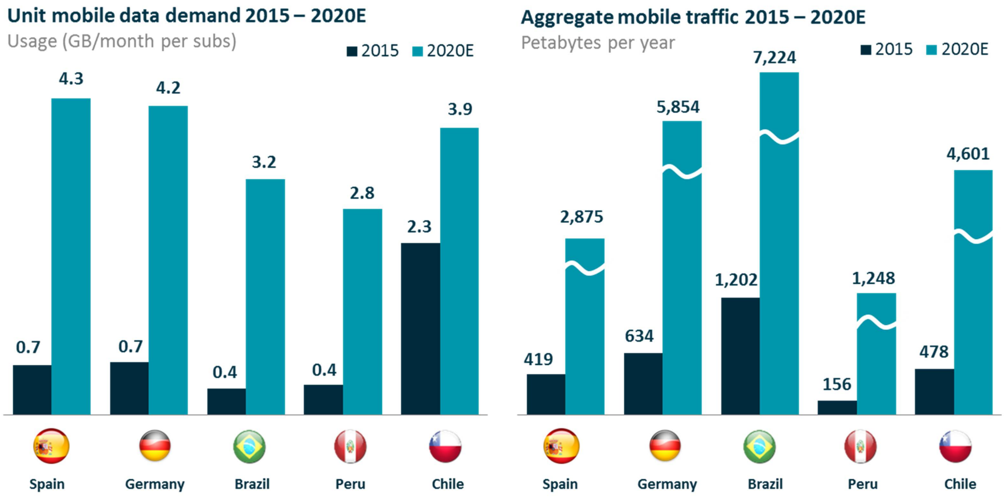
A unique combination of telecom industry elements define demand and market structure for the tower industry.

Key Drivers Supporting Demand for Tower Infrastructure

Increase in Data Consumption

Mobile network traffic is currently growing in the markets where the Company operates according to Cisco (source: Cisco Systems Visual Networking Index Mobile Forecast Highlights (2015-2020)) and can be expected to continue to influence the dynamics of infrastructure sector demand. The proliferation of mobile devices such as smartphones and tablets and the increasing development of sophisticated, data intensive mobile services and applications, including applications allowing the sharing of multimedia files and of intensive use of networks for audio and video content, are key drivers of the expected increase of demand for mobile bandwidth supporting high growth of data usage.

According to Arthur D. Little, capacity needs are expected to increase from 1.2GB per month per customer in 2015 to c.11.0GB per month per customer in 2021, as larger screens, better cameras, faster processors and innovative apps drive higher rates of data consumption on the cellular network. This increase in capacity needs will be one of the main drivers for network growth in developed markets with room for portfolio optimisation. This demand may also involve the deployment of new towers in some non-covered areas where there is a coverage gap.



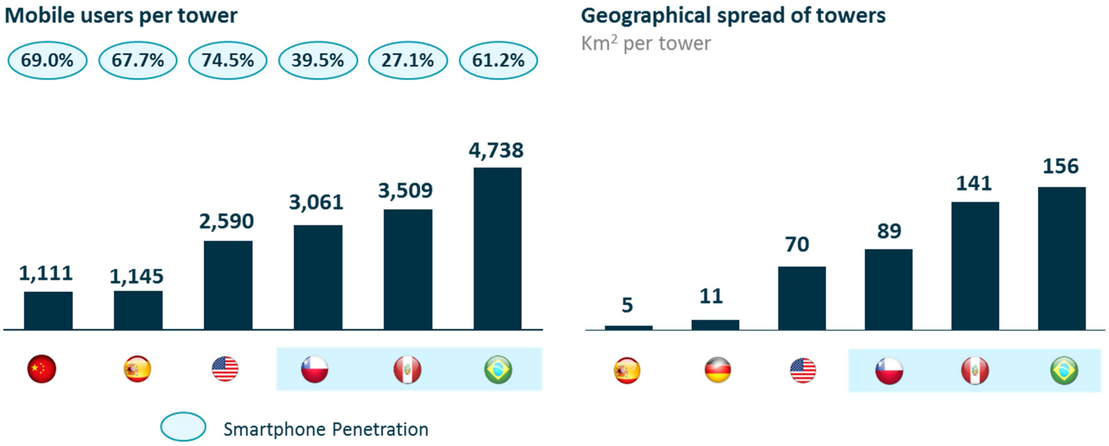
Source: Arthur D. Little: "Review of the Tower Business across the Telefónica Group footprint" (referred hereunder as "Arthur D. Little")

New Technologies and Services

Aside from the availability of such data intense applications, the demand for connectivity from mobile networks is increasing due to the steady spread of portable devices, like smartphones and tablets and the 4G/LTE adoption. According to the Cisco Systems Visual Networking Index Mobile Forecast Highlights (2015-2020) report, it is expected that the number of smartphone mobile users will grow by 35% in Latin America and by 13% in Western Europe between 2015 and 2020. Likewise the number of broadband users is expected to increase by 6% in Latin America and 3% in Europe in the same period.

Another driver for the growth in mobile services demand and of infrastructures stems from the technological developments that enable the diffusion of new radio technologies for the connection of devices to the network. Advances in the Internet of Things ecosystem should lead to substantial growth in the number of Machine to Machine (M2M) devices connected to mobile networks. The Groupe Special Mobile Association (GSMA) estimates that the number of devices connected to the internet in the world will rise from 6.9 billion in 2013 to 10.8 billion in 2020, in a total ecosystem of 25.7 billion devices connected in 2020 through different access technologies that are increasingly integrated with each other (source: GSMA, the Mobile Economy, 2014).

This increase in capacity demand may require deployment of new towers to meet territorial and population coverage requirements in areas that may be strategic for mobile network operators. Such site deployment may be also required to fill coverage gaps in certain areas (*e.g.* Europe) and to face up to the strong densification needs in Latin America. Latin America will present a strong potential for tower expansion given low mobile network density, as illustrated below.



Source: TowerXchange - May 2016 (number of towers); BAML Wireless Matrix – April 2016 (mobile users per country as of Q4 2015); GSMA Intelligence (Smartphone penetration as of Q1 2016); Analysys Mason - Wireless Network Data Traffic: Worldwide Trends and Forecast 2015-2020E.

Tenancy ratio increase and streamlining of cost and investment

In an environment of increasing price competition, a new investment cycle and a need to focus on profitability, outsourcing of tower sites by MNOs to tower companies is becoming a key trend in the industry.

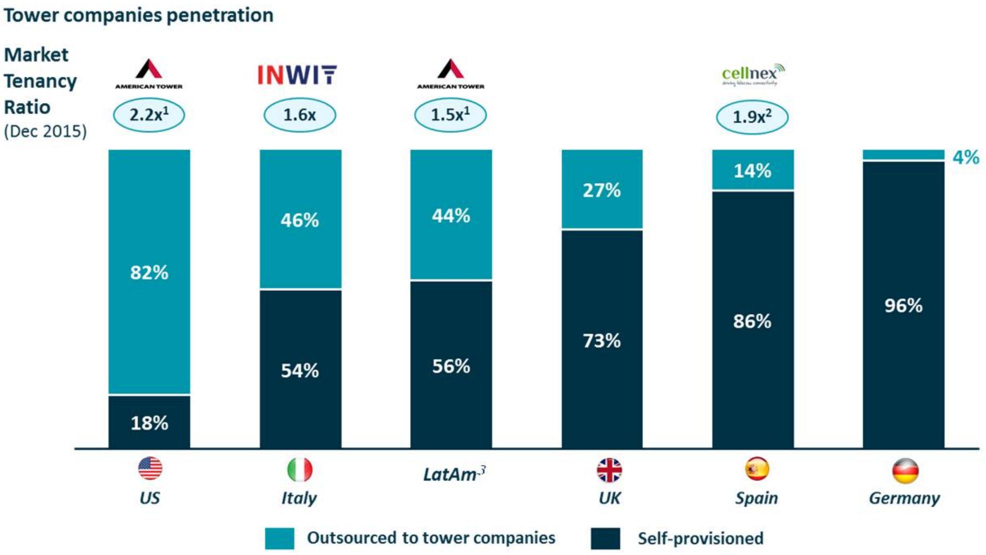
Network operators, mainly MNOs, are increasingly seeking to reduce their costs through sharing passive infrastructure. These types of agreements allow cost reductions both with respect to the streamlining of existing sites, and with respect to newly created sites. Sharing agreements, which tend to deflate site demand, may also represent a potential key driver of demand when they extend the coverage to areas whose limited user density or landscape restrictions would otherwise not allow an operator to realise an adequate return on the costs of establishing infrastructure. Similarly, sharing passive infrastructure may represent a positive driver for the market by allowing transmission installations to be located where high population density or the landscape restrictions limit the actual availability of sites. Also, instead of leveraging on their self-provisioned services, MNOs are under high pressure to increase operational efficiency. This process allows costs to be split between the various tenants in the tower in exchange for a fee, providing for higher revenues for the tower operator and cash flow savings to third-party MNOs.

As a result, strategies of streamlining and optimising costs and investments as well as opportunities to obtain new sources of financing through a spin-off element of the value chain, including mission critical elements, become relevant. In this environment mobile network operators are increasingly looking to outsource the passive infrastructure of their tower sites, to monetise prior investments, to achieve material ongoing operating costs and capital expenditure savings and to provide an enhanced service by a passive asset specialist.

In this regard independent towers operators offer an unparalleled proposition to MNOs to enhance MNOs' networks capacity while decreasing costs. This is a win-win situation for both MNOs and tower operators, which are in a privileged position to capture significant organic growth by increasing their tenancy ratio.

In addition, there is an increasing interest in tower infrastructure assets because of their attractive defensive revenue streams and high cash flow margins in a low-yield environment. MNOs may sell sites through sale-and-leaseback agreements, helping to reduce mobile operators' debt and annual operating costs without compromising the quality of their network service.

The chart below shows the percentage of towers outsourced and self-provisioned in the main countries where the Company operates. As tower outsourcing remains very low in Europe and Latin America, tenancy ratios are low too, providing room to grow in these markets.



Note: Outsourced vs. Self-provisioned prior to transfer of towers to Telxius. Source: TowerXchange - May 2016 (US, Italy, Latin America and UK); Arthur D. Little (Spain, Germany); Company filings for tenancy ratios and number of towers for Cellnex (Spain), Telefónica (Spain) and American Tower (Germany). (1) Refers to Q3 2015 information. (2) Refers to Spanish tenancy ratio; For towers in Italy tenancy ratio of c.1.2x (3) Latin America includes Brazil, Colombia, Chile, Peru, Panama, Costa Rica, Nicaragua, Guatemala, Mexico and El Salvador

The trends of the telecommunication and infrastructure markets differ depending on the geographical location (i.e. Europe and Latin America).

Network Design

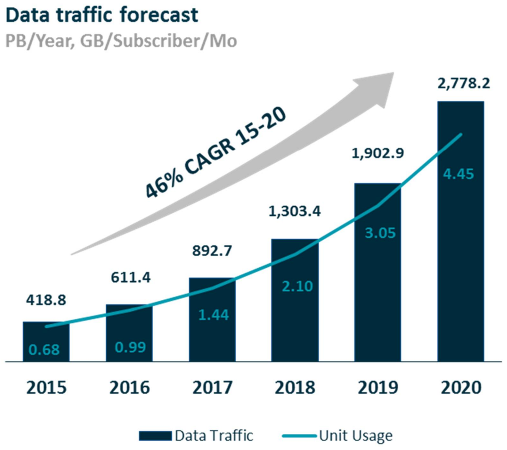
Mobile operators continue to increase the density of their networks as the data traffic handled by each cell continues to grow. The roll-out of 4G/LTE together with the growing smartphone penetration and the anticipated VoLTE (Voice over LTE) adoption would require a network design with higher cell density in order to support heavy mobile data traffic requiring mobile operators to further densify their antenna grid. This trend is expected to drive additional demand for rental services on the tower sites. Additionally, given that there is generally a limited availability of spectrum, mobile operators would need to resort to increasing the number of antennae in order to ensure adequate network capacity.

Telecom Tower Market Overview in Europe

Spain

While the key drivers of demand for the telecom tower services and growth for telecom tower companies can be considered applicable to all regions the main drivers for potential growth in Spain are the expected increase of data demand, the roll out plans of the MNOs and the spin off and divestments of passive infrastructures.

Mobile network traffic is currently growing in the Spanish market and can be expected to continue in the coming years. According to Arthur D. Little, mobile data traffic is expected to grow at 46% p.a. by 2020, to reach 2,800 PB per year.



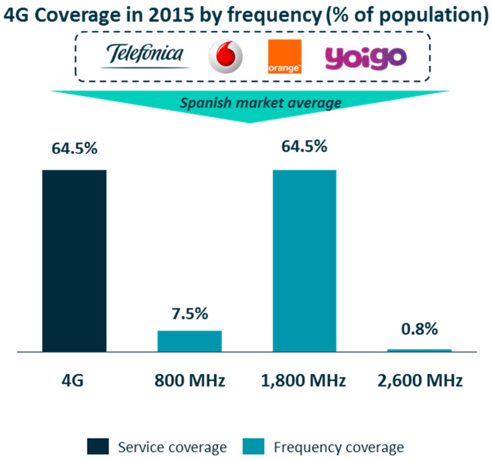
Source: Arthur D. Little. Coverage calculated as average for Telefónica, Orange, Yoigo and Vodafone

According to Arthur D. Little, while PoPs in Spain are expected to increase to c.69,090 (2.6% CAGR) between 2015 by 2020, the number of towers is expected to increase to 46,450 (0.2% CAGR) in the same period. Of the 1,920 new towers to be added, approximately 1,520 will be decommissioned for rationalisation purposes.

In order to address customers' further needs for mobile bandwidth and maintain the competitiveness of their offering, the main Spanish mobile network operators have started and continue to roll-out 4G/LTE services, by deploying the required equipment on their own sites, or on the sites of independent tower operators such as the Company's.

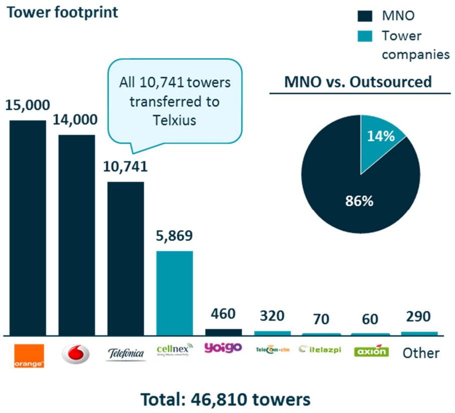
According to Arthur D. Little, 8,200 additional PoPs will be required in the period from 2016 to 2020 due to 4G network deployment in 800 MHz and 1.8GHz bands and 6,430 more in 700MHz and 2.6GHz bands from 2020.

The chart below shows the 4G coverage by frequency band in 2015.



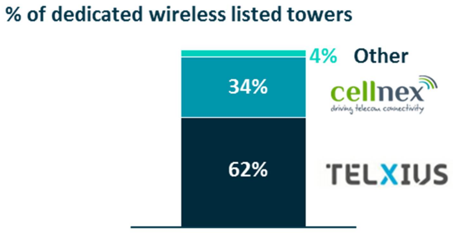
Source: Arthur D. Little. Coverage calculated as average for Telefónica, Orange, Yoigo and Vodafone

Also, the spin-off of passive infrastructure through the transfer into a separate business unit to allow operators to access new sources of financing is expected to be a trend in the Spanish market. According to Arthur D. Little's calculations, there are 46,810 communication sites in Spain, mainly owned by Orange, Vodafone, Telxius (upon transfer from Telefónica), Cellnex and Yoigo. In 2015, only 14% of the tower market was outsourced to tower companies, as illustrated below.



Source: Telxius, Arthur D. Little

Currently, 62% of the dedicated wireless towers are managed by Telxius.

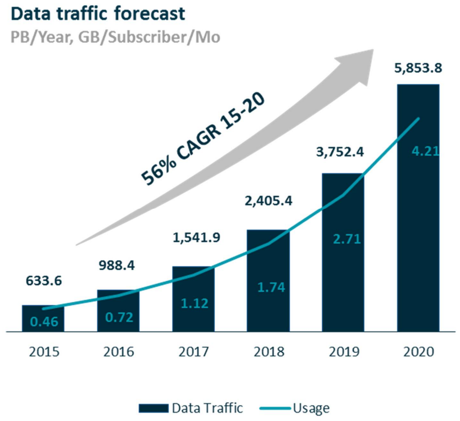


Source: Telxius, Arthur D. Little, Company information for number of towers for Cellnex and Telxius

Germany

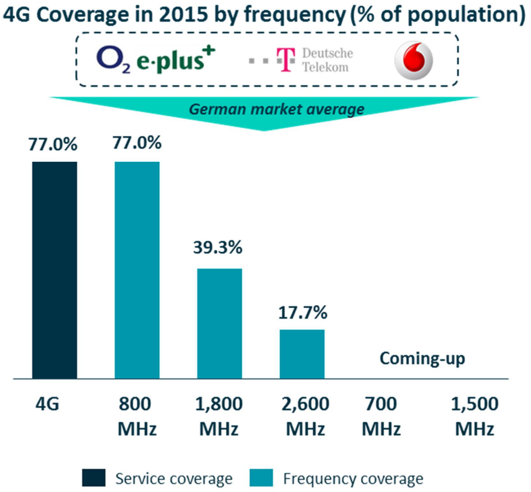
The same trends and drivers can be observed in the German market.

According to Arthur D. Little mobile data demand in Germany is expected to multiply by approximately nine times from 2015 to 2020. This increase in demand derives from the increasing video data usage, including high definition applications, 4K and virtual reality experiences.



Source: Telxius, Arthur D. Little.

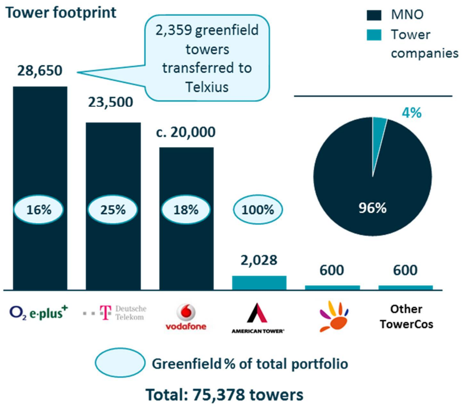
The main German mobile network operators are expected to continue the roll-out of their network to expand capacity to address customers' needs for mobile bandwidth and maintain competitiveness of their offering. The main mobile network operators in the German market have 2G and 3G full coverage with room to increase coverage in 4G.



Source: Arthur D. Little. Note: Coverage calculated as average for O_2-EPlus, Deutsche Telekom and Vodafone. Regarding 700 MHz, Bundesnetzagentur said the planned migration of broadcasting services from DVB-T to the DVB-T2 platform will enable up to 2x30 MHz in the 700 MHz band to be freed up for use by mobile broadband providers from 2017

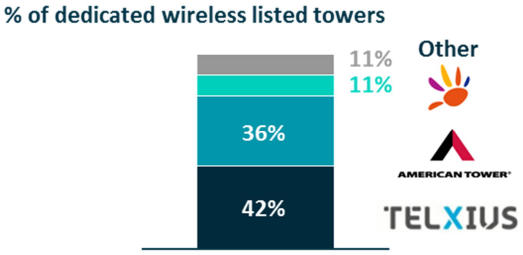
According to Arthur D. Little, as of March 2016 Telxius is the leading wireless telecommunications infrastructure operator both in Spain with an estimated 62% market share by total number of towers with 10,741 towers and Germany with an estimated 42% market share among independent towers infrastructure companies by total number of towers with 2,359 towers. Likewise, Telxius is the fourth leading wireless telecommunications infrastructure operator in Latin America with an estimated 4% market share in total number of towers in Latin America with 2,831 towers (1,655 towers in Brazil, 849 towers in Peru and 327 towers in Chile).

German mobile operators may be increasingly looking for ways to outsource their tower portfolios in the region. According to Arthur D. Little's calculations, there are 75,378 communication sites in Germany, mainly owned by O2+EPlus (subsidiaries of Telefónica), Deutsche Telekom, Vodafone, Telxius (upon transfer from Telefónica) and other independent tower companies such as American Tower and TDF. In 2015, only 4% of the tower market was outsourced to tower companies, as illustrated below.



Source: Telxius, Arthur D. Little. Company filings for American Tower's number of sites; TowerXchange (May 2016) for greenfield market share

Currently, 42% of the dedicated wireless towers are managed by Telxius.

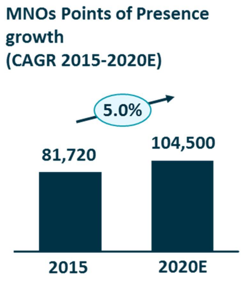


Source: Telxius, Arthur D. Little, Company information for number of towers for Cellnex and Telxius

Telecom Tower Market Overview in Latin America

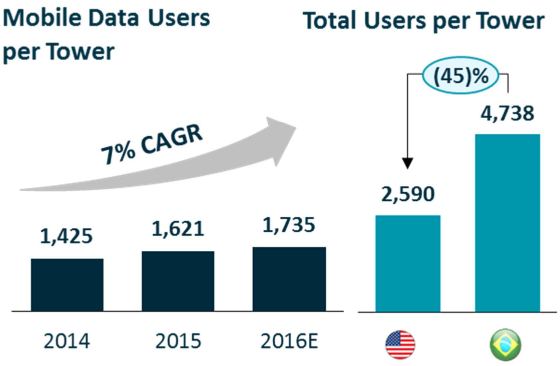
Brazil

In Brazil, the new PoPs from MNOs network expansion is expected to represent the largest growth opportunity pushed by the deployments of the four largest MNOs. Brazil PoPs are expected to increase to c.104,500 (5.0% CAGR) by 2020 as shown below.



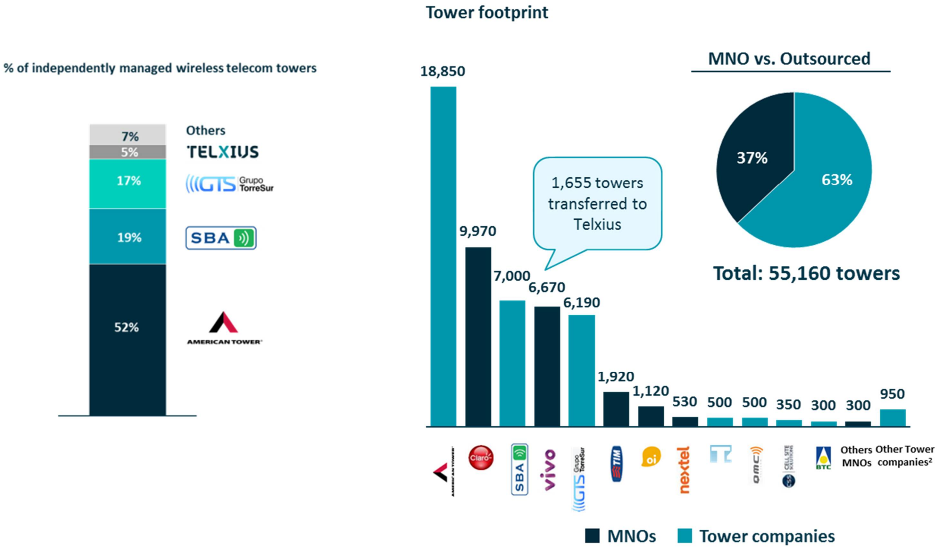
Source: Arthur D. Little

Also, according to Arthur D. Little, 22,780 additional PoPs will be required over 2016 to 2020 due to 3G deployment in 1.9/2.1 GHz and 4G in 700MHz and 2.5GHz bands and 2,340 more in 700MHz and 1.9 GHz bands from 2020. Since the network density grid in Brazil is below the average, and the main players are expanding 3G services to cover a higher percentage of population and provide better quality, there is room for strong tower expansion.



Source: TowerXchange - May 2016 (Number of towers for USA and Brazil); BAML Wireless Matrix (total users); GSMA Intelligence (Mobile 3G and 4G data users) (1) PoP (Point of presence) defined as the presence of an MNO (all equipment and technologies included) on a wireless tower

According to Arthur D. Little's calculations, in 2015 there were 55,160 sites in Brazil, of which 63% were outsourced to tower companies. American Tower is the player with the largest footprint in the market, and Telxius holds the fourth position, by number of towers.

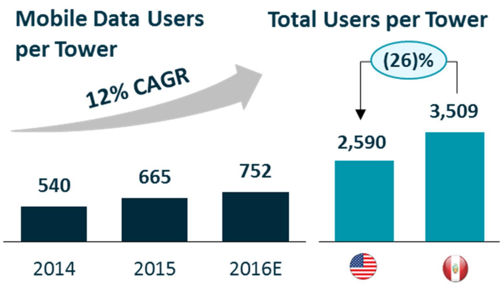


Source: Arthur D. Little, Telxius TowerXchange - May 2016 (Number of towers for USA and Brazil); BAML Wireless Matrix (total users)

Peru

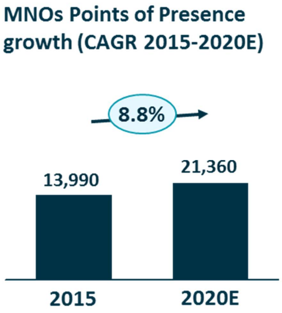
The Peruvian telecom tower infrastructure market is characterised by the lack of infrastructure, which leads to a lower level of efficiency as compared to European markets. In this regard, there is major room for strong organic tower expansion in these markets in order to improve service quality and network capacity. Further 3G network deployments are projected to occur in Peru due to below average network density grid and increasing data demand.

The charts below show the number of users per tower in Peru.



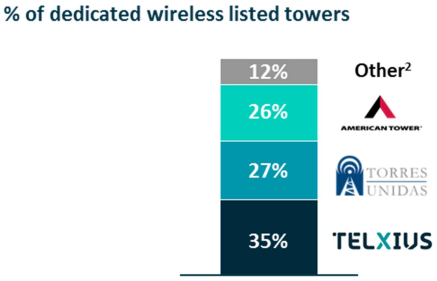
Source: TowerXchange - May 2016 (Number of towers for USA, Peru); BAML Wireless Matrix (total users); GSMA Intelligence (Mobile 3G and 4G data users)

The number of PoPs is expected to increase exponentially by 2020. However, there are c. two-three times more mobile users per each tower in Latin America than in Europe.



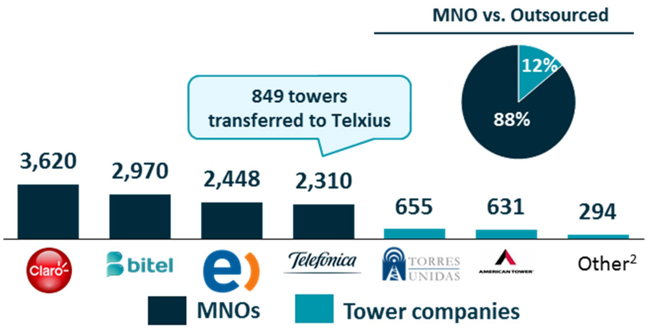
Source: Arthur D. Little

Telxius is the leading dedicated wireless telecom tower operator in Peru, with 35% of dedicated wireless listed towers.



Source: Arthur D. Little

According to Arthur D. Little, in 2015, only 12% of the tower market was outsourced to tower companies.

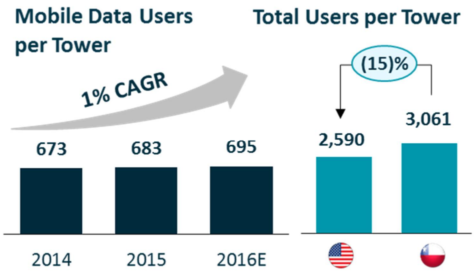


Source: Arthur D. Little prior to the transfer of towers to Telxius; (2) Other refers to NMS, Torres Andinas and Innovattel

Chile

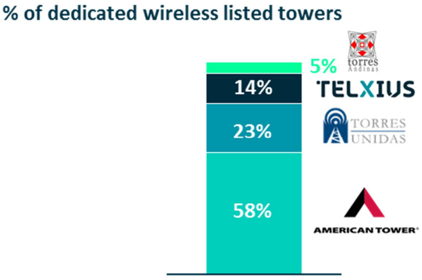
The Chilean telecom tower infrastructure market has similar characteristics to Peruvian ones.

The charts below show the number of users per tower and the number of users per tower in Chile.



Source: TowerXchange - May 2016 (Number of towers for USA, Chile); BAML Wireless Matrix (total users); GSMA Intelligence (Mobile 3G and 4G data users)

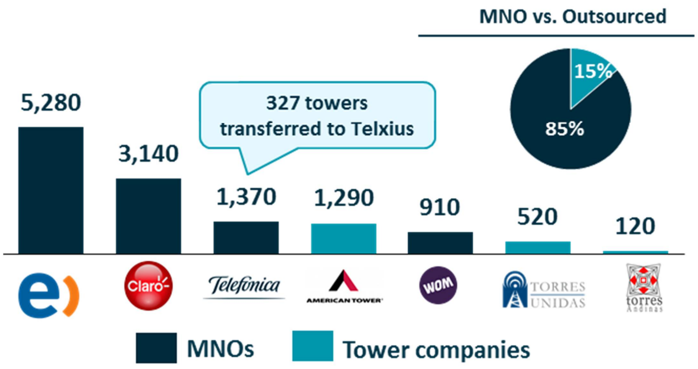
Telxius has a meaningful presence in Chile, with 14% of dedicated wireless listed towers.



Source: Arthur D. Little

According to Arthur D. Little estimates, there is moderate tower growth opportunity due to consolidation, increasing in 1,170 towers between 2016 and 2020 and decreasing in 620 towers between 2020 and 2014. In addition, the total number of PoPs and towers are expected to grow up to 18.170 PoPs and 14.340 towers by 2020.

According to Arthur D. Little, in 2015, only 15% of the tower market was outsourced to tower companies.



Source: Arthur D. Little prior to the transfer of towers to Telxius

Competitive Landscape

Telxius faces competition in the Tower Segment from various sources, such as independent operators of wireless telecommunications infrastructure and other MNOs who operate their own towers or share towers with MNOs.

According to Arthur D. Little, as of March 2016 Telxius is the leading wireless telecommunications infrastructure operator both in Spain with an estimated 62% market share by total number of towers with 10,741 towers and Germany with an estimated 42% market share among independent towers infrastructure companies by total number of towers with 2,359 towers. Likewise, Telxius is the fourth leading wireless telecommunications infrastructure operator in Latin America with an estimated 4% market share in total number of towers in Latin America with 2,831 towers (1,655 towers in Brazil, 849 towers in Peru and 327 towers in Chile), as of March 2016.

Telxius primarily competes in the Tower Segment against other tower operators who provide regional co-location services. Furthermore, in Spain, Germany and Latin America, MNOs often operate their own towers or share towers with other MNOs.

Telxius also competes with local operators in Spain, Germany and Latin America. In general, the Company faces competition for tower rental customers from various companies, such as other wireless infrastructure owners or operators, including owners or operators of towers, rooftops, water towers, small cells, broadcast towers or utility poles; wireless carriers that own and operate their own wireless infrastructure and lease antenna space to other wireless communications companies; or new alternative deployment methods in the wireless communication industry. See section "*Risk Factors—Risk Related to the Company's Operations—Increasing competition in the Company's industry may materially and adversely affect the Company*".

The Group's main competitors in the Tower Segment in Spain are other telecommunications infrastructure providers such as Cellnex. Its main competitors in the Tower Segment in Germany are American Tower and Media Broadcast. Its main competitors in the Tower Segment in Latin America are American Tower, SBA and other independent infrastructure providers.

BUSINESS

Overview

Telxius is an international telecommunication infrastructure company that holds a unique asset portfolio comprised of a combination of submarine fibre-optic cables and telecommunication towers and whose mission is "enabling communication".

The Company owns and manages a variety of assets that multiple global telecom carriers, wholesale and retail telecom service providers and OTTs in several geographies use under various contract standards.

Telxius started as an independent international telecommunication infrastructure company in the first quarter of 2016 following a reorganisation process within the Telefónica Group, under which Telefónica transferred to Telxius two main types of infrastructure assets: (i) telecommunication towers, and (ii) submarine fibre-optic cable infrastructure. These two types of infrastructures comprise Telxius' current business segments: the Cable Segment and the Tower Segment.

Through its Cable Segment, Telxius provides wholesale Internet access to its customers worldwide via Telxius' submarine infrastructure and international circuits, with over 65,000 km of worldwide fibre-optic lines (approximately 31,265 km of which are owned submarine cables).

The Cable Segment offers two primary products: Internet Protocol ("**IP**") and Capacity services.

- IP services are wholesale internet access sold to carriers and OTTs provided on a best effort basis and charged by customer type. Carriers typically need Internet transit to provide full Internet access to their end users, while OTTs need Internet access to deliver the content to the end users of a certain carrier. IP services are generally provided under IP peering agreements and under IP transit agreements. The service is built on both transmission and routing equipment.

- Capacity services provide wholesale point-to-point dedicated bandwidth in the cable to end customers such as, MNOs carriers and large OTTs. Capacity services can be sold under different agreements (e.g. leases, IRUs). In this type of services only transmission equipment is involved.

Telxius' superior network infrastructure includes the SAM-1 cable, which is the longest submarine cable in Latin America and the fifth worldwide, with high capillarity connecting most Latin American countries to the U.S., 19.2 Tbps of potential capacity, full redundancy, and one of the most reliable cables in the region with no service outages since its deployment. The U.S.-Latin America route is one of the most attractive routes worldwide and Telxius currently has approximately 40% market share of traffic on this route. In addition, Telxius holds a c.29% stake in PCCS consortium, a submarine cable in the Caribbean, and a 50% stake in Unisur consortium, a submarine cable linking Argentina and Uruguay. All three, including SAM-1, PCCS and Unisur submarine cables, are operated by Telxius.

Given the high capillarity and extensive reach of its submarine cable network, Telxius is able to connect 71 locations through 15 owned Landing Stations and 56 additional connection points in Europe, Latin America and the United States, which is one of the reasons for the Company's network status as a Tier-1 network in the telecommunication industry, one of the 15 to 20 carriers worldwide granted with such status, which allows Telxius to benefit from direct access to content delivery providers and from peering interconnection arrangements with other providers for the exchange of internet traffic at zero cost, as long as traffic value interchanged is balanced. The Tier-1 status of its network allows Telxius to reduce its costs of interconnection.

With respect to its Tower Segment, Telxius offers co-location of space on multi-tenant telecommunication towers mainly to MNOs, both to Telefónica Group companies and to third parties, through its portfolio of telecommunication towers. With approximately 13,100 towers in Europe, across Spain and Germany, and 2,381 towers in Latin America, across Brazil, Peru and Chile, Telxius has one of the largest tower portfolios among independent tower companies (source: Arthur D. Little). Telxius owns and manages the tower passive infrastructure (i.e. tower base, tower / mast, shelters, and ground / rooftop space), while the tower active infrastructure is owned and managed by the tenants (i.e. MNOs).

Telxius has a balanced business approach, with exposure to opportunities in diverse markets, in both developed and emerging economies, capturing synergies across its business segments, currently including submarine cable related transmission, interconnection and server co-location as well as telecommunication towers rental.

Its assets devoted to the Tower Segment are located at premier positions in several European and Latin American countries such as Spain, Germany, Brazil, Peru and Chile. Additionally, its fibre-optic submarine cables form one of the largest connectivity networks in the world with an un-parallel owned infrastructure in Latin America (source: TeleGeography). In sum, its 71 points of presence in 19 countries via both owned and leased capacity allows Telxius to obtain an extensive international fibre-optic cable network of more than 65,000 km. As a global player in the provision of telecommunication infrastructure services, Telxius also provides global coverage to its customers through third parties' infrastructure.

The Company intends to pursue an active management of its properties to achieve the desired market relevance and benefits arising from local scale and business synergies.

Telxius has deployed significant managerial resources across its properties and is both fully functional on an ongoing basis and market competitive, pursuing specific operational and financial targets with the objective of leading in performance and returns.

The organisation of the Company is inspired by a simple, highly decentralized operational model that ensures proximity to opportunities and conflicts, immediate support from the center and speedy resolution at the source of revenues, in order to boost productivity and span. At the same time, Telxius benefits from structured and proven control systems as developed by its parent company, Telefónica. This combination of agility and reliability underpins a culture of operational and financial discipline, as displayed by different benchmarks.

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, respectively, the Company's pro forma consolidated revenues amounted to €338,484 thousand and to €691,039 thousand, approximately 58% and 57% of which was generated by the Cable Segment and approximately 42% and 43% of which was generated by the Tower Segment.

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, the Telefónica Group accounted for approximately 63% and 65% of the Company's pro forma consolidated revenues (44% and 47% of its revenues in the Cable Segment and 88% and 88% of its revenues in the Tower Segment). See sections "*Related-Party Transactions*" and "*Material Contracts*".

Telxius enjoys significant visibility and thus predictability of its revenue and Recurrent Operating Cash Flow streams, on the back of medium and long term contracts, while retaining flexibility for enhanced sales opportunities with the greater use of available capacity, both in the submarine cables as well as in the wireless towers.

For the six-month period ended 30 June 2016(1)

	Clients		Cable Segment		Tower Segment				
	Telefónica	Other Clients	IP	Capacity	Spain	Germany	Brazil	Peru	Chile
					(pro forma)				
					(in thousands of €)				
Absolute terms	210,994	126,564	117,716	73,013	96,193	23,377	14,845	5,344	3,838
Relative terms	63%	37%	62%	38%	67%	16%	10%	4%	3%

Pro forma consolidated revenue for year ended 31 December 2015(1)

	Clients		Cable Segment		Tower Segment				
	Telefónica	Other Clients	IP	Capacity	Spain	Germany	Brazil	Peru	Chile
					(pro forma)				
					(in thousands of €)				
Absolute terms	444,458	242,458	233,954	158,589	198,892	45,702	31,634	10,434	7,711
Relative terms	65%	35%	60%	40%	68%	16%	11%	4%	3%

(1) Without taking into consideration "Pro forma Cable adjustments" and "Adjustments related to PPA" of the Pro Forma Consolidated Financial Information included elsewhere in this Prospectus.

Pro forma consolidated OIBDA for the six-month period ended 30 June 2016

			Tower Segment				
	Cable	Towers	Spain	Germany	Brazil	Peru	Chile
			(pro forma)				
			(in thousands of €)				
Absolute terms..............	94,987	70,108	42,534	17,374	6,408	2,452	1,340
Relative terms (1)	58%	42%	61%	25%	9%	3%	2%

(1) Excluding Other Pro forma Adjustments.

Pro forma consolidated OIBDA for year ended 31 December 2015

			Tower Segment				
	Cable	Towers	Spain	Germany	Brazil	Peru	Chile
			(pro forma)				
			(in thousands of €)				
Absolute terms	199,088	137,848	84,744	33,787	11,989	4,451	2,877
Relative terms (1)..........	59%	41%	61%	25%	9%	3%	2%

(1) Excluding Other Pro forma Adjustments.

History

Telxius Telecom, S.A. was incorporated under the laws of Spain on 10 October 2012, pursuant to a notarial deed of incorporation registered with the Commercial Registry of Madrid under volume 30,377, page 55 and sheet M-546,694, under the name of Telefónica América, S.A., which was subsequently changed to the current corporate name on 10 March 2016.

As at the date of this Prospectus, Telxius' share capital amounts to €250,000,000, composed of 250,000,000 ordinary shares with a par value of €1.00, fully paid up and represented by book entries and wholly owned by Telefónica. See section "*Principal and Selling Shareholder*".

Telxius had no material assets and only limited activities until the first quarter of 2016 when the Reorganisation was initiated through an internal process within the Telefónica Group comprising several spin-offs, contributions of assets and purchases of shares and/or assets, which took place during the first and second quarters of 2016.

Such Reorganisation was previously approved by the Board of Directors of Teléfonica on 16 December 2015.

Cable Segment

The Telefónica Group initiated the Cable Segment in the late 1990s by entering into the first traffic arrangement with different telecom operators in 1997 and achieving the first peering connections during the period between 1998 and 2001. The installation of the SAM-1 network in 2001 was an important milestone in the Telefónica Group's positioning strategy in this Segment. The extension of the SAM-1 network to Colombia, Ecuador and Peru in 2007 helped the Telefónica Group to become one of the leading players in the Latin America region. The achievement of the Tier-1 network configuration in 2012 was a landmark and turning point in the Cable Segment as it granted the Telefónica Group access to certain advantages only available to companies with such network status in the industry. See "—*Competitive Strengths*" in this section. During 2015, the PCCS cable became operational, increasing communications reliability and providing cable route diversity and alternative bandwidth access to existing cables in the Caribbean and Central America.

On 31 March 2016, Telxius acquired 26.86% of the equity stock of TIWS América (currently in the process of changing its corporate name to Telxius Cable América, S.A., which is the parent company of the several subsidiaries related to the cable segment in the different Latin America countries where the Group has presence) from the Telefónica Group for a price of €452,835 thousand. The remaining 73.14% of TIWS América was contributed by Telefónica, S.A. to Telxius as equity contribution on 31 March 2016. The fair value of said 73.14% amounted to €1,233,073 thousand. Nonetheless, in accordance with the applicable accounting rules, the 73.14% stake in TIWS América was valued at the net book value thereof on the date on which the contribution was executed, which amounted to €447,940 thousand.

In addition, on 31 March 2016, Telxius entered into a sale and purchase agreement with TIWS Spain, through the previously incorporated subsidiary Telxius Cable España, S.L.U. to acquire the cable business in Spain for €139,333 thousand.

Tower Segment

In Spain, the beginning of the towers construction for broadcasting mobile phone signal dates back to 1995. On said date the Service TMA 900 (Mhz) for automobile equipment, the Service 450 Mhz and a tracking service were launched. At a later stage, the GSM service was developed, then the 3G service and finally 4G or LTE.

On 31 March 2016, Telxius purchased from Telefónica 100% of the equity stock of Telxius Torres España, S.L.U., a company that had previously received through a spin-off process 10,741 telecommunications towers located in Spain from Telefónica Móviles de España, S.A., a company wholly owned by Telefónica, S.A. The purchase price paid by Telxius for the acquisition of 100% of the equity stock of Telxius Torres España, S.L.U. amounted to €1,210,000 thousand.

Likewise, on 31 March 2016, Telxius Towers Latam, which, in turn, is a wholly owned subsidiary incorporated by Telxius, acquired from Telefónica del Perú, S.A.A. 100% of the shares in Towerco Latam Perú, S.A.C. (currently Telxius Torres Perú SAC) for a purchase price amounting to €70,897 thousand. Towerco Latam Perú, S.A.C. had previously received from Telefónica del Perú, S.A.A. 849 telecommunication towers located in Peru through a spin-off process.

On 3 December 2015 Telxius Torres Brazil was incorporated and on 25 February 2016 it was acquired by Telxius Towers Latam. On 31 March 2016, Telxius Torres Brazil acquired assets and the Brazilian Tower Segment from the Telefónica Group (1,655 telecommunications towers) for a purchase price amounting to €187,571 thousand.

As part of the Reorganisation, the Company entered into a stock purchase agreement on 21 April 2016 with E-Plus Mobilfunk GmbH, a subsidiary of Telefónica Germany GmbH & Co. OHG, for the acquisition of the entire share capital of the company Telefónica Germany Vermögensverwaltungsgesellschaft mbH (Telxius Towers Germany) in exchange for €587,000 thousand. The acquisition closed on the same date and the Company indirectly acquired 2,359 towers located in Germany.

Also as part of the Reorganisation, on 1 May 2016, a subsidiary of the Company subscribed for 426,430,362 new shares representing approximately 99% of the stock of Towerco Latam Chile Holding, S.A. (in the process of changing its corporate name to Telxius Torres Chile Holding, S.A.), a company which was previously owned indirectly by the Telefónica Group and which holds 327 towers in Chile, in exchange for €8,132 thousand paid through the capitalisation of debt.

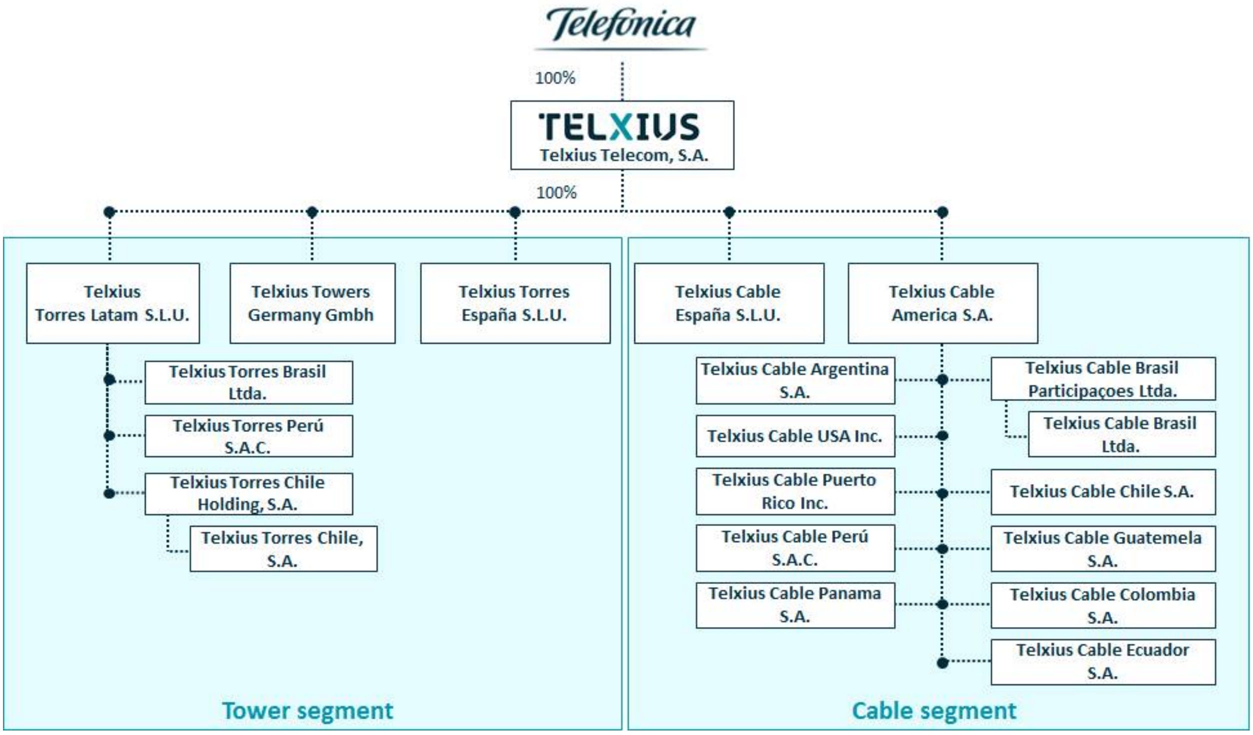
With respect to how this Reorganisation has been accounted by the Company and how it could affect the comparability of the Company's results of operations see section "*Management's Discussion and Analysis of Financial Conditions and Results of Operations—Factors Affecting Comparabilty of the Company's Results of Operations—Purchase Price Allocation*". In particular, with respect to the purchase price allocation of the different assets and liabilities acquired under the Reorganisation, see section "*Management's Discussion and Analysis of Financial Conditions and Results of Operations—Factors Affecting Comparabilty of the Company's Results of Operations—Purchase Price Allocation*" and Note 4 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

Telxius' main shareholder

Telefónica S.A., the parent company of the Telefónica Group, trading on many of the most important stock markets around the world and one of the world's leading mobile and fixed communications services providers, is Telxius' controlling shareholder. See section "—*Competitive Strengths—Telxius has the support of well-recognised shareholder*" of this section.

Corporate Structure

Telxius conducts its operations through, and derives its revenue principally from, its subsidiaries. Telxius' organisational structure is as illustrated below:



Telefónica
100%
TELXIUS
Telxius Telecom, S.A.
100%
Telxius Torres Latam S.L.U.
Telxius Towers Germany Gmbh
Telxius Torres España S.L.U.
Telxius Torres Brasil Ltda.
Telxius Torres Perú S.A.C.
Telxius Torres Chile Holding, S.A.
Telxius Torres Chile, S.A.
Tower segment
Telxius Cable España S.L.U.
Telxius Cable America S.A.
Telxius Cable Argentina S.A.
Telxius Cable USA Inc.
Telxius Cable Puerto Rico Inc.
Telxius Cable Perú S.A.C.
Telxius Cable Panama S.A.
Telxius Cable Brasil Participaçoes Ltda.
Telxius Cable Brasil Ltda.
Telxius Cable Chile S.A.
Telxius Cable Guatemela S.A.
Telxius Cable Colombia S.A.
Telxius Cable Ecuador S.A.
Cable segment

Note: As of the date of this Prospectus some of the companies above are in the process of changing their corporate names. The chart above shows the expected corporate names after such processes have finalised.

Cable Segment

Overview

The Cable Segment primarily consists of the provision of subsea wholesale connectivity services for international data transmission to both other companies in the Telefónica Group and third parties through Telxius' submarine cables and network equipment (own network and extended) and international circuits.

The Cable Segment accounted for approximately 58% and 57%, respectively, of Telxius' pro forma consolidated revenues for the six-month period ended 30 June 2016 and the year ended 31 December 2015. Likewise, it accounted for approximately 58% and 59%, respectively, of Telxius' pro forma consolidated OIBDA for the six-month period ended 30 June 2016 and the year ended 31 December 2015 (excluding holding costs and pro forma adjustments).

Properties

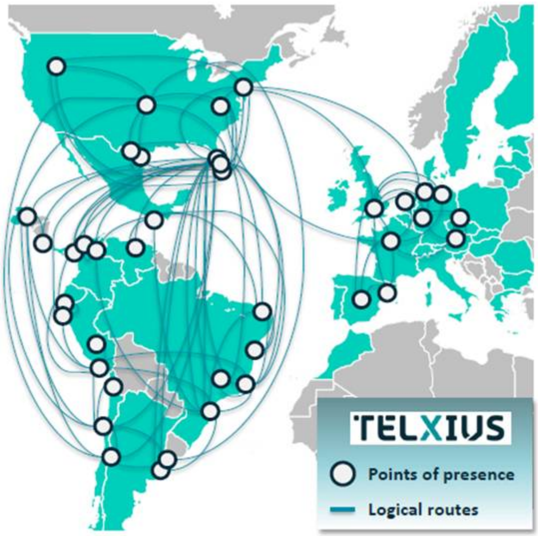
Telxius owns several submarine cables and Landing Stations and shares ownership of other submarine cables and Landing Stations with other operators in the industry. This allows Telxius to connect its network in North America, Europe and Latin America, as well as to connect its network to cities in other parts of the world. Telxius' network, spanning over 65,000 km (31,265 km of which are owned by Telxius, whilst the remainder are leased through operating leases and IRU agreements entered into with other operators), is an advanced, global, facilities-based communications network which enables Telxius to provide generic wholesale internet access to operators and point-to-point data transportation for telecom operators, content providers and medium-large enterprises. Telxius provides IP and capacity services over the proprietary and shared facilities it manages. Its network is redundant, scalable and secure. The Company develops and maintains sophisticated redundancy systems and processes designed to reduce the risk of systems-related events and security breaches while conducting continuous ongoing monitoring and updating of its network.

The table below shows the main characteristics of Telxius' cable network:

Cable (~65,000 km)	Geographical area	Entrance into service	Operator	Type of ownership	Potential capacity
SAM-1 (25,000 km)	Florida, Puerto Rico, Brazil, Argentina, Chile, Peru, Ecuador, Colombia, Guatemala.	2001	Telxius	Owned by Telxius	19.2 Tbps
PCCS (6,000 km)	Ecuador, Panama, Colombia, Curaçao, Tortola, Puerto Rico, Florida, Aruba.	2015	Telxius	Consortium. Telxius holds 29.1%.	80 Tbps
Unisur (265 km)	Argentina, Uruguay.	1995	Telxius	Ownership shared with Antel Uruguay. Telxius holds 50%.	2 Tbps
Other submarine cables	USA, Europe.	N/A	Multivendor	Leased by Telxius	N/A
Terrestrial links	USA, Brazil, Argentina, Chile, Peru, Ecuador, Guatemala, Colombia, Panama, Europe.	N/A	Multivendor	Leased by Telxius	N/A

Since 2012, Telxius' network has qualified as Tier-1 mainly due to the extension of its network, bringing significant advantages in terms of operational benefits and competitive positioning. Tier-1 qualification advantages are, among others, reduced international IP traffic costs with third parties due to peering agreements and greater bargaining power as long as Telxius does not pay for peering.

The map below shows an overview of Telxius' Logical Routes:



Telxius provides IP and capacity services via two means: (i) on-net or proprietary assets and (ii) the extended network, which refers to assets owned by third parties, with each of them described below:

1.- On-Net (own network, proprietary cable assets)

SAM-1

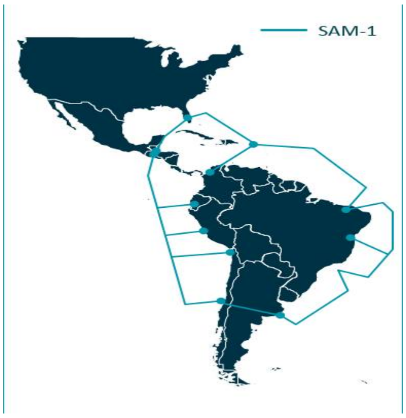
The SAM-1 network, which started its operations on 2001, is the largest fibre optics submarine system in Latin America and the fifth largest worldwide, connecting the United States to Central and South America, with an aggregate of 25,000 km in length (source: TeleGeography-Submarine Cable Map 2016). The SAM-1 network links nine countries in America utilising 15 Landing Stations across the region (including, among others, Landing Stations in Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Peru, Puerto Rico and the United States). This network delivers 4.3 Tbps of data traffic per day at times of peak demand, providing value added services for large carriers, content providers and other multinational service providers. It is a redundant and highly scalable platform with 6.0 Tbps of lit capacity, representing approximately 32% of its total potential capacity of 19.2 Tbps. The estimated useful life of SAM-1 is 25 years, unless further upgraded or replaced.

The SAM-1 network includes 4 fibre pairs, 48 wavelengths and multichannel 100 Gbps bandwidth. The Group has full ownership over the infrastructure comprising the SAM-1 network.

Additional cable networks

Telxius' proprietary network in Latin America is complemented by other two submarine cables, the PCCS and the Unisur. While the SAM-1 network is owned and operated solely by Telxius, the Company shares ownership over these two submarine cables with other carriers.

The map below shows the SAM-1 network.



When a cable system is held by a consortium of entities, allocation of costs is generally made on the basis of the share held by each participant in the total capacity of the system. Given that the consortium does not have legal personality, the landing parties of the system disburse the costs of the territories that are under their responsibility. Afterwards, the amounts paid by each member of the consortium are settled, so that each of them effectively pays the amount resulting from its share in the total capacity of the cable system.

- Pacific Caribbean Cable System (PCCS)

The PCCS network links Jacksonville (Florida) with Aruba, the British Virgin Islands, Colombia, Curaçao, Ecuador, Panama and Puerto Rico, with a total length of over 6,000 km and nine Landing Stations across the region. The PCCS relies on efficient multi-channel 100 Gbps technology, and an ultimate design capacity of 80 Tbps and was placed into service in 2015. The PCCS network is made of a number of segments with different lit capacities, as shown in the table below:

Segment:	**Total lit capacity (tbps)**
S.1. Jacksonville to Tórtola	1.03
S.2. Tórtola to BU1	0.91
S.3. BU1 to Hudishibana	0.09
S.4. BU1 to BU 2	0.82
S.5. BU to Cartagena	1.35
S.6. BU2 to María Chiquita	1.17
T6A. María Chiquita to Balboa	1.15
S.7. Balboa to Marta	0.16
S3A. Aruba to Curaçao	0.07

The estimated useful life of the PCCS network is 25 years, unless further upgraded or replaced.

Ownership of PCCS is shared by a consortium of telecom operators of which C&W, Setar, Telconet, UTS and the Company are members. Telxius currently holds a 29.1% share in the PCCS by virtue of a construction and maintenance agreement governing the deployment of the

PCCS network. Such agreement expires on 29 November 2037 unless extended. Besides, Telxius operates the PCCS network.

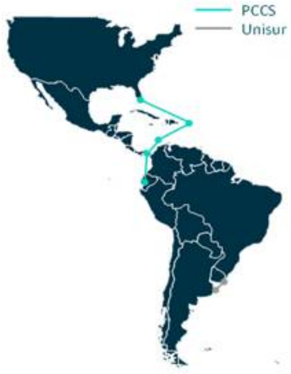
- Unisur network

The Unisur network is an optical submarine telecom cable system in the South Atlantic Ocean linking Argentina and Uruguay. The Unisur network started its operations on 16 November 1995. It has landing points in Las Toninas (Argentina) and Maldonado (Uruguay).

In 2014, Telxius implemented a system reconfiguration of the former decommissioned Unisur system. The outcome Unisur cable, with an estimated useful life of 25 years, is an unrepeated system linking Maldonado in Uruguay and Las Toninas in Argentina with total length of 265 km. The initial capacity was 200 Gbps and the outcome system has a design capacity of 2 Tbps, with 0.2 Tbps of lit capacity.

Telxius currently holds a 50% stake in the Unisur network. The remaining 50% of the Unisur network is owned by Antel Uruguay. Telxius' ownership in the network and relationships with its partner therein are governed under an agreement entered into on 12 November 2013 and due to expire on 12 November 2028 unless extended.

The map below shows the PCCS and Unisur networks.



Network equipment

Together with the submarine cables described above, the Company owns network equipment consisting of carrier-class routers equipped with the hardware needed to prevent any single point of failure, such as redundant power suppliers, master and backup routing processors, redundant switch fabric and line card (and slot) diversity for Backbone Links. Telxius uses state-of-the-art routing platforms, thus achieving vendor and routing software redundancy.

2.- Extended network

In order to provide service coverage beyond the reach of Telxius' owned networks, Telxius also rents capacity in third-party submarine cable systems to provide resiliency to its own network or to complete sections of certain routes. Currently, the Group's extended network is 33,735 km in length, and, as at 30 June 2016, the Group's total capacity on third party networks was 7.7 Tbps, covering the following routes:

- USA terrestrial routes: Telxius rents capacity on routes owned by ATT, Level 3 and other entities.

- Atlantic routes: Telxius rents capacity on routes owned by Apollo, Tata, Reliance, Hibernia, GCX and other entities.

- Europe terrestrial routes: Telxius rents capacity on routes owned by Interoute and other entities.

Telxius obtains the right to use such network portions, including both telecom capacity and rights to use dark fibre, through operating "Capacity leases" and IRUs (as defined below) agreements. In several of these agreements, the counterparty is responsible for network maintenance and repair.

In the normal course of business, Telxius needs to enter into interconnection agreements, including IP interconnection for voice and data services, local telephone companies as well as the owners of networks which Telxius' customers wish to access to deliver their services.

In addition, the Group has entered into several Peering Agreements with other ISPs on a payment-free basis as a result of Group's network Tier-1 status. Such settlement-free peering allows the Group to access additional third party networks with no costs, which allows Telxius to reduce its costs of interconnection.

3.- Projects

Telxius undertakes customer demand-driven investments in property and equipment in order to meet the continuously growing demand for cable services.

Telxius is currently undertaking significant investments in three new cable infrastructures referred to as "BRUSA", "Marea" and "Extension to Dominican Republic", all of which are currently under construction.

The Company currently estimates that the construction and placing into service of the three projects will require a total capital expenditure of approximately €352 million (USD 380 million) during the period 2016-2018.

Currently the Company has already signed agreements with clients for a total amount of approximately €148 million (USD 160 million), which represents approximately 50% of the intended amount to be prefunded through the sale of pairs of fibre or/and IRUs. Approximately 20% of the cash inflows derived from these agreements are expected to be received in 2016, 20% in 2017, 40% in 2018 and the remaining 20% in the 2019-2020 period. The Company has recently extended the payment terms in respect of one of the IRU sales, in the amount of $60 million, which is included within the approximately $160 million of funding to be received over the 2016-2020 period, but without impacting the schedule of receipt of such funding mentioned above. No assurance can be given that the contracted funding will be received on a timely basis or at all. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

BRUSA

The BRUSA network is a new submarine cable approximately 10,700 km in length that will connect Rio de Janeiro and Fortaleza (Brazil) to San Juan (Puerto Rico) and Virginia Beach (Virginia, the United States) using state-of-the-art technology, thus enabling Telxius to offer premium low-latency services and ultrafast transmission capacity. Furthermore, it is expected to offer greater flexibility and scalability than previously deployed systems.

The BRUSA network is expected to increase end-to-end connectivity and the availability of ultrahigh-speed broadband services and allow Telxius to meet data transmission growth generated by Telxius' Business to Business, telecom operators, OTTs and end-consumers. See section "*Industry Overview—Submarines Fibre-Optic Cables Market—Submarine cable services—Cable industry demand drivers*".

The BRUSA network is also expected to improve communication reliability and deliver enhanced Resilience by increasing the number of landing points in the United States, overall performance and end-to-end security and to allow Telxius to maintain leadership in the U.S.-Brazil route.

Construction of the BRUSA commenced in June 2016, and the Company expects that BRUSA is ready for service in 2018. BRUSA network will have an estimated technical life of 25 years.

The BRUSA network will have a total capacity of over c.100 Tbps (potentially expandable up to 320 Tbps because of new technology), consisting of eight fibre pairs, 100 wavelengths and 100 Gbps bandwidth (up to 200-400 Gbps).

The map below shows the BRUSA network.

Marea

The Marea submarine cable will connect Virginia Beach (Virginia, the United States) and Bilbao (Spain). It will be a 6,600 km submarine cable system, with an estimated useful life of 25 years. Construction is expected to be finalized by the fourth quarter of 2017, and commercial operation by Telxius is expected to begin in 2018.

Marea cable network is expected to allow Telxius to expand its on-net capabilities in order to capture revenues from Western Europe and Northern Africa and to constitute the highest-capacity transatlantic cable system to connect massive data hub of Northern Virginia (USA) to network hubs in Europe, Africa, the Middle East and Asia. The network will comprise eight fibre pairs, with an initial assumption that it will provide capacity of at least 160 Tbps, 20 Tbps per fibre pair.

Telxius' ownership of the network, its relationships with its partners and the construction of the submarine cable will be governed by a Joint Built Agreement ("**JBA**") which has been effective since 24 August 2016.

Under the JBA Telxius has formally committed:

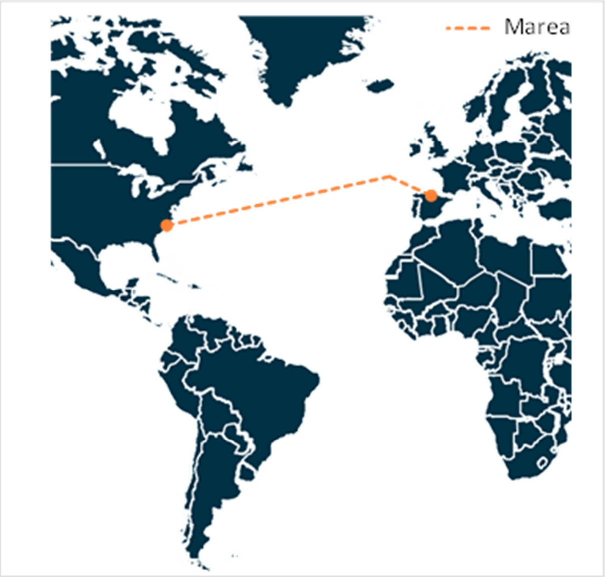
- To ultimately hold a 50% share of Marea, while its partners (Facebook and Microsoft) will hold the remainder shares.

- To become the operator of the system.

- To become the landing party in Spain.

On 26 May 2016 Microsoft and Facebook published a press release announcing that they plan to build Marea cable network.

The map below shows the Marea cable network.



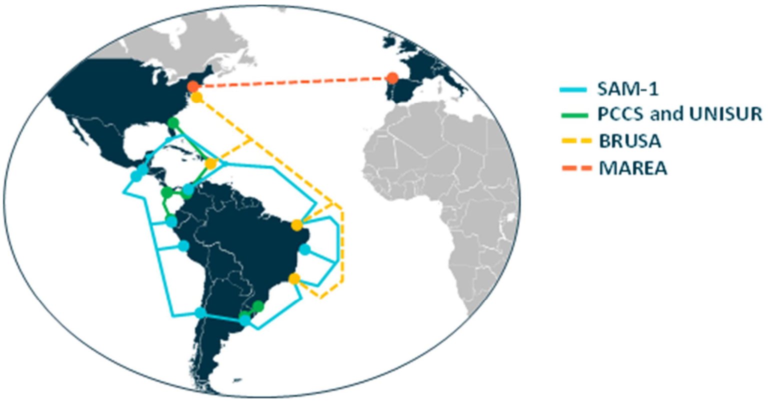
Extension to Dominican Republic

Finally, Telxius plans to extend the SAM-1 network to the Dominican Republic and expects such extension to allow it to capture new revenues since it would be the only high capacity system between the island and the United States.

This extension will be 80 km in length and will have a capacity of 10 Tbps.

The Company expects the extension to be ready for service in 2017.

The map below shows all of the current cables owned by Telxius' together with the planned extensions:



Services

The proprietary Cable Segment is mainly concentrated in Latin America and Telxius' operations in the Latin American region generate a significant portion of its revenue.

The Group conducts the vast majority of its business using the U.S. dollar as main contracts with customers in the Cable Segment, including the Telefónica Group, are U.S. dollar denominated.

Entities within the Telefónica Group are Telxius' main customers in the Cable Segment. Due to the different agreements entered into with Telefónica Group entities following the Reorganisation (See section "*Material Contracts*"), the Telefónica Group provides Telxius with a solid and secure revenue base as an anchor client. For the six-month period ended 30 June 2016 and the year ended 31 December 2015 (without taking into account the Cable Pro Forma Adjustments), the Telefónica Group accounted on a pro forma basis for approximately 63% and 65%, respectively, of the Company's pro forma consolidated revenue (and 44% and 47% respectively of its pro forma consolidated revenue in the Cable Segment).

Telxius enters into different agreements with its customers depending on the type of customer and the services it renders.

As at 30 June 2016, Telxius' existing customer agreements include, among others, the Cable MCA and the MCA for Germany (as defined below) with the Telefónica Group. The outstanding average length of contracts entered into between Telefónica and Telxius in the Cable Segment is 5.1 years (including all contracts with the Telefónica Group, Cable MCA, MCA for Germany and other agreements). See section "*Material Contracts*".

Telxius' services for carriers and OTTs aside from Telefónica Group are usually governed by a master services agreement consisting of (i) general terms and conditions applying to both IP and Capacity services, (ii) end-customer particular agreements, if any, (iii) service annexes governing each kind of service offered by the Group and (iv) other contractual documents, if any.

Pursuant to the abovementioned master services agreements, the customer may place service orders for IP transit services, Capacity services or for both of such services.

Types of services

1. *IP services*

Telxius offers IP services by providing customers with generic wholesale internet access which may include platform-based IP communications. Telxius enables the transportation of data among hosts over its IP network, allowing data traffic to be transported between source hosts, with destination hosts and final consumers such as, among others, Telefónica's fixed phone users, mobile phone users and wireless users. Telxius operates one of the largest worldwide IP networks or backbones, delivering a broad range of IP transit and network interconnection solutions tailored to meet the varied needs of high bandwidth users.

As at 30 June 2016, Telxius managed over 5.5 Tbps of data traffic daily at times of peak demand with 10 and 100 Gbps links, and is present in 71 locations spanning 42 cities and 19 countries.

Pro forma consolidated revenues generated from Telxius' IP services totalled €117,716 thousand and €233,954 thousand respectively for the six-month period ended 30 June 2016 and the year ended 31 December 2015.

For the year period ended 31 December 2015 (without taking into account the Cable Pro Forma Adjustments), approximately 60% of the Group's pro forma consolidated revenues from the Cable Segment were generated from the IP services. Furthermore, for such period approximately 66% of Group's IP services pro forma consolidated revenues were sold to the Telefónica Group and 34% to Telecom companies, Carriers and OTTs.

Furthermore, for the six-month period ended 30 June 2016, approximately 62% of the Group's pro forma consolidated revenues from the Cable Segment were generated from IP services. Furthermore, for such period approximately 64% of Group's IP services pro forma consolidated revenues were sold to the Telefónica Group and 36% to Telecom companies, Carriers and OTTs.

The term of duration of the agreements governing the provision of IP services by the Company ranges between one and five years. As an exemption, the Cable MCA (as defined below) is five year length with the possibility of renewal for three years more and the MCA for Germany (as defined below) provides for a five year term of duration with the possibility of renewals on a year per year basis.

Telxius applies two alternative fees modalities to its customers depending on the scope of the service: (i) a fixed monthly payment ("flat fee" modality), and (ii) a variable monthly amount for service flow ("pay as you use" modality). Under both the "flat fee" and "pay as you use" modalities the customer makes an initial non-recurring payment on the access port. For more detailed information about the characteristics of these contracts, see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Telxius' main IP services offering may be further segmented as follows:

Internet transit service: The ITS provides direct connectivity to the internet through the Company's Tier-1 backbone, with over 19 Tbps capacity. It delivers international coverage with over 71 points of presence spread over 42 cities and 19 countries, as well as innovative value-added services.

The Company's ITS has been designed to provide key operators and ISPs with high speed access to the internet via a highly efficient network in terms of technology, with the best service guaranteed and a commercial offer adjusted to customers' needs.

ITS also benefits from Peering Agreements with major internet networks worldwide, and connectivity with principal exchange points (for example, London, Paris, Frankfurt, Miami, Washington and San Francisco), guaranteeing reliable interconnection globally and high speed.

In addition, the ITS provides guaranteed service level agreements. The service is compatible with the IPv6 protocol which is capable of providing access to all existing content supported by this new version of IP protocol, and has security and routing policies.

The ITS contracts entered into by Telxius, usually feature a specific term and port size, such as a one year term for a 10 Gbps port billed on a monthly basis. Billing options typically include a flat or usage-based rate negotiated with customers on a case by case basis. Like most telecom suppliers, the Company measures usage by means of a series of traffic flow samples over a period of time. Usage-based contracts include a committed data rate ("**CDR**") that sets forth a minimum charge for the service, with the buyer committing to pay for the usage level of the CDR as a minimum, plus any further usage.

Co-location: The Company provides its customers with efficient, secure, reliable and managed housing for equipment in strategic locations of its cable infrastructure in exchange for a lease fee.

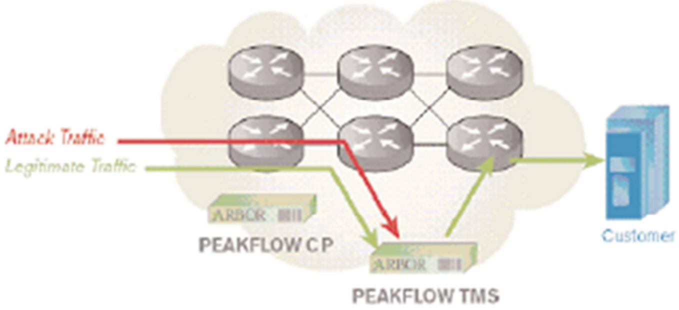
Internet value-added services (VAS): In this category Telxius includes non-core services available to its customers, comprising: (i) the Telefónica Global Solutions Managed Carrier Grade NAT (the "**managed CGNAT**" or "**CGNAT**"), a solution that complements the ITS in order to manage the exhaustion of IPv4 addresses by saving addresses (instead of assigning public addresses to the individual users, the managed CGNAT service allows them to share one single IPV4 public address among a larger number of end users with IPV4 private addresses); and (ii) the virtual NAP, a value-added solution for Telxius' Internet Transit clients providing connectivity to IPXs/NAPs to establish local peerings and exchange national traffic at a more competitive price whilst enhancing the quality of the service.

Internet security services: The Company provides its customers with a variety of additional services aimed at preserving the necessary security levels in the traffic of data through the internet. Among these services Telxius includes: (i) the DoS Shield, a security solution that detects and mitigates distributed denial of service (DoS) attacks; and (ii) Smart Domain Name Systems (DNS), services that protect networks and users from threats, illegal or inappropriate content and establish innovative communication channels between operators and their customers.

DDoS Shield Service: This is a security solution against Denial of Service attacks (**DoS**) and against Distributed Denial of Service attacks (**DDoS**). These attacks are generated from different points and their main task is to prevent a service being provided, either by saturating the link or taking advantage of faults or weaknesses of the host under attack.

The main goal for the DDoS Shield is to detect and mitigate these types of attacks at the entry points to the international network, before they reach the client's network.

The system is capable of detecting the attacks targeted to the client at the entry point of the international network. Once an attack targeted to a client has been identified, all of the traffic that is likely to be malicious is diverted to the Company's mitigation centres, where it is made subject to different filters and analyses, which are capable of identifying what part of that traffic is malicious and what part is legitimate. The former is discarded while the part that is identified as legitimate is re-directed back to the client. The illustration below graphically shows how the DDoS Shield Service works:



2. *Capacity*

In addition to the IP services, Telxius offers its customers a full set of Capacity services. Through the Capacity services the Group leases submarine cable bandwidth, or transportation capacity, to telecom companies, media content providers and multinational companies. Telxius offers pre-determined maximum bandwidth data between two fixed points specified by the customer which may be transported by different technologies, such as Ethernet, SDH and Dense Wavelength Division Multiplexing (DWDM), among others.

The Company sells Capacity services through two different contractual models: (i) long-term IRUs as defined below and (ii) short-term capacity "leases".

IRUs are contracts granted for periods of between 10 and 15 years. IRU's cash flows consist of an initial full cash-in paid by the IRU user upon sale of the IRU (received as cash at the beginning of the contract but accounted as revenues during the whole IRU life) and operation and maintenance fees collected during the IRU life (typically amounting, on an annual basis, to 3% of the initial payment made by the IRU user).

At the beginning of SAM-1 commercial operations in April 2001, and during the following years until approximately 2006, the IRU contracts signed by the Company referred specifically to the SAM-1 cable, which at that time had an estimated useful life of 15 years (until 2016, which subsequently was extended). As consequence, during that period, the Company signed a significant number of IRUs lasting until 2016, which was the maximum term coinciding with the end of the expected useful life of SAM-1 at that time. Therefore, the Company will experience the termination of an exceptional high number of IRUs contracts during 2016 that will extraordinarily affect the Company's revenues during the year. After 2006, the Company amended the IRU contracts, committing to provide the capacity services associated to the IRU contracts but without making reference to a specific cable infrastructure. The termination of IRUs signed after that period are therefore evenly spread over time depending on the contracts 'duration (generally 10 or 15 years).

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, the Group's pro forma consolidated revenues derived from IRU capacity contracts accounted for €18,229 thousand and €40,799 thousand, respectively. Moreover, new IRU sales during the six-month period ended 30 June 2016 and during the year 2015 accounted for €4,575 thousand and €39,354 thousand, respectively. Out of the total deferred revenue accounted for in the Company's consolidated statements of financial positions as of 30 June 2016 (€245,629 thousand), deferred revenue from IRU contracts amounted to €211,815 thousand. The capacity "leases" the Company has entered into have an annual fee for the rental of the relevant bandwidth.

For more detailed information about the characteristics and accounting treatment of these contracts, see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

The different options available for commercialising Capacity services are described below:

Private line: This service consists of point-to-point structured circuits in SDH/SONET standard which use a self-healing fibre optic network, connecting Latin America, the United States and Europe.

Global carrier Ethernet: Understood as physical and data link layer technology for local area networks. This service expands the functionality of the Company's portfolio with a pure Ethernet service, delivering increased bandwidth flexibility, efficient use of interfaces, transparent transmission and high quality transport.

Wavelength: Comprises an unstructured optical Capacity service (zero layer) based on Dense Wavelength Division Multiplexing technology designed to provide highly reliable and secure point-to-point 10 or 100 Gbps connectivity over the Company's submarine fibre optic system.

Telxius' Capacity services customers include local telephony and internet providers, such as Telefónica Group's local entities, and other companies requiring a large amount of data transfer for their business.

Pro forma consolidated revenues generated from the Group's Capacity services for the six-month period ended 30 June 2016 and for the year ended 31 December 2015 totalled €73,013 thousand and €158,589 thousand, respectively.

For the six-month period ended 30 June 2016, 38% of the Group's pro forma consolidated revenues in the Cable Segment were generated from the Capacity services (€73,013 thousand). Furthermore, approximately 11% of Group's Capacity services pro forma consolidated revenues were sold to the Telefónica Group, and 89% to telecom companies, carriers and OTTs.

For the year ended 31 December 2015, 40% of the Group's pro forma consolidated revenues in the Cable Segment (€392,543 thousand) were generated from the Capacity services (€158,589 thousand). Furthermore, approximately 81% of the Group's Capacity services pro forma consolidated revenues were sold to telecom companies, carriers and OTTs and 19% to the Telefónica Group.

Customers

Aside from the Telefónica Group, Telxius has a structured, diversified and stable third party customer base. The Company generates a stable and growing flow of revenue from third parties through long-term contracts. Telxius' unrelated customers purchase both IP and capacity services. On a historical basis, revenues from third parties generated by the businesses comprising the Cable Segment increased from $199,499 thousand in 2014 to $229,413 thousand in 2015, which represents an annual increase of 15% ($214,467 thousand to $239,519 thousand, which represents an annual increase of 12%, including revenues generated from third parties through the operating businesses of the Telefónica Group).

Revenues from customers who are not part of the Telefónica Group are primarily generated from the main carriers providing wholesale connectivity services in Latin America. For the six-month period ended 30 June 2016 and the year ended 31 December 2015, Cable Segment pro forma consolidated revenues generated by third-party customers represented 56% and 53%, respectively, of Cable Segment's pro forma consolidated revenues and 32% and 30%, respectively, of Telxius' pro forma consolidated revenues.

As of 30 June 2016, the mix of third-party customers comprised approximately 200 customers forming a geographically and sectorial diversified client base. The main third-party customers are a mix of OTTs, ISPs and small and medium sized telecom operators. OTTs usually enter into paid peering and IRUs agreements and purchase fibre pairs for backbone building, ISPs tend to enter into capacity leases in order to build their own international network, and telecom operators mainly demand Internet traffic services in order to provide Internet services to their own end-users.

For the year ended 31 December 2015, Telxius' top five third-party clients jointly amounted to approximately 15% of the total Cable Segment's revenues. None of said third-party customers represented more than 4% (approximately) of said revenues. This circumstance allows the Company to avoid dependence on a reduced number of clients.

Telefónica and the abovementioned top five third-party clients, jointly considered, accounted for approximately 63% of the total Cable Segment's revenues by the same time.

During 2015, annual customer lost pro forma consolidated revenues due to cancellation or non-renovation of contracts accounted for 0.3% of the total pro forma consolidated revenues (0.9% in 2014). Such low churn rate mainly results from the fact that Telxius offers premium quality services and from the high exit barriers due to client interconnection infrastructure.

IP service customer profile. The Company's standard IP service customer profile consists of the Telefónica Group, OTTs and carriers. The Company is continuously diversifying its customer base with additional OTTs and carriers. For the six-month period ended 30 June 2016, telecom companies, carriers and OTTs represented 36% of its total pro forma consolidated revenue derived from IP services, and the Telefónica Group the remaining 64%.

Capacity service customer profile. The Group's main customers of Capacity services are carriers, although Telxius expects the weight of OTTs to grow over the coming years. For the six-month period ended 30 June 2016, the Telefónica Group represented 11% of its total pro forma consolidated revenue derived from Capacity services, while telecom companies, carriers and OTTs represented the remaining 89%.

The table below shows the Cable Segment pro forma consolidated revenues resulting from Telxius' primary customer, the Telefónica Group, and third-party customers, as well as the percentage of total Cable Segment pro forma consolidated revenues, as reported in the Pro Forma Consolidated Financial Information.

	For the six-month period ended 30 June 2016	For the year ended 31 December 2015	For the six-month period ended 30 June 2016	For the year ended 31 December 2015
	(pro forma)		(pro forma)	
	(in thousands of €)		% of total revenues	
Telefónica Group	85,021	185,660	44%	47%
Other customers	109,040	206,883	56%	53%
Total (excluding pro forma adjustments)	**194,061**	**392,543**	**100%**	**100%**

Note: Without taking into account the Cable pro forma adjustments.

Revenues obtained from the provision of IP and Capacity services cannot be distributed among the different areas on which the Company is present due to the features of said services, which are essentially international.

Suppliers

Aside from the companies integrated within the Telefónica Group, Telxius has other suppliers for the Cable Segment, such as Interoute, Entel Chile, Ufinet, Global Cloud Exchange and Hibernia.

Tower Segment

Overview

The Tower Segment primarily consists of the provision of space on multi-tenant communications towers, in order to host the receiving and transmitting equipment mainly used for the mobile services provided by MNOs, and for the rendering of maintenance services.

The Tower Segment accounted for approximately 42% and 43%, respectively, of Telxius' pro forma consolidated revenue for the six-month period ended 30 June 2016 and the year ended 31 December 2015. Likewise, it accounted for approximately 42% and 41%, respectively, of Telxius' pro forma consolidated OIBDA for the six-month period ended 30 June 2016 and the year ended 31 December 2015 (excluding holding costs and pro forma adjustments).

	For the six month period ended 30 June 2016				
	Geographical areas				
	Spain	Germany	Brazil	Peru	Chile
	(in thousands of €)				
Revenues	96,193	23,377	14,845	5,344	3,838
%Total Tower Segment Revenues	67%	16%	10%	4%	3%
OIBDA	42,534	17,374	6,408	2,452	1,340
% Total Tower Segment OIBDA	61%	25%	9%	3%	2%

	For the year ended 31 December 2015				
	Geographical areas				
	Spain	Germany	Brazil	Peru	Chile
	(in thousands of €)				
Revenues	198,892	45,702	31,634	10,434	7.711
%Total Tower Segment Revenues	68%	16%	11%	4%	3%
OIBDA	84,744	33,787	11,989	4,451	2,877
% Total Tower Segment OIBDA	61%	25%	9%	3%	2%

Note: Without taking into account the Cable Pro Forma Adjustments and Other Pro Forma Adjustments related to PPA.

Properties

Overview

As at 30 June 2016, the Group's tower network footprint serves Spain, Germany, Brazil, Chile and Peru and includes both large and small metro geographies, the extended suburban regions of many cities and the large rural, national and international links that connect its metro networks. These networks allow Telxius to provide its telecom infrastructure services to customers between key customer locations.

Telxius currently operates a network of 15,931 tower infrastructures located across Europe and Latin America. Specifically, 13,100 towers are located throughout Europe (Spain 10,741 towers, Germany 2,359 towers) and 2,831 towers are located throughout Latin America (1,655 towers in Brazil, 849 towers in Peru and 327 towers in Chile). All of its towers were built by the Telefónica Group prior to their acquisition by the Company in the Reorganisation. The towers were selectively built to meet territorial and population coverage requirements and are located in areas that are strategic for mobile network operators.

The main types of assets involved in the Tower Segment are: (i) the Tower Passive Infrastructure and (ii) the Tower Active Infrastructure, which jointly with the land constitutes what is commonly known as "sites". Telxius manages the Tower Passive Infrastructure as part its business while the Tower Active Infrastructure belongs to the customer. Telxius usually does not own the plot of land / surface where the tower infrastructures are located. Notwithstanding this, and as an exception, Telxius owns some plots of land / surfaces, among others, 35 plots of land / surfaces in Peru.

Description of telecom towers

A telecom tower is typically situated on leased land with proper boundaries. Two different types of infrastructure can be located on a tower: Tower Passive Infrastructure and Tower Active Infrastructure.

1. Tower Passive Infrastructure

A Tower Passive Infrastructure is an installation comprising a set of different elements which is located at a site and used to provide support to the Tower Active Infrastructure. The elements comprising a Tower Passive Infrastructure may vary depending on the jurisdiction where the infrastructure is located, such as in Peru, which only includes the first four elements below. In general terms, the Tower Passive Infrastructure' elements include, but are not limited to:

(1) the platform;

(2) the tower or any other element suitable for supporting the equipment;

(3) the shelters;

(4) the ground space or the rooftop space; and,

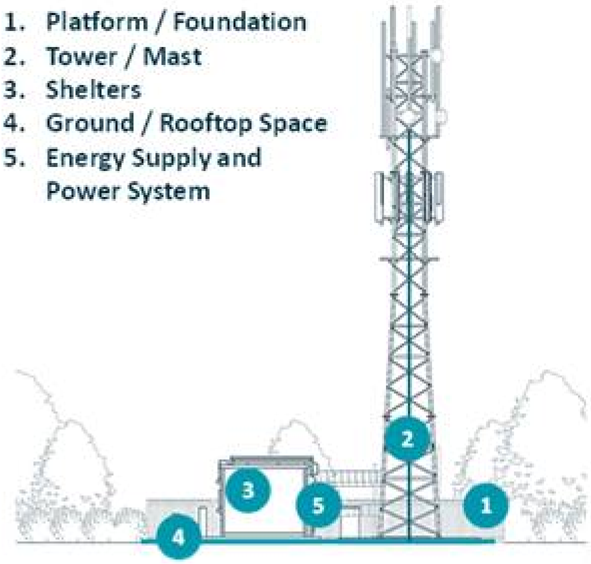
(5) the energy supply and power system (only in the Spanish towers).

Telxius' Tower Passive Infrastructures have a technical life of, approximately, 25 years. It is not possible to determine a specific technical life, due to fact that the multiple elements which comprise said Tower Passive Infrastructures have different individual technical lives.

Telxius owns the Tower Passive Infrastructure and manages the land or surfaces on which the site is located.

Spain is the only country where the energy costs of the site are passed through to Telxius' tenants, as it is the only country where Telxius manages the energy supply for its clients. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

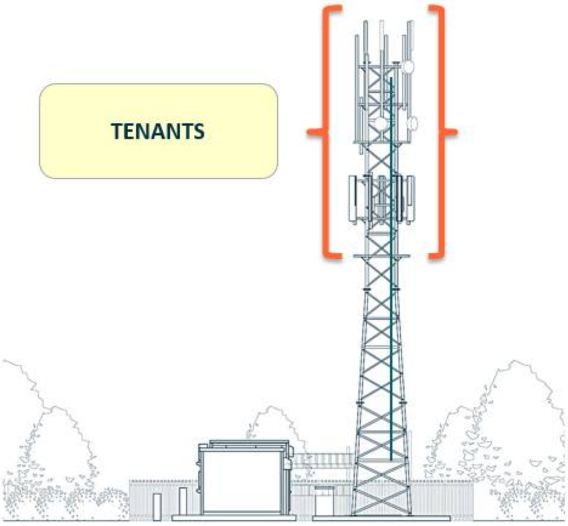
The diagram below describes the equipment directly related to the tower infrastructure which constitutes the Tower Passive Infrastructure.



2. Tower Active Infrastructure

The Tower Active Infrastructure involves the equipment used to receive and transmit the signal of radio, mobile and wireless networks. Such equipment (active elements) is directly related to tenants and is therefore not owned by Telxius.

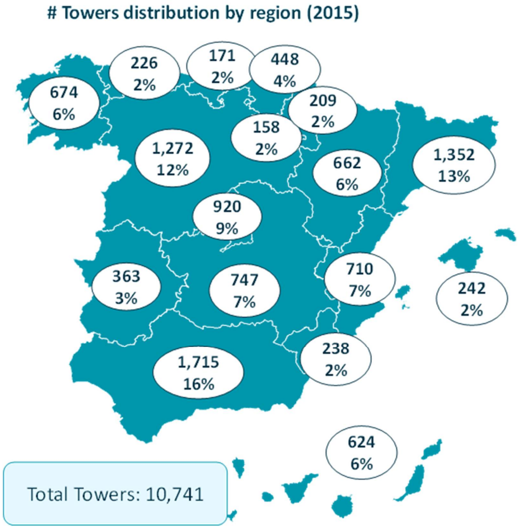
The chart below shows the equipment that constitutes the Tower Active Infrastructure and does not belong to Telxius, since it is directly related to tenants:



Telxius' portfolio

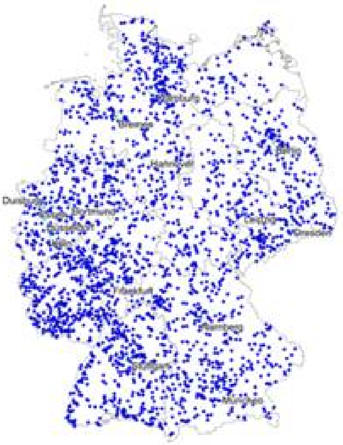
As at 30 June 2016, Telxius owned 15,931 towers in Spain, Germany and in Latin America (Brazil, Peru and Chile), which constitutes a balanced size of a tower telecom networks with a leading presence in Europe and Latin America. With reference to the geographical distribution of Telxius' towers, the Company has the largest telecom tower portfolio among standalone tower companies across Europe and the fourth in Latin America within its footprint (Source: Listed tower players information; HSBC- Maximising value creation through portfolio Optimisation 1 March 2016; Within its countries operations; Assets in the process of being incorporated; By the number of towers).

In Spain, where Telxius is the largest telecom tower company managing 62% of the dedicated wireless towers, the Company's portfolio is distributed nationwide with significant diversification reaching 93% of Spanish population (i.e. Telxius is present in municipalities which comprise 93% of Spanish population) in 2015, as it is shown in the chart below (source: Arthur D. Little).


# Towers distribution by region (2015)
674 6%
226 2%
171 2%
448 4%
209 2%
158 2%
1,272 12%
662 6%
1,352 13%
920 9%
363 3%
747 7%
710 7%
242 2%
238 2%
1,715 16%
624 6%
Total Towers: 10,741

Source: Telxius. Includes six towers in Ceuta and four towers in Melilla

In Germany, where Telxius constitutes the largest listed dedicated telecom tower company managing 42% of the dedicated wireless towers, the Company's portfolio is distributed nationwide with tenants across MNOs. In the Reorganisation Telxius acquired 2,359 towers located across Germany from the Telefónica Group, all of which were Greenfield Towers, thus its current portfolio of German Towers is 100% Greenfield.



Total Towers: 2,359
Tenancy Ratio: 1.37

In Latin America, the Company's towers represent a well balanced portfolio with significant tenancy upside and are located in Brazil, Peru and Chile.

In Brazil, Telxius manages 5% of the dedicated wireless towers and constitutes a meaningful dedicated telecom tower company holding the fourth position in the Brazilian Market in terms of percentage of dedicated wireless towers, only surpassed by American Tower, SBA and GTS (Source: Telxius, Arthur D. Little).

In Chile, Telxius has a meaningful presence holding the third position in the Chilean market managing 14% of the dedicated wireless towers, only surpassed by American Tower and Torres Unidas (Source: Telxius, Arthur D. Little).

In Peru, Telxius is the leading dedicated telecom tower company managing 35% of the dedicated wireless towers, followed by Torres Unidas and American Tower (Source: Telxius, Arthur D. Little).

In addition to the telecom tower infrastructure, Telxius holds the right to use, install and maintain Tower Passive Infrastructures where the Tower Active Infrastructure is or may be located at certain properties. Such properties may comprise plots of land with multiple urban planning classifications (rural, suitable for development, urban or any other type), as well as the entirety or a portion of rooftops, terraces and other areas of buildings, structures and installations which have been constructed on plots with different urban planning classifications.

Types of telecom towers

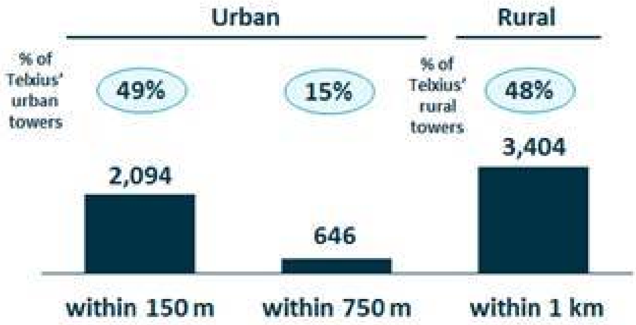
Depending on the location of the towers, they can be divided in two categories:

Greenfield Towers, which are towers located on ground suitable to host the towers infrastructure. This type of tower is located both in rural areas or areas with low population density and urban areas. As at 30 June 2016, this type of towers represented 60% of the total towers owned in Spain, 100% in Germany, 97% in Brazil, 63% in Peru and 96% in Chile. Greenfield Towers have an average height of around 35 meters.

Rooftop Towers, which are towers set up on buildings, normally pre-existing and usually located on the roof and/or roofing pavement. This type of tower is located both in densely populated areas, taking advantage of the reduced visual/environmental impact of the site and optimisation of the occupied spaces, and in rural areas. As at 30 June 2016, this type represents a 40% of the total towers owned in Spain, 0% in Germany, 3% in Brazil, a 37% in Peru and 4% in Chile. Rooftop Towers have an average height of around 5 meters.

As at 30 June 2016, 41% of the total telecom towers owned by the Telxius Group are located in urban areas and 59% in rural areas. 40%, of the total towers owned by Telxius Group in Spain are located in urban areas and 60% in rural areas, 16% of the towers owned by Telxius Group in Germany are located in urban areas and 84% in rural areas, 62% of the towers owned by Telxius Group in Brazil are located in urban areas and 38% in rural areas, 73% of the towers owned by Telxius Group in Peru are located in urban areas and 27% in rural areas, 59% of the towers owned by Telxius Group in Chile are located in urban areas and 41% in rural areas.

The graphic below shows the percentage and number of urban or rural towers of the Company with no competitors in Spain:



The telecom towers may be also categorised according to the type of ownership of the properties on which they are located:

(i) Owned: The area on which the tower is located is owned by Telxius (this is a very marginal case for Telxius, only in Peru the Company has ownership over a reduced number of properties where the towers are located).

(ii) Leased: The area on which the tower is located is granted to Telxius pursuant to lease agreements with third parties. Such lease costs are passed through to tenants, with the exception of Germany, where Telxius assumes the lease costs. See section "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

(iii) Administrative concession/authorisations tower: The area on which the tower is located is granted to Telxius pursuant to concessions or agreements with public entities.

As at 30 June 2016, 0.22% of the Company's total towers were located at owned properties, 99.12% were located at leased properties and 0.66% were administrative concession/authorisations. The fact that the majority of the Group's lease agreements are with private entities may allow the Company greater possibility of renegotiating the leases given that it has greater bargaining power over private individuals as opposed to public entities.

Tenancy on the Company's towers

Approximately 3,500 of the telecommunication towers are co-located to tenants different than the Telefónica Group under the relevant co-location agreements. Such co-located towers represent approximately 22% of the total amounts of Towers' owned by the Group.

The parameter representing the degree to which towers are shared is defined as the Tenancy Ratio, calculated as the total number of customers/tenants per tower divided by total number of towers operated.

Regarding the tenants distribution along the Group's towers as per the relevant co-location agreement, as at 30 June 2016, 78% of the urban towers in Spain had one tenant, 16% of urban towers had two tenants, 5% of urban towers had three tenants and 1% of urban towers had four or more tenants. Regarding the towers in rural areas, 84% of said towers had one tenant, 13% of rural towers had two tenants and 3% of rural towers had three tenants.

In Germany, as at 30 June 2016, 69% of the total owned towers had one tenant, 19% had two tenants, 8% had three tenants and 4% had four or more tenants.

In Latin America, as at 30 June 2016, in Brazil, 61% of the total owned towers have one tenant, 27% of the total owned towers had two tenants, 9% had three tenants and 3% had four or more tenants. In Peru, all of the towers had just one tenant. In Chile, 80% of the total owned towers had one tenant, 15% had two tenants, 4% had three tenants and 1% had four or more tenants. The chart below summarises the tenancy scheme the Company has, as per the aforementioned description.

		Type (%)[1]		Location (%)		Tenancy (%)					Height (%)	
Country of Towers	**Total No.**	**Rooftop**	**Greenfield**	**Urban[(1)]**	**Rural**	**1**	**2**	**3**	**4**	**Tenancy ratio**	**<30 m**	**>30 m**
Spain	10,741	40	60	40	60	81	14	4	1	1.24	64	36
Germany	2,359	0	100	16	84	69	19	8	4	1.37	35	65
Brazil	1,655	3	97	62	38	61	27	9	3	1.55	23	77
Peru	849	37	63	73	27	100	0	0	0	1	73	27
Chile	327	4	96	59	41	80	15	4	1	1.13	59	41
Total	15,931	32	68	41	59	78	15	5	2	1.28	56	44

(1) The criteria the Company uses to determine if a site is located in urban or rural area varies depending on the country, as follows:

Country:	**Criteria:**
Spain	Urban if located in municipality over >25,000 inhabitants
Germany and Brazil	Depending on the distance between the site and the nearest building
Peru	According to INEI's (*Instituto Nacional de Estadística e Informática*) definition of rural/urban areas
Chile	According to regulatory definition of rural/urban areas

Telxius believes that its Tenancy Ratio has a high growth potential over the time boosted by the global tendency to share towers in order to favour a better and more efficient use of the infrastructure and of the network and to try to obtain higher revenues from a greater number of tenants. See "—*Strategy*" in this section.

Furthermore, the aforementioned Tenancy Ratio also responds to the market idea that sharing towers allows tenants to reduce time and minimise the investment needed, leading to an increase in the services demanded by tenants and provided by Telxius. In addition, the tenants are usually incentivised to share locations as it should be more efficient because of cost sharing with other tenants and better terms compared to being located alone.

Moreover, the towers portfolio owned by the Group allows Telxius to capture market growth, which, along with market rationalisation via decommissioning, would allow Telxius to have an advantage vis-à-vis its competitors. See section "—*Strategy*" in this section.

Investments

The Company will take advantage of potential inorganic growth opportunities, including the potential addition of other assets from Telefónica and other third parties. See section "—*Strategy*" above.

Services

The Company's activities are essential to the provision of transmission services. Telxius focuses on management and operation activities relating to Tower Passive Infrastructure in order to host transmission and reception systems belonging to its customers (Tower Active Infrastructure).

Services to the Telefónica Group are governed by the Tower MLAs. See section "*Material Contracts*".

1.- Tower lease services (co-location)

The tower lease services mainly comprise the rental of physical space in Telxius' tower infrastructure for the installation of customers' equipment. The co-location services also enable customers to benefit from the elements included in the tower infrastructures. These elements may vary depending on where the infrastructure is located. See "—*Properties*" above.

Services to MNOs other than the Telefónica Group are governed by specific co-location agreements with a duration between one and 15 years. These agreements normally grant the tenant the right to terminate upon the provision of prior notice and usually include the following as causes for termination of the agreement: (i) failure by the tenant to obtain the authorisations and permits necessary to install its own equipment up to a certain period of time after the execution of the agreement; and (ii) the lease agreement with the owner of the real estate lapsing due to expiration, cancellation, or any other reason. As at 30 June 2016, the average duration of the co-location agreements in place with third parties other than Telefónica Group was 6.8 years.

In addition Telxius undertakes to provide several maintenance services to its customers in order to provide them with all the services they may require as tenants of its infrastructures. Such commitments include: (i) corrective and ordinary maintenance to guarantee the adequacy and proper functioning of the infrastructures and equipment; (ii) special maintenance to uphold the quality and performance standards of the tower infrastructure; (iii) environmental management to guarantee site accessibility and safety (e.g., maintenance of green spaces, pest control, etc.); and (iv) security services such as surveillance of the sites.

Telxius may develop in the future, both in Europe and Latin America, new types of services that would increase its build-to-suite offer to comply with the annual site deployment to fill coverage gaps in Europe and in order to face up to the strong densification needs in Latin America. See "*— Strategy*".

2.- Outsourced activities

Telxius currently outsource certain non-strategic and ancillary activities which are provided by the Telefónica Group, pursuant to specific transitory outsourcing agreements (ground lease to Telxius, space lease to Telxius, business support, network maintenance and supervision). Such outsourcing agreements allow Telxius to leverage Telefónica's economies of scale. However, nothing impedes that in the future Telxius may provide such services by itself or enter into new outsourcing agreements with non-Telefónica companies.

Under said outsourcing agreements Telefónica subsidiaries (as service provider) and the relevant subsidiary of Telxius within its Tower Segment (as service recipient) to govern the terms and conditions under which the services between Telefónica Group and Telxius will be provided.

The relevant outsourcing agreements are those under which Telefónica's subsidiaries shall provide to Telxius the required services for: i) the construction and upgrading of the different infrastructure elements of the tower infrastructure (fencing, earth connections, security elements, conditioning, batteries, etc.) and ii) the maintenance of such infrastructures.

Customers

The Company's main customers in the Tower Segment are certain operating companies of the Telefónica Group that are telephone service providers, such as Telefónica Móviles España (operating under the brand Movistar), Telefónica Brazil (operating under the brand Vivo) and Telefónica Germany (operating under the brand O2).

As at 30 June 2016, the number of agreements with MNOs other than the Telefónica Group was approximately 3,500. Approximately 85% of these agreements will expire between the fiscal years 2016 and 2022.

Revenues from customers who are not part of the Telefónica Group are primarily generated from the main MNOs, other than the Telefónica Group, in Spain, Germany and Latin America, which include Vodafone, Yoigo, Orange and OI S.A. with which Telxius has entered into agreements for the provision of hosting services in its towers.

For the six-month period ended 30 June 2016 the Telefónica Group accounted for approximately 88% of Telxius' pro forma consolidated revenues in the Tower Segment and 12% was generated by the other MNOs.

For the financial year ended 31 December 2015 the Telefónica Group accounted for approximately 88% of Telxius' total pro forma consolidated revenues in the Tower Segment and 12% was generated by the other MNOs.

For the year ended 31 December 2015, Spain and Germany accounted for 83% of Telxius' total pro forma consolidated revenues in the Tower Segment.

Furthermore, Telxius' pass through revenues derive from the re-invoice and pass-through of ground rental costs to the Telefónica Group and other third-party clients (this pass-through does not apply to the German tower segment) and the pass through of the energy costs (energy rebilling is only considered in the Spanish tower segment).

The table below shows the Tower Segment pro forma consolidated revenues as well as the percentage of total Tower Segment pro forma consolidated revenues, as reported in the Pro forma Consolidated Financial Information.

	For the six-month period ended 30 June 2016	For the year ended 31 December 2015	For the six-month period ended 30 June 2016	For the year ended 31 December 2015
	(pro forma)		(pro forma)	
	(in thousands of €)		(% of total revenues)	
Arrangement of infrastructure:				
Telefónica Group	68,497	139,928	48%	48%
Other customers	16,092	31,874	11%	11%
Pass-through costs	57,655	117,117	40%	40%
Other revenues	1,310	5,454	1%	2%
Total	**143,597**	**294,373**	**100%**	**100%**

Telxius believes that provision of services to companies within the Telefónica Group constitutes a secure revenue base that offers solid platform for growth of sales to third parties.

Telxius' pro forma Backlog in the Tower Segment as of 1 January 2016 is approximately €2,905.1 million, of which €2,668.3 million corresponds to the Telefónica Group and €236.9 million to third parties (figures calculated by the sum of Spain, Germany, Brazil, Chile and Peru's figures). Such Backlog is expected to be obtained within a 10.7 year term.

Competitive Strengths

The Company owns a premier international telecommunications infrastructure network with limited replicability in Europe and the Americas

The Company owns a balanced portfolio of selected high quality assets, constituting one of the leading telecommunications infrastructure service providers in Europe and the Americas, in terms of length and capacity with high quality of performance and reliability and with no services outages to date in the Cable Segment, and in terms of number of towers in the Tower Segment.

The Company's telecommunication tower network is difficult to replicate by actual or potential competitors due to the sheer size of its installed base, the level of know-how required, its anchor relationship with the Telefónica Group and the large capital expenditure investments needed for the deployment of a network of this magnitude.

Telxius is the owner of the longest submarine fibre-optic cable in Latin America and the fifth longest in the world and it is the leader among dedicated tower companies in Spain, Germany and Peru, third largest in Chile and fourth largest operator in Brazil by number of telecommunications towers (source: listed players information).

Further, the Company benefits from a competitive advantage from being able to offer both co-location services to other MNOs with respect to Tower Segment clients, and technical services to potential Cable Segment customers.

Tower Segment's infrastructure network strengths

The Company's telecommunication towers portfolio in Europe is the largest among dedicated European tower players, and includes as of the date of this Prospectus, 13,100 towers located in Spain (10,741 towers) and Germany (2,359 towers). In terms of number of towers and market share, Telxius enjoys a leadership position among dedicated telecommunication towers companies in Spain (with a 62% market share) and Germany (with a 42% market share), ahead of its competitors Cellnex and American Tower, respectively (sources: Arthur D Little and listed tower players information).

The Company also enjoys a significant position in Latin America, where it owns a portfolio of 2,831 towers as of the date of this Prospectus. Telxius holds leading positions in Brazil (with 1,655 towers), Peru (with 849 towers) and Chile (with 327 towers) where it is the fourth, first and third player, respectively, in terms of number of towers as of the date hereof. Telxius is the only European player in the Tower Segment with exposure to Latin America and with long-standing experience operating in the region. (Sources: Arthur D Little and listed tower players information). This geographic mix allows the Company to benefit from the stability and cash generation of mature markets, coupled with the high growth opportunities in Latin America.

Telxius' tower portfolio represents a mix of locations, including, as of 30 June 2016, both Rooftop (40% in Spain, 3% in Brazil, 37% in Peru and 4% in Chile) and Greenfield (60% in Spain, 100% in Germany, 97% in Brazil, 63% in Peru and 96% in Chile) Towers, and covering urban (40% in Spain, 16% in Germany, 62% in Brazil, 73% in Peru and 59% in Chile) and rural (60% in Spain, 84% in Germany, 38% in Brazil, 27% in Peru and 41% in Chile) locations.

The Company's Tower Segment shows meaningful co-tenancy ratios (the average co-tenancy ratio amounted to 1.28 with a minimum of 1.00 for Peru and a maximum of 1.55 for Brazil as of 30 June 2016), evidencing a strong track record providing services to third parties, but also showing a high growth potential to increase these co-tenancy ratios, boosted by the global tendency to share towers.

The Telefónica Group represented approximately 88% of the pro forma consolidated revenues of the Tower Segment in the six-month period ended 30 June 2016 and 88% of the pro forma consolidated revenues of the Tower Segment in the year ended 31 December 2015.

Cable Segment's infrastructure network strengths

Telxius' Cable Segment represents one of the largest connectivity networks worldwide, with a submarine fibre-optic cable infrastructure that connects users to worldwide content. Its communications infrastructure comprises around 65,000 km of submarine fibre-optic cable (approximately 31,265 km of which are owned by Telxius, distributed in three cables: SAM-1 (25,000 km), which is wholly owned by Telxius, PCCS (6,000 km) and Unisur (265 km), held in consortia with other operators, whilst the remainder are leased from other operators), making Telxius the number one submarine fibre-optic cable provider in Latin America by number of kilometres (source: TeleGeography). The Company also owns 15 Landing Stations in different locations across Latin America and its known by its expanded unique network capillarity, given that its own submarine fibre-optic cables reaches 42 cities in 19 countries across Europe, Latin America and the United States, being these some of the reasons for the Company's status as a

Tier-1 player in the telecommunication industry, one of the 15 to 20 carriers worldwide (see section *"Certain Terms and Conventions*").

Telxius' network is also characterized by its operational excellence, as its fibre-optic cable infrastructure has not experienced any complete service outage ever. In particular, the redundant loop system of SAM-1 has made this fibre-optic cable the most reliable cable in the region, with no complete service outages to date since its entry into operation in 2001. SAM-1 provides the best example of long history of innovative solutions to address evolving infrastructure communication needs in Latin America.

Telxius' position is particularly strong in the Latin America–U.S. route, where it holds a market share of around 40% by transported data (source: the Company on the basis of TeleGeography data) and connects 11 Latin American countries to the United States.

Telxius' Cable Segment provides IP and Capacity services to OTTs, telecommunication companies and carriers operating worldwide, anchored by the Telefónica Group, which represented approximately 44% of the pro forma consolidated revenues in the six-month period ended 30 June 2016, and 47% of the pro forma consolidated revenues of the Cable Segment in the year ended 31 December 2015. In the same periods, pro forma consolidated revenues contributed by IP and Capacity services were distributed in a balanced manner, representing respectively approximately 62% and 38% of the pro forma consolidated revenues in the six months ended 30 June 2016, and 60% and 40% in the year ended 31 December 2015

Telxius has the aim to constantly meet the market needs. While in its main cable system (SAM-1) is currently providing 4.3 Tbps of capacity in use, Telxius is capable, just with this submarine cable and with the current technology, of providing more than 19.2 Tbps of capacity, therefore having the capacity of attending market growth in the short and medium term. Furthermore, anticipating expected data traffic growth in the following years, Telxius continues to play an active role in the selective deployment of new submarine cables. As an example of this effort, the Company is currently working on the BRUSA project and in Marea, a new cable that will connect the United States and Spain, with the aim to enhance its market leadership position in the Latin America-U.S. route, to serve its clients' expansion and to anticipate traffic growth trends in the region.

The Company operates in sizable growing markets with attractive underlying demand drivers

Within the Tower Segment, the Company has a footprint in both mature (Spain and Germany) and emerging (Brazil, Peru, Chile) economies, and is therefore able to benefit from a diverse set of macroeconomic drivers (sizable population, economic growth, expanding mobile and broadband penetration, expanding usage of data, etc.). In this regard, 83% of the Company's pro forma consolidated revenue within its Tower Segment for the six-month period ended 30 June 2016 and 83% for the year ended 31 December 2015 was generated by its operations in European countries, whereas the remainder came from Latin America.

Additional significant increases in infrastructure usage may also arise due to the current levels of underpenetration in European and Latin American markets. As an example, the number of smartphone mobile users is estimated to grow by 35% in Latin America and by 13% in Western Europe between 2015 and 2020, and the number of broadband users is expected to increase by 4% in Latin America and Europe between 2014 and 2019 (source: Cisco Systems Visual Networking Index Mobile Forecast Highlights (2014-2019)).

Upsides in the telecommunication tower rental services will be specially driven by the low tower network density in Latin America and the low-level of outsourcing from MNOs in both Latin America and Europe.

Market trends display an increasing percentage of tower outsourcing by European operators, with a clear path to grow from the current 14% of outsourced towers in Spain, 4% in Germany and 44% in Latin America, up to levels close to those in the United States, where 82% of the telecommunication towers are outsourced (source: BOAML – Wireless Matrix).

Furthermore, the high mobile users-per-tower ratio in Latin America (approximately 4,738 in Brazil, 3,509 in Peru and 3,061 in Chile, far from the 2,590 users per tower in the U.S.) and the increasing traffic data indicate that there is room for significant tower expansion in Latin America (source: TowerXchange).

Within the Cable Segment, the Company is expected to benefit from the exponential increase in data traffic already experienced and that is also expected over the next few years in the regions where Telxius operates. According to market research, the estimated CAGR in Tbps of used bandwidth in the Latin America–U.S. routes amounts to 39% between 2015 and 2022, and the forecasted CAGR in PB per month of IP traffic totals 22% between 2014 and 2019 for the combined Latin America and Western Europe regions. Moreover, mobile data traffic is expected to experience significant increases, delivering a CAGR of 49% in Western Europe and 50% in Latin America in the 2015-2020 period (source: Cisco Systems Visual Networking Index Mobile Forecast Highlights (2014-2019)).

In this context of rapid and intense data consumption growth, telecommunication companies require significant infrastructure investments to provide connectivity services and therefore capital needs for telecommunication companies has risen in the last years. This development is incentivising telecommunication companies to adopt asset light models to improve returns. Telxius is positioned to capture these market opportunities through its current portfolio of assets and expansion plans, together with the benefit from the scale of its anchor relationship with Telefónica.

The revenues of the Company are highly visible and supported by long-term contractual relationships with blue chip clients as well as Telefónica

The Company's estimated aggregate Backlog as of 1 January 2016, on a pro forma basis, including contracts entered into through June 2016, amounted to approximately €4.7 billion, which represents around 6.8 times the pro forma revenues of Telxius for the year ended 31 December 2015 (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Factors Affecting the Company's Results of Operations-Backlog*").

The table below shows the Company's Backlog as of 1 January 2016, broken down between business segments and services.

	With Telefónica	With unrelated parties	Total	
		(in millions of €)		%
		(unaudited)		
Cable Segment	897	929	1,826	39%
Tower Segment				
Spain	1,778	112	1,890	40%

	With Telefónica	With unrelated parties	Total	
		(in millions of €) (unaudited)		%
Germany	495	89	584	12%
Brazil	227	32	259	5%
Peru	105	—	105	2%
Chile	63	4	67	1%
Total Tower Segment	2,668	237	2,905	61%
Total Backlog	**3,565**	**1,166**	**4,731**	**100%**

The Company has established long-term contractual relationships with companies belonging to the Telefónica Group and other blue chip customers (see sections "*—Cable Segment—Customers*" and "*—Tower Segment—Customers*" for further details on how the Company calculates its Backlog).

Telxius has a diversified customer base in the Cable Segment, where the Company renders IP and Capacity services to over 200 clients from different geographical and sectorial backgrounds. In the Cable Segment no client outside the Telefónica Group represented more than 4% of the pro forma consolidated revenue for the year 2015 in the Cable Segment.

Telxius' approach to contractual relationships with customers is to stabilise its revenues base by creating strategic long-term partnerships with high quality clients, including small and medium sized telecommunications companies, big carriers and OTTs.

In this regard, IP and capacity services are sold through lease agreements and IRUs with average initial terms of between one and five years and 10 years, respectively. Likewise, co-location services are agreed for an initial term (mainly five or 10 years) and can be renewed for terms of five years upon termination of the initial period.

In 2015 Telxius' pro forma churn rate for the Cable Segment amounted to less than 1% of revenues and the Company expects to maintain such low levels in 2016 and the upcoming years due to the limited number of competitors with global coverage, and the proven quality and reliability of the Company's network. Telxius' churn rate is calculated as annual customer lost pro forma consolidated revenues due to cancellation or non-renovation of contracts / total pro forma consolidated revenues.

Furthermore, Telxius has strong support from the Telefónica Group, reflected in its current contracts with Telefónica as client and customer for both the Cable Segment and the Tower Segment (see section "*Material Contracts*"). Telefónica's contribution to Telxius' pro forma consolidated revenues in the first half of 2016 amounted to 63% (44% in the Cable Segment and 88% in the Tower Segment).

Contracts with Telefónica have been entered into on an arms-length basis and in line with market standards in terms of price, term and other conditions. Telxius' corporate governance policies and strict scrutiny of related-party transactions are designed to minimise the risk of conflicts of interest and ensure arms-length contractual relationships with Telefónica, as principal shareholder and one of the Company key clients, including among other things, a significant number of independent directors in the Board of Directors, relevant board committees (at least an Audit and Control Committee and a Nomination and Remuneration Committee) with majority of, and chaired by, independent directors and specific related-party procedures that will prevent proprietary directors from voting on related-party matters (see section "*Management and Board of Directors*"). Considering all the above mentioned, the strong links between Telxius and Telefónica are expected to result in a continued long-standing business relationship and cooperation track record between both entities, hence reducing the renewal risk of a significant percentage of the Backlog.

The Cable MCA entered into with the Telefónica Group sets out a minimum purchase commitment to ensure value for at least five years, whereas the Tower MLAs provide initial fixed terms of duration of between 10 and 15 years, depending on the country, with options for additional extension of five years each.

Telxius' revenue stability is also supported by its limited exposure to currency fluctuations, despite its strong presence in Latin America. Most part of Telxius' pro forma consolidated revenues in the six-month period ended 30 June 2016 and in the year ended 31 December 2015 were denominated in Euro and U.S. dollars, whilst only a small percentage was denominated in Latin American currencies. This allows Telxius to benefit from exposure to Latin America growth while mitigating the effects of volatility of the currencies in the region. The Company's financial statements are denominated in Euro; and diversification among hard currencies is also present since the split between Euro and U.S. dollars pro forma revenues for the same time periods was approximately by halves.

Telxius has the support of a well-recognised shareholder

In addition to the business relationships with the Telefónica Group, as detailed above, through its close relationship with Telefónica as its significant shareholder (see section "*Principal and Selling Shareholder*"), the Company is expected to benefit from Telefónica's track record, global presence, reputation and scale for unique partnerships and optimal sourcing. Moreover, the Company will benefit from certain of Telefónica's sales force for the Cable Segment and by establishing arms-length long-term contractual relationships. In addition, provided that Telefónica maintains a stake in Telxius after the Offering, it will have strong incentives to promote the Company's success.

Furthermore, Telefónica can serve Telxius as a potential source of growth, representing additional opportunities for Telxius due to its eventual needs for tower sites, anchor contracts for fibre expansion, and the possibility to render additional services to the Telefónica Group and/or to acquire new telecommunication infrastructure assets from it.

Telxius has an empowered and highly experienced management team

The Company is managed by a highly experienced senior team with long-standing experience in the telecommunications industry, with deep insight in the regions and businesses where Telxius operates. This team has a proven and solid track record both in the cable and towers specific sectors, with day-to-day experience not only in managing Telxius technical assets, but also in creating and maintaining relationships with blue chip clients (see section "*Management and Board of Directors*").

The Company has access to a scalable platform with strong cash flow generation and high operating leverage

Pro forma consolidated revenue in the first half of 2016 amounted to €338,484 thousand. In the year ended 31 December 2015, the Company generated pro forma consolidated revenue of €691,039 thousand.

Telxius' highly scalable platform and balanced fixed cost base in relation to variable costs provide the Company with significant operating leverage to propel future growth. In this regard, operating leverage is propelled by the limited additional operating cost requirements of Telxius. As mentioned, operating leverage benefits from Telxius' scalable network, which is currently capable of providing additional capacity in the Cable Segment and allows for new tenants across its Towers Segment portfolio.

Telxius has shown high levels of profitability and a strong cash flow generation. In this regard, pro forma Recurrent Operating Cash Flow (defined as OIBDA minus Recurrent Capex) to OIBDA ratio amounted to 94% as of 30 June 2016 and to 76% as of 31 December 2015 (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Management performance measures*").

Furthermore, the Company's views towards capital structure are expected to maintain its healthy financial flexibility to carry out a disciplined capital allocation policy allowing for shareholder remuneration and disciplined opportunistic mergers and acquisitions.

Telxius has the advantage of being a young and new company, whilst at the same time having an experienced management team

The Reorganisation whereby Telxius acquired its current portfolio of assets took place during the first half of 2016 and thus, the Company is a young and new organisation with no legacy. Notwithstanding the above, Telxius' Tier-1 submarine cable network and tower portfolio gained operational credentials and strong industry know-how within the Telefónica Group, as evidenced in the Cable Segment by the low churn rate of its diversified customer base (see "*—The revenues of the Company are highly visible and supported by long-term contractual relationships with blue chip clients as well as Telefónica*" above).

The combination of organisational youth with a long operation track record and an experienced management team makes Telxius a lean, fast-decision-making organisation.

Telxius will be managed by an empowered and highly committed team that will implement and supervise optimised business processes, while focusing on creating value through growth and ensuring the continuity of a high cash generation business model with a disciplined approach towards new businesses and investment opportunities.

Strategy

Telxius has a well-defined strategy to deliver profitable growth. The Company pursues sustained value-creating growth by leveraging its current platform, developing new infrastructures (including developing new submarine cable extensions or deploying new mobile telecommunications towers under built-to-suit programmes) and, potentially, acquiring additional infrastructure telecom assets.

Within the Cable Segment, the Company expects growing contribution by third parties and, mainly from 2018 onwards, new cables to positively impact revenues. Within the Tower Segment, the Company expects growth to be generated mainly by increasing the tenancy ratios and by build-to-suit opportunities, the latter mainly in Latin America (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Expected Evolution*").

Telxius plans to increase the returns from its current platform

Telxius' structure following the Reorganisation has allowed it to focus on the maximisation of returns from its portfolio and on an efficient usage of its state-of-the-art infrastructure assets.

The Company's scalable infrastructure telecommunications network will further allow Telxius to increase the revenues from its current platform. In this sense, Telxius develops an effective marketing approach with the aim to increasing IP and Capacity revenues in the Cable Segment and increasing its tenancy ratio in the Tower Segment across all the geographies. By way of example, the SAM-1's current capacity in use is 4.3 Tbps, whereas the potential capacity of this cable totals 19.2 Tbps. In the Tower Segment, Telxius has room to increase the number of tenants per tower since its current average co-tenancy ratio only amount to 1.28.

Furthermore, Telxius seeks to improve business efficiencies by continuously seeking alternative to reduce its cost base.

The Company intends to develop new cables and towers to serve development of its clients and lead traffic growth

An important part of Telxius' strategy consists of developing and complementing its current submarine cable and telecommunications towers network.

Telxius is active in looking for opportunities to deploy new cables across Europe and the Americas, thus capturing the traffic data growth expected for the following years in those regions. Some of these investments are already underway. In this regard, the Company signed in the first quarter of 2016 a turnkey agreement with Alcatel-Lucent to deploy a 10,700 km submarine cable system (BRUSA) linking Brazil and Puerto Rico to the United States. Additional projects in early phases are the construction of a 6,600 km submarine cable named Marea that will link Virginia Beach (the United States) to Bilbao (Spain), and the extension of the SAM-1 to the Dominican Republic.

Regarding the Tower Segment, the Company plans to build towers in selective locations in Europe and Latin America to render co-location services to Telefónica and unrelated parties. In particular, Telxius may act on a build-to-suit basis, therefore ensuring a stable revenue base for the towers to be constructed.

Telxius may carry out selective acquisitions

Telxius may consider exploring potential acquisitions of assets from Telefónica Group and third parties. In this regard, the Company expects to focus on purchases related to its core initial business (i.e. cable and tower infrastructures), but it may also take into account acquisitions of other adjacent assets.

In the Tower Segment, towers currently owned by the Telefónica could be acquired by Telxius on an arm's length basis in the upcoming years, thus providing a potential pipeline of potential future acquisitions for the Company.

Likewise, Telxius' financial flexibility and scalable cost structure could enable the Company to carry out disciplined opportunistic mergers and acquisitions from third parties to leverage sector consolidation and increase returns.

Environmental

Telxius considers that in the context of its operations it substantially complies with applicable environmental and health regulations. For the six-month period ended 30 June 2016, Telxius did not account for any provision to address potential environmental risks since the Company considered that there were no significant contingencies associated with potential lawsuits, indemnities or other concepts.

It is Telxius' policy to dedicate its attention to activities related to the protection and enhancement of the environment. In this regard, each of its subsidiaries adopts the necessary actions to minimise the environmental impact of its infrastructure and telecommunications network managed in order to achieve the maximum possible level of integration with the environment.

Telxius seeks to continuously improve the environmental management processes of its activities and facilities.

The Company has materially complied with the legal requirements regarding environmental licensing in its projects, including in Puerto Rico as the cable route crossed a mesophotic coral ecosystem. A mitigation and monitoring study was implemented in order to obtain the permits and to avoid or mitigate any material adverse impact against the ecosystems. The cost of such study made during the cable installation phase was US$ 300,000 per each system that landed in San Juan (SAM-1 and PCCS). Also, there is an estimated cost of US$ 227,000 for mandatory monitoring activities during the first three years after the installation of each cable system.

Telxius considers that the potential contingencies, indemnities and other environmental risks associated with its activities are adequately covered by its civil liability insurance policies.

Employees

As at 31 August 2016, the Group had a total of 236 employees, of which 37 are headquarters and 199 are employees related to business.

Regarding headquarters, 15 were of the finance department, five of the legal department, four of the CEO and corporate development, 10 in general services and administration and three of the internal audit department.

Regarding employees related to business, 131 were in the Cable Segment, 31 in the Tower Segment in Spain, three in the Tower Segment in Germany and 34 in the Tower Segment in Latin America, of which 26 were in Brazil, one in Chile and seven in Peru. As at 31 August 2016, c. 72% of its workforce was male and c. 28% was female.

Furthermore, in terms of experience, 17% of Telxius' employees had less than 10 years of experience, 41% of Telxius' employees had an experience between 10 and 20 years, and 42% of Telxius' employees had more than 20 years of experience. Regarding experience within

Telefónica Group, 48% of Telxius' employees had been less than 10 years within Telefónica Group, 33% of Telxius' employees had been between 10 and 20 years within Telefónica Group and 19% of Telxius' employees had been more than 20 years within Telefónica Group.

As at 31 August 2016, the Company is a party to one collective labour agreement affecting 15.68% of the total employees of the Company, 7.63% of which are based in Spain and 8.05% in Brazil.

Some of the employees of the Company benefit from the "Performance and Investment Plan" and from the"Global Employee Share Plan" of Telefónica, which are described in section "*Management and Board of Directors*". There are no other shares plans in which Telxius' employees participate.

Insurance

The Company maintains insurance coverage for property damage, employer liability, and public and private liability at levels which are customary in such industry. Telxius also maintains other types of insurance that are typical in its industries at customary levels, such as environmental and pollution, cyber-risks or electronic equipment. Its insurance policies are subject to customary deductibles and exclusions. See section "*Risk Factors—Risk Related to the Company's Operations and the Business where It Operates—the Company's infrastructure may be affected by natural disasters*".

For the year 2016, the total amount insured is €3,501,915 thousand and the estimated net premium amounts to approximately €848 thousand (€455 thousand for the six-month period ended 30 June 2016).

Investigation, Research and development

As part of its business, Telxius is committed to investing in research and development. These activities are focused on creating and evolving solutions demanded by the market in order to improve its operations efficiency.

Since the date Telxius started its operations it has not recognised any expenses for investigation, research and development activities.

Legal Proceedings

At any given time, the Company may be a party to litigation or subject to non-litigated claims arising out of the normal operations of its business.

In 2016 the States of Rio de Janeiro and Bahia initiated proceedings against Telefonica International Wholesale Services Brasil Ltda. -currently in the process of changing its corporate name to Telxius Cable Brasil Ltda.- related to the payment of indirect taxes on communications (ICMS) for different fiscal years. The aggregate amount claimed in those proceedings as of 30 June 2016 was approximately €24,478 thousand. None of these proceedings has been reported as probable by TIWS Brasil Ltda's respective legal counsels, and therefore no provision has been recorded.

If these legal proceedings are not resolved in favour of the Company, it may have a material adverse effect on its business, results or operations, financial condition and cash flows.

Other than the proceeding mentioned in the paragraphs above, there are no governmental, legal or arbitration proceedings, whether initiated or pending or threatened, in which the Company is involved and which may reasonably have, or have had in the recent past, a material effect on the Group's financial position or profitability.

MATERIAL CONTRACTS

The following is a summary of the main terms of all those contracts to which the Company and certain of its subsidiaries are a party and which are considered material for the purposes of this document.

CableCo Master Commercial Agreement (Cable MCA)

On 31 March 2016, Telefónica (as service recipient) and TIWS América, S.A. (the "**Service Provider**") entered into the Master Commercial Agreement, by virtue of the addendum entered into between the parties on the 31 March 2016 (as amended, the "**Cable MCA**"), to govern the provision of IP transit services by the Service Provider, directly or through its affiliates, to other companies within the Telefónica Group (each of them, a "**Client**" under the Cable MCA), the main terms and conditions of which are summarised below.

Telxius' pro forma Backlog as of 1 January 2016 resulting from the Cable MCA amounted to approximately €803.6 million.

Scope and structure

The Cable MCA is a master agreement under which the Service Provider shall provide IP transit telecommunication services to the Clients (the "**Services**").

The Services will meet a number of specific features, such as international network and global routes (with PoPs across the Americas and Europe assuring international coverage), optimised routes (providing the shortest Autonomous System path), route reliability (with a choice of several routes to reach the final destination), multi-homing service (for customers who wish to maintain connections with other providers simultaneously) and high speed due to MPLS and high capacity links).

Initially, the Service Provider shall render the Services to the companies within the Telefónica Group located in Guatemala, Panamá, Costa Rica, El Salvador, Nicaragua, Mexico, Peru, Ecuador, Uruguay, Colombia, Chile, Argentina, Brazil, and Spain (the "**Initial OBs**"), if they confirm their wish to receive Services from the Service Provider by means of a letter including the specific conditions applying to the provision of such Services, including price, volume, number of interconnection points and special technical features (each a "**Confirmation Letter**"). As at the date of this Prospectus, all of the relevant Confirmation Letters have been received.

Likewise, the Service Provider shall provide Services to other companies which may be included in the Telefónica Group in the future provided that said companies execute an accession agreement to the Cable MCA (the "**Accession Agreement**") which set forth the specific conditions applicable to the Services, which in no case shall be less favourable than those applied to other companies within the Telefónica Group with similar needs.

Upon execution of the relevant Confirmation Letter or Accession Agreement, as applicable, a direct and separate relationship between the Service Provider and the Client concerning the provision of the Services (each of them a "**CableCo Contract**") shall exist.

Coordination and monitoring of the performance of the Cable MCA and Confirmation Letters and the Accession Agreements shall be vested with a monitoring committee (*comité de seguimiento*) which shall monitor compliance thereof in every country and shall settle any disputes submitted to it (the "**Monitoring Committee**"). The Monitoring Committee shall consist of eight members appointed in equal number by Telefónica and the Services Provider.

If the Monitoring Committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the Telefónica's Group Chief Technology Officer and the Operations Manager of Telxius, so that they come to an agreement within 10 days. In the absence of such agreement, the dispute shall be submitted to Telefónica's Chief Operations Officer and to Telxius' Chief Executive Officer, who shall be also allowed a 10 day term to reach an agreement.

Duration and early termination

Without prejudice to the signing date of the Cable MCA, it shall have retroactive effect from 1 January 2016. The Service Provider shall provide the Services to the Client for an initial five-year term (the "**Initial Term**"). Thereafter, the Cable MCA shall be automatically renewed for a three-year term (the "**Extended Term**"), provided that the Service Provider and the Client agree on the prices to be applied during such three-year term. For such purposes, the parties shall commence to negotiate within the Monitoring Committee nine months prior to the end of the Initial Term.

A CableCo Contract may be terminated prior to the end of the Initial Term on the basis of a material contractual breach by the Client or by the Service Provider (provided that the breach has been reported to the Monitoring Committee and the procedures set forth in the Cable MCA have been followed) or in the event of cessation in the commercial activity, administrative sanction or material change in the financial situation affecting the other party to the relevant CableCo Contract. Under any of these scenarios, the Client shall be subject to payment of any obligations accrued up to the termination date.

Additionally, a Client may terminate a CableCo Contract if a competitor of Telefónica acquires control directly or indirectly over the Service Provider by giving 30 days' prior notice.

Finally, a Client may terminate a CableCo Contract at any time at its discretion, in which case said Client shall be obliged to pay the Services Provider a compensation equal to the outstanding amounts to be received by the Services Provider until the end of the Initial Term or the Extended Term, as applicable.

The termination of a CableCo Contract would not lead to the termination of the Cable MCA or any other CableCo Contract.

Fees

The fees to be paid by the Client are based on a fixed annual amount (the franchise) of traffic transmitted through the Service Provider's network during the relevant year, and any excess of traffic shall be paid additionally.

Traffic not used may be compensated the following year (in the following 18 months in the case of Brazil), but may not be accumulated in subsequent years.

Other relevant terms and conditions

Preferred supplier provision in favour of the Service Provider: The Clients shall hire the Service Provider for the provision of wholesale connectivity services in preference to any third parties.

Service Level Agreements: By virtue of the CableCo Contracts, the Service Provider undertakes to meet a number of service level requirements related to speed in the network, availability of the network, loss of sets of data, delivery of notices to the Client in the event of lack of availability of the Service and backbone capacity.

If the Service Provider fails to meet the abovementioned service level agreements, the Client shall be entitled to receive the Services free of charge for a certain number of days.

Effects of a Change of Control: As explained above, a Client may early terminate a CableCo Contract if a competitor of Telefónica acquires control (as defined in the agreement) directly or indirectly over Telxius by giving 30 days' prior notice. Likewise, a Service Provider may early terminate a CableCo Contract if any third party acquires control directly or indirectly over Telefónica.

Master Commercial Agreement with Telefónica Germany GmbH & Co. OHG

In the case of Germany, where specific conditions that are not common to other companies within the Telefónica Group are found, on 30 May 2016 the Service Provider and Telefónica Germany GmbH & Co. OHG signed a bilateral master commercial agreement for the provision of IP transit services (the "**MCA for Germany**").

The main terms and conditions of the MCA for Germany are substantially similar to those provided for in the Cable MCA.

As an exception, the MCA for Germany does not provide for a preference right in favour of the Service Provider.

As regards the term of duration and the grounds for early termination, without prejudice to the signing date of the MCA for Germany, it shall have retroactive effect from 1 January 2016. The Service Provider shall provide the Services to Telefónica Germany GmbH & Co for an initial five-year term. Thereafter, the MCA for Germany shall be automatically renewed on a year per year basis, unless any of the parties to the MCA for Germany gives notice of its intention to terminate it six months in advance to the expiry of the initial term or any renewal term.

The MCA for Germany may be early terminated on the basis of the same grounds provided for under the Cable MCA.

Effects of a Change of Control: Telefónica Germany GmbH & Co may terminate the MCA for Germany if a competitor of Telefónica acquires control (as defined in the agreement) directly or indirectly over the Service Provider by giving 30 days' prior notice. Likewise, a Service Provider may early terminate the MCA for Germany if any third party acquires control directly or indirectly over Telefónica Germany GmbH & Co.

Cable Outsourcing Agreements

Effective as of 1 April 2016, Telefónica International Wholesale Services, S.L. Unipersonal (as service provider) (the “**Outsourcing Supplier**”) and Telefónica International Wholesale Services America, S.A. (in process of registration of its new legal name to Telxius Cable América, S.A., the “**Outsourcing Customer**”) (as service recipient) entered into a set of four service agreements under which the former shall provide to the Group services connected to the Company’s Cable Segment, including support to the selling workforce, professional technical services in support of the Company’s business, infrastructure support services necessary for the Company to expand and support its own infrastructure and temporary professional services, as follows:

1. *Marketing Outsourcing Agreement*

Scope and structure

Pursuant to the Marketing Outsourcing Agreement, the Outsourcing Supplier shall promote the commercialization of the Outsourcing Customer’s products on a non-exclusive basis through the Outsourcing Supplier’s distribution networks.

From the signing date of the Marketing Outsourcing Agreement (28 July 2016), the Outsourcing Customer shall be entitled to request the direct management of wholesale customers initially assigned to the Outsourcing Supplier.

Coordination and monitoring of the performance of the Marketing Outsourcing Agreement shall be vested with a monitoring committee (*comité de seguimiento*) which shall monitor compliance thereof and shall settle any disputes submitted to it. This monitoring committee shall consist of four members appointed in equal number by the Outsourcing Supplier and the Outsourcing Customer.

If the abovementioned monitoring committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the Chief Executive Officer of the Outsourcing Supplier and the Chief Operation Officer of the Cable Segment of the Outsourcing Customer, so that they come to an agreement within 10 business days. In the absence of such agreement, the dispute shall be submitted to Telefónica Business Solutions’ Chairman and to the Chief Executive Officer of Telxius’ parent company, who shall be also allowed a 10 business day term to reach an agreement.

In addition to the above, the following committees shall exist:

- The Offers and Prices Committee, which shall take care of the analysis of the commercial policy, the approval of the significant offers and the analysis of the responses of the companies within the Telefónica Group in connection with prices, market evolution, business opportunities, etc. and shall meet once a month.

- The Commercial Planning and Support Committee, which shall take care of the review of the annual budget and any amendments thereto and shall meet at the request of any of the support areas.

Each of the Offers and Prices Committee and the Commercial Planning and Support Committee shall be made of four members appointed in equal number by the Outsourcing Supplier and the Outsourcing Customer.

Duration and early termination

The Marketing Outsourcing Agreement is effective from 1 April 2016. The Outsourcing Supplier shall deliver the services to the Outsourcing Customer for an initial term up to 31 December 2017 (the "**Initial Term of the Marketing Outsourcing Agreement**"). Thereafter, the Marketing Outsourcing Agreement shall be automatically renewed for three consecutive periods of one year each up to 31 December 2020(the "**Final Term of the Marketing Outsourcing Agreement**"), unless any party gives six month prior notice of its intention to terminate the Marketing Outsourcing Agreement, provided that such termination shall not be effective before 31 December 2017.

In case the Outsourcing Customer decides either not to extend the Marketing Outsourcing Agreement beyond the Initial Term of the Marketing Outsourcing Agreement or to voluntary terminate it once the Initial Term of the Marketing Outsourcing Agreement has elapsed but before the end of the Final Term of the Marketing Outsourcing Agreement, the Outsourcing Customer will assume (i) the Outsourcing Supplier's resources direct and exclusively devoted to the provision of the services; and (ii) any asset acquired by the Outsourcing Supplier, if any, to deliver the services requested by the Company, at its net asset value.

In addition to that, the Marketing Outsourcing Agreement may be terminated at any time on the basis of a certain contractual breaches by either party or if a party suffers a change of control, provided that the party acquiring control over the relevant party is a competitor.

Fees

The fees of the Outsourcing Supplier for 2016 are based on a percentage of the cashed-in sales of the Cable Segment under the Marketing Outsourcing Agreement. The fees for 2017 and beyond to be agreed between the parties.

Effects of a Change of Control

As explained above, Telxius may early terminate the Marketing Outsourcing Agreement if a competitor in the telcommunications business acquires control (as defined in the agreement), directly or indirectly, over the Telefónica Group Company. Likewise, the Telefónica Group Company may early terminate the Marketing Outsourcing Agreement if a competitor in the telcommunications business acquires control, directly or indirectly, over Telxius.

2. Professional Services Outsourcing Agreement

Scope and structure

Pursuant to the Professional Services Outsourcing Agreement, the Outsourcing Customer engages on an exclusive basis the Outsourcing Supplier for the provision of certain services needed in order to allow Telxius to extend and give support to its network, including the following specific services:

- Technology, Planning and deployment of IP network, which respectively consist on (i) defining the technological strategy and the detailed technic design of the international network, (ii) designing the backbone in order to guarantee that the network has the necessary capacities and planning its extension in accordance with the demands of Telxius' clients and (iii) managing and implementing projects for extending and adapting the IP and capacity networks in order to allow compliance with the requirements as regards terms, cost and availability of the network resources required in connection with each project.

- Infrastructure engineering, which consists of efficiently searching, analysing, contracting, executing and managing the backbone in order to provide co-location, electric power and out-of-band remote access for management, as well as the support services needed for meeting Telxius' demands.

- Network operation of IP & capacity, which consists of supervising and managing the IP and TX infrastructure and the DDoS Shield, managing the offnet capacity and the Tier-1 network and providing technical support and dynamic managing of the traffic.

- Quality, processes and certifications.

Coordination and monitoring of the performance of the Professional Services Outsourcing Agreement shall be vested with a monitoring committee (*comité de seguimiento*) which shall monitor compliance thereof and shall settle any disputes submitted to it. This monitoring committee shall consist of four members appointed in equal number by the Outsourcing Supplier and the Outsourcing Customer.

If the abovementioned monitoring committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the B2B Operations Manager of Telefónica Business Solutions and the Chief Executive Officer of the Outsourcing Customer, so that they come to an agreement within 10 business days. In the absence of such agreement, the dispute shall be submitted to Telefónica Business Solutions' Chairman and to the Chief Executive Officer of Telxius' parent company, who shall be also allowed a 10 business day term to reach an agreement.

Duration and early termination

The Professional Services Outsourcing Agreement is effective from 1 April 2016. The Outsourcing Supplier shall deliver the services to the Outsourcing Customer for an initial term up to 31 December 2017 (the "**Initial Term of the Professional Services Outsourcing Agreement**"). Thereafter, the Professional Services Outsourcing Agreement shall be automatically renewed for additional one year terms until 31 December 2020 (the "**Final Term of the Professional Services Outsourcing Agreement"**), unless any party gives six month prior notice of its intention to terminate the Professional Services Outsourcing Agreement provided that such termination shall not be effective before 31 December 2017.

In case the Outsourcing Customer has decided either not to extend the Professional Services Outsourcing Agreement beyond the Initial Term of the Professional Services Outsourcing Agreement or to voluntary terminate it once the Initial Term of the Professional Services Outsourcing Agreement has elapsed but before the end of the Final Term of the Professional Services Outsourcing Agreement, the Outsourcing Customer will assume (i) the Outsourcing Supplier's resources direct and exclusively devoted to the provision of the services; and (ii) any asset acquired by the Outsourcing Supplier, if any, to deliver the services requested by the Company, at its net asset value.

In addition to that, the Professional Services Outsourcing Agreement may be terminated at any time on the basis of certain contractual breaches by either party or if a party suffers a change of control, provided that the party acquiring control over the relevant party is a competitor.

Fees

The fees of the Outsourcing Supplier are based on an annual flat fee set forth in the Professional Services Outsourcing Agreement, which shall be adjusted upon agreement between the parties by 31 December 2016, on the basis of the services actually provided bt the Outsourcing Supplier. Such fee shall be applicable not only to 2016 but to 2017 and beyond, to the extend the scope of the services is not altered.

Effects of a Change of Control

As explained above, Telxius may early terminate the Professional Services Outsourcing Agreement if a competitor in the telcommunications business acquires control (as defined in the agreement), directly or indirectly, over the Telefónica Group Company. Likewise, the Telefónica Group Company may early terminate the Professional Services Outsourcing Agreement if a competitor in the telcommunications business acquires control, directly or indirectly, over Telxius.

3. *Infrastructure Extension Outsourcing Agreement*

Scope and structure

Pursuant to the Infrastructure Extension Outsourcing Agreement, the Outsourcing Customer engages on an exclusive basis the Outsourcing Supplier for the provision of certain services needed in order to allow Telxius to extend and give support to its network, including the following specific services:

- Housing services, consisting in the hosting and operation of certain Outsourcing Customer's hardware placed on Outsourcing Supplier data centres.

- IP network maintenance and Anti-Distributed Denial of Service (DDoS) attacks equipment maintenance.

- Information Technology Operation Support Service and Business Support System services, required to support the business of the Outsourcing Customer.

Coordination and monitoring of the performance of the Infrastructure Extension Outsourcing Agreement shall be vested with a monitoring committee (*comité de seguimiento*) which shall monitor compliance thereof and shall settle any disputes submitted to it. This monitoring committee shall consist of four members appointed in equal number by the Outsourcing Supplier and the Outsourcing Customer.

If the abovementioned monitoring committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the B2B Operations Manager of Telefónica Business Solutions and the Chief Executive Officer of the Outsourcing Customer, so that they come to an agreement within business 10 days. In the absence of such agreement, the dispute shall be submitted to Telefónica Business Solutions' Chairman and to the Chief Executive Officer of Telxius' parent company, who shall be also allowed a 10 business day term to reach an agreement.

Duration and early termination

The Infrastructure Extension Outsourcing Agreement is effective from 1 April 2016. The Outsourcing Supplier shall deliver the services to the Outsourcing Customer for an initial term up to 31 December 2017 (the "**Initial Term of the Infrastructure Extension Outsourcing Agreement**"). Thereafter, the Infrastructure Extension Outsourcing Agreement shall be automatically renewed for additional one year terms until 31 December 2020 (the "**Final Term of the Infrastructure Extension Outsourcing Agreement"**), unless any party gives six month prior notice of its intention to terminate the Infrastructure Extension Outsourcing Agreement provided that such termination shall not be effective before 31 December 2017.

In case the Outsourcing Customer decides either not to extend the Infrastructure Extension Outsourcing Agreement beyond the Initial Term of the Infrastructure Extension Outsourcing Agreement or to voluntary terminate it once the Initial Term of the Infrastructure Extension Outsourcing Agreement has elapsed but before the end of the Final Term of the Infrastructure Extension Outsourcing Agreement, the Outsourcing Customer will assume (i) the Outsourcing Supplier's resources direct and exclusively devoted to the provision of the services; and (ii) any asset acquired by the Outsourcing Supplier, if any, to deliver the services requested by the Company, at its net asset value.

In addition to that, the Infrastructure Extension Outsourcing Agreement may be terminated at any time on the basis of a certain contractual breaches by either party or if a party suffers a change of control, provided that the party acquiring control over the relevant party is a competitor.

Fees

The fees of the Outsourcing Supplier are based on an annual flat fee.

Effects of a Change of Control

As explained above, Telxius may early terminate the Infrastructure Extension Outsourcing Agreement if a competitor in the telecommunications business acquires control (as defined in the agreement), directly or indirectly, over the Telefónica Group Company. Likewise, the Telefónica Group Company may early terminate the Infrastructure Extension Outsourcing Agreement if a competitor in the telecommunications business acquires control, directly or indirectly, over Telxius.

4. Defined Technical Services Outsourcing Agreement

Scope and structure

Pursuant to the Defined Technical Services Outsourcing Agreement, the Outsourcing Customer engages on an exclusive basis the Outsourcing Supplier for the provision of services and/or "turn-key" projects defined on an annual basis as agreed between the Outsourcing Customer and the Outsourcing Supplier.

For the first period of the Defined Technical Services Outsourcing Agreement, i.e. up to 31 December 2017, the Outsourcing Supplier shall provide technical services such as engineering, support and maintenance services and Internet transit, Virtual NAP or Housing Colocation focussed to improve Outsourcing Customer's services. During the Initial Term of the Defined

Technical Services Outsourcing Agreement (as defined below) the Outsourcing Supplier will continue to provide engineering, support and maintenance services while other recurrent temporary services and/or "turn-key" projects and the associated fees for the rest of the agreement term will be agreed between the parties within the six months preceding the commencement of the next calendar year.

Coordination and monitoring of the performance of the Defined Technical Services Outsourcing Agreement shall be vested with a monitoring committee (*comité de seguimiento*) which shall monitor compliance thereof and shall settle any disputes submitted to it. This monitoring committee shall consist of four members appointed in equal number by the Outsourcing Supplier and the Outsourcing Customer

If the abovementioned monitoring committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the B2B Products Manager of Telefónica Business Solutions and the Chief Executive Officer of the Outsourcing Customer, so that they come to an agreement within business 10 days. In the absence of such agreement, the dispute shall be submitted to Telefónica Business Solutions' Chairman and to the Chief Executive Officer of Telxius' parent company, who shall be also allowed a 10 business day term to reach an agreement.

Duration and early termination

The Defined Technical Services Outsourcing Agreement is effective from 1 April 2016. The Outsourcing Supplier shall deliver the services to the Company for an initial term up to 31 December 2017 (the "**Initial Term of the Defined Services Outsourcing Agreement**"). Thereafter, the Defined Technical Services Outsourcing Agreement shall be automatically renewed for additional one year terms until 31 December 2020, unless any party gives six month prior notice of its intention to terminate the Defined Technical Services Outsourcing Agreement, provided that such termination shall not be effective before 31 December 2017.

In case the Outsourcing Customer decides either to not extend the Defined Technical Services Outsourcing Agreement beyond the Initial Term of the Defined Services Outsourcing Agreement or to voluntary terminate it between once the Initial Term of the Defined Services Outsourcing Agreement has elapsed by before the end of the Final Term of the Defined Services Outsourcing Agreement, the Outsourcing Customer will assume the resources and assets devoted to the delivery of the services by the supplier and the assets acquired by the Outsourcing Supplier, if any, to deliver the services as requested by the Company at its net asset value.

In addition to that, the Defined Technical Services Outsourcing Agreement may be terminated at any time based on a certain contractual breaches by either party or if a party suffers a change of control, provided that the party acquiring control over the relevant party is a competitor.

Fees

The fees of the Outsourcing Supplier under the Defined Services Outsourcing Agreement for the period from 1 April up to 31 December 2016 will be a flat fee. For 2017 will be a flat fee for recurrent services and an additional fee related to the projects agreed. For 2018 and beyond will be mutually agreed depending on the project and recurrent services requested by the Outsourcing Customer.

Effects of a Change of Control

As explained above, Telxius may early terminate the Defined Technical Services Outsourcing Agreement if a competitor in the telecommunications business acquires control (as defined in the agreement), directly or indirectly, over the Telefónica Group Company. Likewise, the Telefónica Group Company may early terminate the Defined Technical Services Outsourcing Agreement if a competitor in the telecommunications business acquires control, directly or indirectly, over Telxius.

IP Nodes Agreement

On 28 July 2016, Telefónica, Telxius (in its own name and in name of Telxius Cable América, S.A.) and Telefónica International Wholesale Services, S.L. entered into an agreement relating to Telxius' IP Nodes devoted to the provision of services to the Telefónica Group (the "**IP Nodes Agreement**"), the main terms and conditions of which are summarised below.

Scope and structure

The IP Nodes Agreement sets forth a number of provisions regarding (i) the adoption of decisions as regards the IP Nodes and the marketing of the IP Nodes' capacity; (ii) the execution and performance of the Professional Services Outsourcing Agreement, the Infrastructure Extension Outsourcing Agreement and the Defined Services Outsourcing Agreement; (iii) the provision of Capacity services to the Telefónica Group by Telxius in the event that a change of control occurs in Telxius; (iv) the IP Nodes Purchase Option (as defined below); (v) the right of first refusal granted in favour of Telefónica over the IP Nodes and (vi) the license enabling the Company to use the Autonomous System Number 12956 owned by Telefónica International Wholesale Services, S.L. and the associated IPv4 and IPv6 addresses (the "**ASN**").

Adoption of decisions as regards the IP Nodes and marketing of the IP Nodes' capacity: Telefónica shall make the following decisions in connection with the IP Nodes, given that such decisions could affect the network of the Telefónica Group:

- planning of the sizing and development of the IP Nodes;
- location, technology and design of the hardware and software linked to the IP Nodes;
- deployment of the infrastructure of the IP Nodes;
- definition of the features securing quality of the network; and
- scope and terms of the maintenance, upgrade and similar contracts referred to the IP Nodes.

The abovementioned decisions shall be recorded and developed in technical plans to be produced by Telefónica International Wholesale Services, S.L. during the duration of the Cable Outsourcing Agreements, or by any other company under Telefónica's control following termination of the Cable Outsourcing Agreements.

Telefónica and Telxius shall agree on the consideration to be received by Telxius as a result of changes in design intended to improve infrastructures' redundancy and to reduce risks, other than changes provided for in the Cable MCA and/or the CableCo Contracts or the MCA for

Germany.

Additionally, on an annual basis, before 1 July, Telefónica shall notify Telxius in writing about the IP Nodes' capacity that the Telefónica Group will use during the following year, as well as a reasonable estimate of the amount of capacity it will use during the following years. Telxius shall not refuse to make available the capacity requested by Telefónica, unless the relevant entity within the Telefónica Group fails to duly sign an addendum to the applicable CableCo Contract, as may be required, or Telefónica's requirements are not reasonable or feasible from a technical point of view.

Telxius shall be entitled to implement its own planning, or third parties' planning, as well as to sell capacity to third parties, provided that said planning and sales shall only affect the idle capacity of the IP Nodes, and shall not interfere the use of the IP Nodes by the Telefónica Group, and Telxius shall rely on any measures needed for mitigating any risk which may affect the normal operation of the network of the Telefónica Group. Likewise, if an incident affecting the IP Nodes or the terrestrial or submarine systems occurs, Telxius will give priority to Telefónica's traffic.

Provision of Capacity services to the Telefónica Group by Telxius in the event that a change of control occurs in Telxius: If a change of control occurs in Telxius, then Telefónica International Wholesale Services, S.L. may commence providing IP services to the Clients under the Cable MCA or a similar agreement similar to the Cable MCA (the "**Capacity Transfer**"). In this event, the Company shall provide to Telefónica International Wholesale Services, S.L. (which shall acquire from Telxius) Capacity and use of infrastructure services, so that the former may provide the abovementioned IP services. The terms and conditions applicable to the provision of Capacity services by Telxius until the outstanding term of the Cable MCA shall be based on the consideration provided for in the Cable MCA minus certain costs that Telxius would cease to incur so that the cash flow to be received by Telxius would not be affected. Likewise, unless otherwise agreed by the parties, the Capacity Transfer shall result in the termination of the Cable Outsourcing Agreements.

Purchase option in favour of Telefónica and Provision of Capacity services to the Telefónica Group in the event of execution of the IP Nodes Purchase Option: Telefónica shall have an option to purchase the IP Nodes in the event that a change of control occurs in Telxius (the "**IP Nodes Purchase Option**").

The IP Nodes Purchase Option shall be exercised within six months from the date on which a party notifies a change of control has occurred. Telefónica shall take any decisions related to the IP Nodesfrom the date on which it exercises the IP Nodes Purchase Option until the date on which the transfer of the IP Nodes in favour of Telefónica is completed.

The strike price shall be equal to the net book value of the IP Nodes, including any extensions and improvements, as recorded in the last available monthly balance sheet.

Right of first refusal granted in favour of Telefónica over the IP Nodes: Telxius shall not sell the IP Nodes to third parties without the prior express authorisation of Telefónica, who shall have a right of first refusal of the IP Nodes. Telefónica shall exercise its right of first refusal over the IP Nodes within 24 months from the date of which Telxius communicates its intention to sell such IP Nodes. In such event the acquisition price of the IP Nodes would be the net asset value of the IP Nodes.

For the purposes of the IP Nodes Agreement, "Change of Control" in Telxius shall be deemed to occur if:

(i) Telefónica ceases to be the larger shareholder in Telxius; or

(ii) Telefónica's participation in the share capital of Telxius falls below 30%; or

(iii) After any of the circumstances in (i) or (ii) above without Telefónica having triggered its rights as a consequence of a "Change of Control", Telefónica ceases to control the management of Telxius or ceases to exert a significant influence over Telxius.

*License for use of the Autonomous System number ("**ASN**")*: Telefónica International Wholesale Services, S.L. grants to Telxius the right to use the ASN.

The licence for use of the ASN is granted on a free and temporal basis (for the term of duration of the IP Nodes Agreement), and Telxius cannot sub-assign the license outside of the Group.

Duration and early termination

The IP Nodes Agreement shall be in force for an indefinite term and shall be enforceable until the date on which the Transition Plan (as defined below) ends.

The Transition Plan: In case the Capacity Transfer occurs, in order to facilitate the transition of the Company's services to a new Autonomous System number ("**ASN**") and new IP addresses owned by the Company, Telefonica, Telefónica International Wholesale Services, S.L. and Telxius shall agree within four months (the "**Transition Plan**"):

- on a transition plan contemplating the orderly transfer of the services provided by Telxius under the CableCo MCA to be agreed on good faith in a plan to be executed within 24 months after the four months period above referred; and
- a transition plan for the orderly transfer of the services to a new ASN and IP addresses (the "**ASN Migration Plan**"). The license for use of the ASN shall definitely expire 24 months following the end of the ASN Migration Plan, unless an extension term is agreed. In the meantime, the licence for use of the ASN shall remain in force.

Other relevant terms and conditions

Operation Committee: Monitoring of the relationship between Telefónica and Telxius shall be vested with an operation committee which shall define the procedures enabling compliance with the obligations under the IP Nodes Agreement (the "**Operation Committee**").

If the Operation Committee fails to reach an agreement on the matters submitted to it, the dispute shall be raised to the Chief Executive Officers of Telefónica and Telxius, so that they come to an agreement within 10 days.

Finally, the parties to the IP Node Agreement may request the support of an external independent expert in order to solve any discrepancies.

Effects of a Change of Control: If an event of change of control (as defined in the agreement) over Telxius occurs, it will have the following effects:

i) Telefónica may commence providing IP services to the Clients under the Cable MCA or another agreement similar to the Cable MCA;

ii) Telxius shall provide to the relevant subsidiary of Telefónica (which shall acquire from Telxius) Capacity and use of infrastructure services, so that the former may provide the abovementioned IP services;

iii) Telxius´ right of use over number AS 12956 and over Telefónica Group´s IP addresses will be terminated;

iv) Telefónica shall have an option to purchase the IP Nodes at their net book value;

v) The Cable Outsourcing Agreement may be early terminated; and

vi) The IP Nodes Agreement may be early terminated.

Memorandum of understanding between Telefónica and Telxius dated 9 June 2016

On 9 June 2016, Telefónica de España, S.A.U. and Telxius entered into a non-binding memorandum of understanding in relation to, among other transactions: (i) the transfer to Telxius of the participation held by Telefónica de España, S.A.U. in certain cable consortiums; (ii) the transfer or lease in favour of Telxius of a part of certain landing stations located in Spain (including Sopelana, Conil de la Frontera, Estepona, etc.); (iii) the execution of a long term capacity agreement or similar arrangement on certain land backhauls; and (iv) the operation and maintenance by Telxius of some of the Telefónica de España, S.A.U.'s cable systems.

Tower Master Lease Agreements (Tower MLAs) entered into between Telxius' Group and Telefónica's Group

Certain subsidiary companies (the "**Lessors**" and each of them a "**Lessor**") of Telxius have entered into five master lease agreements ("**Tower MLAs**") with certain subsidiary companies (the "**Lessees**" and each of them a "**Lessee**") of Telefónica, to govern the use by the Lessees of certain spaces within the towers, which form part of different portfolios of towers located in Spain, Germany, Brazil, Chile and Peru, respectively, owned by Telxius (the "**Towers**").

Telxius' estimated pro forma Backlog as of 1 January 2016 resulting from the Tower MLAs amounts to approximately €2,668.3 million.

The Towers were installed in the relevant areas of the abovementioned countries by virtue of different property assignment of use or lease agreements (the "**Ground Leases**") which were originally entered into by the Lessees with third parties and have been assigned by subsidiaries of Telefónica to the Lessors. Therefore, the Lessor of each jurisdiction has stepped into (subrogation) the lessee's position in the Ground Leases.

Common provisions in the Tower MLAs

Scope and structure

By virtue of Tower MLAs, the Lessees leases the following spaces within the Towers (the "**Spaces**") to install (or to keep, in the case of pre-existing equipment) telecommunication equipment in exchange of a rent (the "**Telecommunication Equipment**"):

- Antenna space.
- Technology surfaces.
- Storage surfaces.
- Other wireless infrastructure actually and currently used by Telefónica.

Moreover, the Lessor grants to the Lessee a temporary exclusivity right to use an additional space in the Towers (the "**Reserved Space**") for no extra rent.

Use of the Towers

The Lessee may devote the Spaces within the Towers for the installation, operation and maintenance of Telecommunication Equipment.

Duration, Extension and Termination

Initial term of Tower MLAs is 10 years (save for Germany Tower MLA, which initial term is of 15 years) (the "**Initial Term**"), mandatory for all Parties to the Tower MLA.

Tower MLAs may be extended at Lessee's request for three (in the case of Germany, two additional and successive five-year terms (the "**Extensions**" and each one, an "**Extension**").

Notwithstanding the above, once the three Extensions are elapsed, as the case may be, each lease of a Space in a Tower under the Tower MLAs ("**Individual Agreement**") will deemed to have been extended for an indefinite term and will terminate at any Parties' request with prior notice.

Early termination by Lessee

All Tower MLAs (save in case of Germany Tower MLA, as further explained below) provide that the Lessee may terminate early all or part of the Individual Agreements if any of the following events occur: (i) expiration of Lessee's licenses to render telecommunication services; (ii) material adverse alteration of the environment of the Tower that prevent the proper functioning of the Telecommunication Equipment installed in the Towers affecting the coverage; (iii) material adverse change in the technology or other conditions that make impossible the provision of its telecommunication services by the Lessee; (iv) lack of space to install additional equipment required for Lessee's operation when there is no alternative solution; (v) material adverse change of technical or mandatory regulations; (vi) Lessor's alterations of the Tower's area which hinders the render of services; (vii) Lessor's material breach of the Tower MLA not duly cured. (viii) Change of Control to a competitor of the Lessee. Termination for causes (i) to (vi) will entail the obligation for the Lessee to compensate the Lessor.

Rent

The total price to be paid by the Lessee under the Tower MLA (the "**Price**") is formed by: (i) a fixed amount ("**Space Rent**") for the use of each one of the Towers by the Lessee through monthly instalments (pro rata on a monthly basis of the annual rent), which will be subject to annual indexation (with the exception of the Space Rent to pay under the Germany Tower MLA as of 1 January 2019); and (ii) the same amount that the Lessor is paying under the Ground

Leases, with some maximum limits, and some specialities such as the lack of applicability for Germany towers and the exclusion of the energy cost for the Spanish towers which is charged to Telxius instead.

Pre-emption right and Purchase Option

The Lessee holds a pre-emption right in case of sale of the Towers to a competitor of the Lessee (which is not applicable to the Germany Tower MLA).

Additionally, the Lessee holds a purchase option in case of change of control of the Lessor in favour to a competitor of the Lessee (which is not applicable to the Germany Tower MLA).

Effects of a Change of Control

In case that a competitor of the Lessees acquires Control of the Lessor, the Lessee is entitled to purchase all or part of the leased Towers, at market conditions ("***Change of Control***").

Monitoring committee

A monitoring committee, formed by an even number of top-level manager members appointed by the Lessor and the Lessee, will coordinate and monitor the Tower MLA and shall try to settle any disputes.

Specific provisions in the Tower MLAs

Notwithstanding the above described terms and conditions applicable to the whole Tower MLA's (with the mentioned exceptions), each of the Tower MLAs have some particularities that are summarized below:

Spain tower MLA (Contrato de Coubicación)

(i) *Date*: 18 February 2016

(ii) *Parties*: Telefónica Móviles España, S.A.U. as Lessee and Telxius Torres España, S.L.U. as Lessor.

(iii) *Scope*: In addition to the scope described above, the Lessor undertakes to perform the maintenance of the Towers and to provide the Lessee with certain complementary services (e.g. facilitating the access to energy).

(iv) *Preferred supplier right*: In case that the Lessee needs to install new Telecommunication Equipment in a Tower, (i) the Lessee shall contact and negotiate with the Lessor prior to with any other supplier and (ii) the Lessor has the right to match the terms and conditions offered by a third supplier.

(v) *Effects of a Change of Control:* In case that a competitor of Telefónica acquires control of Telxius (as defined in the agreement), directly or indirectly, the Lessee will have the right to purchase all or part of the leased Towers at that time, at market conditions. In case that a party not belonging to Telefónica Group acquires control of Telxius, directly or indirectly, Telxius will lose its rights as preferred supplier.

Germany tower MLA (Master Agreement for the Leasing of Antenna Space)

(i) *Date*: 20 April 2016 (entered into force with retroactive effects on 1 January 2016).

(ii) *Parties*: (i) Telefónica Germany Vermögensverwaltungsgesellschaft mbH, as Lessor, (ii) Telefónica Germany GmbH & Co. OHG (hereinafter, "Telefónica Germany") and E-Plus Mobilfunk GmbH (hereinafter, "E-Plus") as Lessees and (iii) Telefónica, S.A. and Telxius Telecom, S.A. as guarantors (hereinafter the "Guarantors").

(iii) *Early termination of the Germany Tower MLA*:

- *Early termination by the Lessee*: The Lessees may early terminate the entire Tower MLA in case of expiration of Lessees' rights to provide mobile network services in Germany (if this is caused by an infringement of regulations by Lessees, the Lessees will remain obliged to pay the Price until the end of the then current Initial Term or Extension.

- *Early termination by the Parties:* Either Party may terminate partially the Tower MLA, if (i) the operation or use of any Towers is prohibited by a binding order, or (ii) expiration of required regulatory approvals for the construction or operation of the Towers or the Telecommunication Equipment.

(iv) *First Refusal Right of Lease:* If a third-party is interested in leasing a space in a Tower that becomes vacant (the "Vacant Space") the Lessor shall inform about this circumstance to the Lessees, granting a First Refusal Right of Lease over that third-party for a limited period of time.

(v) *Price*: Price will be increased or reduced in case of (i) change of scope of use (ii) partial termination of the Tower MLA, (iii) retransfer of part of the Tower sites and (iv) leasing of a Vacant Space (as from 1 January 2019).

(vi) *Transfer of Rights and Obligations*: Assignment of rights and obligations under the Tower MLA require other parties' prior consent, save in case of (i) transfer of the rights and obligations to companies affiliated with the Lessor or the Lessee, and (ii) in case of Lessor's Change of Control (or assignment of Towers) to a company within its Group.

Any Change of Control of the Lessor and any sale of all of the Towers made in favour of company which is not of the Lessor's group requires the Lessee's prior written consent (albeit Lessee shall grant its consent provided that the beneficiary of the transaction is not a competitor of the Lessee and its qualifying transferee).

(vii) *Preferred supplier right:* The Lessor's right to a priority negotiation with the Lessee is subject to the Lessor demonstrating that it will be able to provide the Lessee's required spaces. The Lessor has the right to match the terms and conditions offered by a third supplier.

(viii) *Effects of a Change of Control:* If an event of change of control (as defined in the agreement) over the relevant Telxius' subsidiary which owns the towers (excluding a change of control in Telxius) in favour of a competitor of Telefónica or a non-qualified investor occurs, and provided that it has not been waived by Telefónica, it shall have the following effects:

a. The obligation of Telefónica Germany to pay a minimum amount for the lease of the German towers will be no longer in force;

b. Telxius will have to indemnify Telefónica Germany for each of the towers affected by the change of control;

c. Telefónica will have a pre-emption right to acquire the towers transferred to Telxius and affected by the change of control event;

d. Telefónica will have a pre-emption right to acquire part or all of the towers transferred to Telxius and leased at that time to Telefónica at their market price; and

e. In case that a party not belonging to Telefónica Group acquires control of Telxius, Telxius will lose its rights as preferred supplier.

Brazil Tower MLA ("Contrato Marco de Cesión de Uso de Infraestructuras y Otros Acuerdos")

(i) *Date*: 31 March 2016

(ii) *Parties*: Telefónica Brasil, S.A. as Lessee and Towerco Latam Brasil LTDA (currently, Telxius Torres Brasil Ltda) as Lessor.

(iii) *Pre-emption right*: The Lessee holds a pre-emption right in case of sale of the Towers to a competitor of the Lessee ("***Competitor***") or a third-party which is a relevant supplier of the Lessee within the meaning of the MLA ("***Relevant Supplier***").

(iv) *Purchase Option*: The Lessee holds a purchase option in case of Change of Control of the Lessor in favour to a Competitor or a Relevant Supplier.

(v) *Effects of a Change of Control:* In case that a competitor or a material supplier of Telefónica acquires control of Telxius (as defined in the agreement), directly or indirectly, the Lessee will have the right to (i) purchase all or part of the leased towers at that time at market conditions and (ii) early terminate the contract.

Chile Tower MLA ("Contrato Marco de Arrendamiento de Espacio de Infraestructuras")

(i) *Date*: 27 April 2016 (entered into force with retroactive effects on 1 April 2016).

(ii) *Parties*: Telefónica Móviles Chile, S.A. as Lessee and Towerco Latam Chile, S.A. (in the process of changing its corporate name to Telxius Torres Chile, S.A.) as Lessor.

(iii) *Bidding Process*: The Lessor shall invite the Lessee to tender for the occupation of empty spaces in the Towers or the constructions of new ones.

(iv) *Effects of a Change of Control:* In case that a competitor of Telefónica acquires control of Telxius (as defined in the agreement), the Lessee will have the right to (i) purchase all or part of the leased towers at that time at market conditions and (ii) early terminate the contract.

Peru Tower MLA ("Contrato Marco de Usufructo de Espacio de Infraestructuras")

(i) *Date*: 31 March 2016

(ii) *Parties*: Telefónica del Perú, S.A.A. as Lessee and Towerco Latam Perú S.A.C (currently, Telxius Torres Perú SAC) as Lessor.

(iii) *Bidding Process*: The Lessor shall invite the Lessee to tender for the occupation of empty spaces in the Towers or the constructions of new ones.

(iv) *Pre-emption right:* The Lessor grants to the Lessee a Pre-Emption right over the Towers in case of sale *to* a competitor of the Lessee. The Parties agreed a penalty in favour of the Lessee in the event that the Lessor does not comply with the Pre-emption right of $18,000 per Tower.

(v) *Effects of a Change of Control:* In case that a competitor of Telefónica acquires control of Telxius (as defined in the Agreement), directly or indirectly, the Lessee will have the right to (i) purchase all or part of the leased towers at that time at market conditions and (ii) early terminate the contract.

Transition Service Agreements

In February 2016, the relevant Telefónica subsidiaries (as service provider) and Telxius Torres España, S.L.U. (as service recipient) entered into several outsourcing agreements to govern the terms and conditions under which the services between Telefónica Group and Telxius will be provided.

Scope and structure of the Outsourcing Agreements

Under the relevant outsourcing agreements Telefónica's subsidiaries shall provide to Telxius the required services for: i) the construction and upgrading of the different infrastructure elements of the tower infrastructure (fencing, earth connections, security elements, conditioning, batteries etc.) and ii) the maintenance of such infrastructures (the "**Services**"). A detailed regulation of the terms and conditions of the rendering of each of the Services is included in the relevant outsourcing agreement through different annexes.

Furthermore, for the coordination and monitoring of the performance of the Services, two different committees shall be constituted:

- Operating Committee (*comité operativo*) which shall monitor the fulfilling of the Services and shall settle any disputes (the "**Operative Committee**"). The Operative Committee shall consist of members appointed in equal number by Telefónica and Telxius.

- Monitoring Committee (*comité de seguimiento*) which shall monitor the fulfilling of the terms and conditions of these agreements and shall settle any disputes (the

“**Monitoring Committee**”). The Monitoring Committee shall consist of members appointed in equal number by Telefónica and Telxius.

Duration and early termination

These agreements shall be enforceable as from their relevant signing date until the termination of the Services, which shall have duration of twelve months. Thereafter, these agreements shall be automatically renewed for three additional periods of six months each at Telxius’ request unless one of the parties notifies the other its decision not to extend. Such notices shall be made at least three months in advance in the case of Telxius and at least six months in advance in the case of Telefónica.

Fees

The fees for the provision of the Services shall be paid pursuant to a price agreed in each case by the purchasing department of TME or TdE. The applicable fees will be negotiated on the basis of the standards established in the specification of the requirements of any of the different kind of possible Services (among other: civil engineering, energy equipment, batteries, singular projects, etc.).

Loan Agreements between Telxius and Telefónica

On 27 May 2016, Telefónica granted the Company financing for an aggregate amount of €700,000 thousand. This financing was divided into two loans: one for €560,000 thousand at fixed interest rates divided in three tranches (€280,000 thousand maturing on 30 June 2022, €140,000 thousand maturing on 30 June 2024 and €140,000 thousand maturing on 30 June 2026) and another loan for €140,000 thousand at a floating rate that matures on 30 June 2021 (which may be extended for two additional one-year periods by Telefónica, if so requested by Telxius and accepted by Telefónica) (the “**Loan Agreements**”). See section “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Pursuant to the Loan Agreements, if Telxius undertakes, vis-à-vis other creditors, to comply with financial ratios or to maintain a certain credit rating, the relevant undertakings, shall automatically deemed applicable under the Loan Agreements. Telxius also assumes other customary covenants which are standard practice in the market.

Likewise, the Loan Agreements contain provisions regarding maturity and the obligation of early repayment, including, among others, if Telefónica’s stake in Telxius falls below certain shareholding percentages or Telefónica ceases to control the Company otherwise.

Effects of a Change of Control: As explained above, if any third party acquires control of Telxius, Telefónica will have the right to early terminate the Loan Agreements.

Management Services Agreement

On 29 August 2016, Telefónica and Telxius signed a management services agreement (the “**Management Services Agreement**”) under which Telefónica shall provide Telxius with certain management, consultancy, support and other corporate services in exchange for a fee based on direct and indirect costs incurred by Telefónica as a consequence of the provision of the services under the Management Services Agreement.

The Management Services Agreement shall be in force for a five-year term from 1 April 2016, and it shall be automatically renewed for additional one year terms, unless any party given written notice of its intention not to renew it 30 days in advance to the end of the initial term or any extension.

The Management Service Agreement can be terminated, among other reasons, in case of transmission of shares of Telxius, capital increases or capital reductions or whichever other facts or operations, which affect the ownership of capital of Telxius and, as a consequence of which, it is established that Telxius no longer belongs to Telefónica Group.

Telefónica shall be entitled to terminate the Management Services Agreement, at its discretion, by giving three-month prior notice.

Effect of a Change of Control: If any third party acquires control of Telxius (as defined in the agreement), both Telefónica and Telxius will have the right to early terminate the Management Services Agreement.

Framework Agreement

See section "*Management and Board of Directors—Framework Agreement of relations between the Selling Shareholder and the Company*".

All the agreements set forth above in this section were signed prior to the creation of the Audit and Control Committee (see section "*Management and Board of Directors—Board Committees—Audit and Control Committee*") and therefore have not been reviewed by the Audit and Control Committee. However, it is expected that the Audit and Control Committee (see section "*Management and Board of Directors—Board Committees—Audit and Control Committee*") will review the main contracts governing the commercial relationship between the Group and the Telefónica Group (i.e. the CableCo Master Commercial Agreement (Cable MCA) and the Tower Master Lease Agreements (Tower MLAs)) and the Framework Agreement.

REGULATION

Set forth below is a summary of the current, Spanish, U.S., Brazilian, Peruvian, Chilean, Colombian, Ecuadorian, Argentine, Guatemalan and Panamanian regulatory environments relating to the telecommunication market. This discussion is intended to provide a very general outline of the most relevant applicable regulations in such countries and is not intended as a comprehensive discussion of such regulations. The reader should consider the regulatory environment discussion below as it could have a material impact on the Company's business and results of operations in the future.

Spanish framework

The Company is subject to regulations that govern the way it conducts its businesses. The telecommunication industry -also called electronic communications services industry- in which the Company operates, is a regulated industry and the Company must comply with a variety of regulatory obligations. Some of the regulatory aspects which are of particular relevance in Spain are briefly outlined below:

- The leasing of space on multi-tenant communications sites to wireless service providers of voice and data (Tower Segment) is not an electronic communications service within the scope of the General Telecommunications Law 9/2014, of May 9 (the "**LGTel**"), and is not, therefore, subject to its provisions. Notwithstanding this, the Tower Segment is impacted by laws and regulations on matters such as environmental or zoning. The Company's customers are subject to other regulations such as health and safety, electromagnetic emissions and sharing of networks, which might indirectly affect the Company's activities.

- The provision of wholesale connectivity services (both IP and capacity) in Spain for international data transmission through the Company's undersea infrastructure and international circuits (Cable Segment) constitutes an electronic communications service subject to the LGTel.

- The main national regulatory authorities ("**NRAs**") in relation to electronic communications in Spain are:

  (i) The National Markets and Competition Commission (the "**CNMC**") which promotes competition in the sector and, among other functions, resolves access or interconnection conflicts between operators; and

  (ii) The Ministry of Industry Energy and Tourism, acting through the Secretariat of State for Telecommunications and for the Information Society ("**SETSI**, responsible, inter alia, for the electronic communications operators registry (the "**Operators Registry**") and for the management and supervision of the radio spectrum.

General Telecommunications Law

The LGTel is the main law regulating the telecommunications sector in Spain, which comprises the exploitation of networks and the provision of electronic communications services, as well as related resources.

The LGTel implemented in Spain the regulatory framework for electronic communication services and networks in the European Union.

As a general principle, any individual or legal entity that pretends to provide electronic communications services or install or exploit a telecommunications network must notify in advance to the SETSI as the body in charge of the Operators Registry.

As an exception, services which use the radio spectrum are subject to the prior expressed obtainment of the necessary authorisation to use it, which is also granted by the SETSI.

The Company is registered in the Operators Registry for the provision of wholesale connectivity services (both IP/IPX and capacity) for international data transmission through the Company's undersea infrastructure and international circuits IP and does not hold any authorisation for the use of the radio spectrum. The necessary authorisations for the use of the radio spectrum are held by the different wireless services providers which provide electronic communications services to final users.

The LGTel establishes the general framework in which operators may carry on their activity, relying on the principles of transparency, non-discrimination and proportionality in the interests of promoting competition and the interoperability of networks and services. Relevant aspects in the LGTel in connection with the Company are:

(i) electronic communications services providers, such as the Company, have a legal right to deploy electronic communications networks;

(ii) significant market power operators obligations, only if Company is declared to be a significant market power operator in the relevant market in which provides its services;

(iii) interconnection;

(iv) radio emissions and electromagnetic radiation

(v) telecommunication taxes; and

(vi) inspection and penalties.

Regarding number (ii), the Company will be subject to equivalent regulatory obligations to those imposed by the CNMC to Telefónica de España, S.A.U. if and when providing services on a very limited number of submarine routes regulated in accordance with CNMC's Decision dated 15 April 2013.

Competition Law

Practices restricting competition are prohibited in Spain by antitrust legislation. These practices include, inter alia, (i) abuse of dominant position and (ii) prohibited collusive agreements.

The prohibition of practices restricting competition is the result of European and domestic legislation. European and Spanish competition laws (Articles 101 and 102 of the Treaty on the Functioning of the European Union and Spanish Competition Act 15/2007, of 3 July) regulate these practices in a similar manner. The European laws regulate any prohibited practice which may affect trade between Member States of the European Union, whereas the Spanish laws regulate practices which have a domestic effect.

If the relevant competition authorities (in general, the European Commission at European level and the CNMC at national level) decide that a company has abused its dominant position or is a party to a prohibited agreement, they may order that company to end its anti-competitive practice and/or impose penalties, which may include fines which may amount to 10% of the revenue obtained by the infringing company in the year prior to the resolution imposing the penalties.

Actions constituting an abuse of a dominant positon, or any agreement, decision or concerted practice prohibited by competition rules, are void and therefore the observance thereof cannot be enforced between the parties. Engaging in practices restricting competition may involve the filing of civil claims by third parties to whom pecuniary damage has been caused.

Competition rules prohibit any agreement between competitors aimed at directly or indirectly fixing prices or other relevant commercial terms, the limitation of production, the sharing of markets or customers, or the boycotting of third parties.

Competition rules also prohibit certain practices in the framework of the supplier-customer relationship. In this case, there are no absolute prohibitions but rather they depend on the market shares of the parties, the duration of the clauses in dispute and the characteristics of the restrictions on competition.

As regards the abuse of the dominant position, the first thing which must be decided is whether the company in question has a dominant positon on the market affected by the practice. Therefore, before examining whether or not the conduct constitutes an abuse it is necessary to determine the relevant market and the company's position on that market. Defining the relevant market is most important, since it determines the company's position on the market. This definition is made from a dual perspective: product/services and geographical. For this purpose, the assessment of the substitutability both, from a demand and a supply perspective of products and services is decisive.

A dominant position is equivalent to a position of economic or commercial strength which allows whoever enjoys it to act independently of its suppliers, competitors and customers. There is no legal definition of the concept of dominant position in either Spanish or European legislation and there are different variables which are used in order to assess whether or not such position exists. Among all these variables, the market share gives an approximate idea of whether or not a dominant position exists. In this respect, shares below 30% almost automatically exclude the possibility of the existence of a dominant position. On the other hand, shares above 50% provide a high probability of such dominant position existing. In any event, the particular circumstances applicable to each case must be analysed.

As far as abuse is concerned, it may take different forms. Article 2 of the Spanish Competition Act lists the most important abuses: (i) application of prices or other commercial or service terms which are unfair; (ii) limitation of production, distribution or technical development to the unjustified detriment of companies or of consumers; (iii) unjustified refusal to satisfy demand to purchase goods or services; (iv) application of discriminatory conditions to equivalent commercial situations, which places certain competitors in an unfavourable position compared with others; or (v) making certain supplies subject to the contracting of others not related to them.

U.S. framework

In the United States, regulatory requirements, and the regulators with jurisdiction vary by technology. Multiple national, state, and local government agencies can be involved in a particular transaction. The Communications Act of 1934 (the "**Communications Act**") establishes the basic sector-specific framework, although submarine cables are licensed separately under the Cable Landing License Act of 1921.

Telecoms and spectrum regulation

The national regulator, the Federal Communications Commission ("**FCC**"), regulates interstate and international telecommunications, mobile services, non-US governmental uses of radio frequency ("**RF**") spectrum, over-the-air broadcast television and radio, and certain aspects of cable television content. State and territorial public utilities commissions ("**PUCs**") regulate intrastate telecommunications services (i.e., where the endpoints of a communication fall within the borders of a single state or territory).

Fixed providers of common-carrier services other than VoIP must register with the FCC and are authorised by a blanket FCC authorisation to provide interstate domestic services (i.e., no prior authorisation is required) but must obtain affirmative prior authorisation from the FCC pursuant to section 214 of the Communications Act (international section 214 authorisation) to provide services between U.S. and foreign points—whether facilities-based or resale, or whether using submarine cables, domestic or foreign satellites, or cross-border terrestrial facilities—regardless of whether the traffic originates or terminates in the United States or both. The Company's U.S. and Puerto Rico subsidiaries hold international Section 214 authority. International section 214 authorisations have no expiration date. For intrastate services, a fixed provider must generally be licensed by the relevant state PUC. PUC processes and requirements vary. A fixed provider of common-carrier services must obtain FCC consent prior to discontinuing interstate and international services and generally state PUC consent prior to discontinuing intrastate services.

Although the FCC requires all interstate and international common carriers to offer just and reasonable rates, terms, and conditions, and prohibits unreasonable discrimination, in practice these are not significant constraints except for incumbent local exchange carriers. The United States does not require carriers to maintain separate wholesale network and retail-service subsidiaries. In some cases the FCC or state PUCs require separation among service activities (*e.g.*, a U.S. carrier affiliated with a carrier with market power in a foreign market must provide U.S.-originating or terminating services to that foreign market through a subsidiary separate from the foreign carrier).

Submarine cable infrastructure

Before installing or operating submarine cable infrastructure in the United States or its territories, an operator must first receive a cable landing license from the FCC, coordinated with the U.S. Department of State, pursuant to the Cable Landing License Act of 1921. For a submarine cable to be operated on a common-carrier basis, the operator must also apply for and receive an international section 214 authorisation from the FCC. Cable landing licenses have a 25-year term. Subsidiaries of the Company holds cable landing licenses for its SAm-1 system and a joint interest in the Pacific Caribbean Cable System.

State and local rights-of-way and siting

Municipal governments regulate zoning, rights of way, and wireless tower siting. The FCC has established pre-construction environmental and historic preservation review requirements for wireless antennas, and works in conjunction with the Federal Aviation Administration to regulate antenna and tower heights and associated lighting and marking requirements.

Foreign ownership reviews

The FCC applies a public interest analysis in determining whether to allow a foreign investor to enter the U.S. telecommunications market, whether by acquisition of an existing business or creation of a new one requiring FCC authorisation. For international telecoms service authorisations (international section 214 authorisations), the FCC presumes that the public interest is served by direct and indirect foreign ownership (up to 100%) in facilities-based and resale providers of interstate and international telecommunications services, where the investor's home country is a WTO member, and in submarine cables landing in World Trade Organization ("**WTO**") member countries. For investors from non-WTO member countries—and submarine cables landing in non-WTO member countries—the FCC does not presume that that the public interest is served by direct and indirect foreign ownership (up to 100%). Instead, it will require such investors from non-WTO member countries to make a showing whether they have market power in non-WTO member markets and evaluate whether U.S. carriers or submarine cable operators are experiencing problems in entering such non-WTO member markets. The FCC determines an investor's home market and consequent WTO status by applying a principal place-of-business test.

The FCC may nonetheless deny approval if the Executive Branch raises serious concerns regarding national security, law enforcement, foreign policy or trade issues, or if the entry of the foreign investor (or cable landing) into the U.S. market presents a risk to competition. In practice, applications for carrier licenses for facilities-based and resale international telecommunications services, common-carrier RF licenses, and non-common-carrier licenses used for mobile or wireless networking services are typically subject to national security reviews by the Team Telecom agencies.

Fees; universal service assessments

The FCC assesses annual regulatory fees for the providers it regulates, including subsidiaries of the Company. All of these fees vary by license and service type. The FCC revises application processing fees periodically and regulatory fees annually. The FCC also assesses fees for a variety of federal programmers involving providers of interstate telecommunications and interconnected VoIP, including: federal universal service; relay services for the hearing-impaired; numbering administration; and number portability. State and territorial fees and contributions vary by jurisdiction.

The federal Universal Service Fund ("**USF**") supports the provision of telecommunications services in high-cost areas, to low-income consumers, to rural health-care providers, and to schools and libraries. The federal USF is financed by an assessment on all end-user interstate and international telecommunications revenues earned by telecommunications carriers and interconnected VoIP providers. The FCC recalculates the assessment rate quarterly; for the first quarter of 2016 the assessment rate will be an all-time high 18.2% of interstate and international telecommunications revenues. In 2014 and 2015 it fluctuated between 15.7 and 17.4%. Providers of services exclusively between the United States and foreign points are exempt from contributing. Providers of services predominantly between the United States and foreign points contribute only on their domestic interstate revenues. Many states also require providers of intrastate telecommunications to contribute to state universal service programmers, and some states require interconnected VoIP providers to contribute.

National security and law enforcement regulation

"Team Telecom"—an informal grouping of the Departments of Defense, Homeland Security and Justice (including the Federal Bureau of Investigation)—regulates national security issues with telecommunications service providers and network owners, while the Committee on Foreign Investment in the United States ("**CFIUS**"), a national inter-agency committee administered by the U.S. Department of the Treasury, reviews transactions involving potential acquisitions of control of existing U.S. businesses engaged in interstate commerce.

The Team Telecom agencies conduct national-security reviews of mergers and acquisitions in the telecoms (including submarine cables) and broadcasting sectors and often require negotiation of security agreements or assurances letters prior to consummation. The Company's U.S. subsidiary entered into such an arrangement in connection with the licensing of the Pacific Caribbean Cable System. There are no formal procedures or established timeframes for Team Telecom reviews, which can last from a few weeks to 18 months. The Team Telecom agencies do not act pursuant to any particular law. Notwithstanding U.S. commitments under the WTO General Agreement on Trade in Services to make publicly available the licensing criteria and "the period of time normally required to reach a decision concerning an application for a license," there remains little predictability in the process or timing for obtaining a new license or transaction approval involving foreign investment in a telecommunications provider due to Team Telecom reviews. In 2016, the FCC initiated a proceeding to consider potential reform of the FCC's interactions with Team Telecom, but the outcome of that proceeding and its timing remain highly uncertain. Reviews and conditions can affect corporate governance, personnel and other operational matters, with investments from particular countries, and by foreign government-controlled entities and sovereign wealth funds subject to considerable scrutiny. Although the supply arrangements do not require direct U.S. government approval, the U.S. government can nevertheless foreclose supply opportunities indirectly by imposing market-entry conditions on investors. In rare circumstances, the U.S. government has sought to pressure U.S. carriers in procurements unrelated to foreign-investment transactions, particularly where U.S. government agencies are customers of the carriers.

Pursuant to section 721 of the Defense Production Act of 1950, the CFIUS reviews acquisitions of control (including mergers, acquisitions of stock or assets, and joint ventures) by foreign persons of existing U.S. businesses engaged in interstate commerce in any economic sector (known as "covered transactions"). The CFIUS does not review "greenfield" investments, whereby a foreign investor creates a new U.S. business. The CFIUS scrutinizes the impact of a transaction on national security and gives particular attention to foreign (and foreign-government) ownership of the acquirer and the U.S. business' contracts benefiting U.S. government agencies. CFIUS reviews are initiated by parties to a transaction or the CFIUS itself. Failure to obtain CFIUS clearance for a covered transaction gives the president the power to unwind the transaction at any point in the future. Unlike the FCC, which defines "control" as majority equity ownership, voting control, or management control, the CFIUS may consider as "control" any prospective investment other than the acquisition of an outstanding voting interest of 10% or less acquired solely for the purpose of passive investment. For a transaction involving CFIUS or Team Telecom review, the FCC will generally not grant consent without prior clearance by Team Telecom and the CFIUS. The CFIUS conducts an initial 30-day review of a covered transaction. It may subsequently conduct a 45-day investigation for a transaction involving more significant national security issues (and must do so for transactions that would result in foreign government control of a U.S. business), with a further 15 days for presidential action to block a transaction. In total, the CFIUS process should not last more than 90 days, although parties sometimes withdraw and refile transactions in order to provide the CFIUS with additional time for review.

The Communications Assistance for Law Enforcement Act ("**CALEA**") requires common-carrier telecommunications providers (including the Company's U.S. subsidiary) and interconnected VoIP providers, fixed broadband service providers, manufacturers of telecommunications transmission and switching equipment, and providers of support services to facilitate cooperation with authorised electronic surveillance needs of law enforcement and national security agencies. Subject providers must have the capability to enable properly authorised law enforcement officials to intercept communications and obtain call-identifying information from their customers, as well as the capacity to meet the surveillance needs of properly authorised law enforcement officials. CALEA requires carriers to protect the privacy and security of communications and call-identifying information that has not been authorised for interception. Failure to comply with CALEA obligations can result in civil penalties.

Competition regulation, merger control, and consumer and data protection

The Federal Trade Commission ("**FTC**") and DOJ jointly regulate competition and merger control under U.S. antitrust laws, as do state attorneys general, under state antitrust laws. The DOJ and FTC regulate vertical and horizontal anticompetitive effects in the telecoms, broadcasting, and new media sectors pursuant to general U.S. antitrust laws, particularly the Sherman and Clayton Acts. The FTC also regulates unfair and deceptive trade practices in these and other sectors pursuant to the Federal Trade Commission Act. The FCC regulates competition-related issues in the telecommunications and broadcasting sectors under the Communications Act's public interest standard. State attorneys general enforce state-level competition and consumer protection laws, and private litigants enforce federal and state competition laws through damages claims. While there is no single mechanism to ensure the consistent treatment of competition-related issues, the DOJ, FTC and FCC regularly coordinate their reviews in an attempt to avoid conflicting results and undue delay. Anticompetitive practices are controlled both through ex-ante and ex-post, sector-specific regulation, and by general competition law. Jurisdiction among all regulators is concurrent. State and local authorities generally operate independently of the DOJ, FTC and FCC.

All mergers, acquisitions and joint ventures that involve the transfer or assignment of FCC licenses require prior approval under the Communications Act, regardless of whether such transactions involve the telecoms, broadcasting, or new media sectors. While the antitrust laws generally do not have a minimum jurisdictional threshold, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") requires that the DoJ and FTC receive pre-merger notification if the transaction meets the "size of transaction" or "size of persons" thresholds. Effective 25 February 2016, a transaction must be notified if (i) the voting securities and assets of the acquired person are valued at more than US$78.2 million and if one of the parties has sales or assets of at least US$156.3 million and the other party has sales or assets of at least US$15.6 million, or (ii) if the voting securities and assets of the acquired person are valued at more than US$312.6 million. DoJ and FTC reviews are generally subject to a minimum 30-day initial review period. In transactions subject to a "second request" of the parties, the review can take significantly longer. Pursuant to the HSR Act, the DoJ and the FTC share jurisdiction for reviewing all mergers, acquisitions, and joint venture involving providers of telecommunications, broadcasting, and new media, with the lead reviewing agency determined by sector or by transaction.

The FCC and PUCs also review mergers, acquisitions (including asset sales and license transfers), and joint ventures that involve authorisations or franchises that they issue. Each of these processes is separate. For "major transactions" involving significant competition or public-interest issues, the FCC reviews transactions pursuant to a suggested 180-day time frame, though it often stops and later restarts the clock, resulting in a lengthier review. For routine transactions, the specific procedures and timescales for approving license transfers and assignments vary by license type and by FCC bureau. The procedures and associated timescales for state and local reviews of transactions involving intrastate telecommunications providers and cable operators vary greatly from jurisdiction to jurisdiction; these state or local reviews, however, can take longer than the FCC's review.

The FTC, the FCC, state PUCs and state attorneys general concurrently regulate trade practices, marketing, privacy, and data protection in the communications sector, although the FTC lacks jurisdiction over common-carrier services. The FCC and FTC both regulate marketing activities by broadband Internet service providers ("**ISPs**"). The FCC has indicated that it will treat marketing acts by common carriers that would constitute unfair or deceptive acts or practices under the FTC Act as violations under section 201 of the Communications Act. The states' attorneys general also police false, misleading, or unfair terms and conditions. Neither the FTC nor state attorneys general require advance filing or approval. The FCC requires telecommunications carriers to protect a category of customer data known as customer proprietary network information ("**CPNI**").

Latin American framework

Brazil

The Company is authorised to provide multimedia communication service through a license granted on 28 May 2002 and, therefore, it is obliged to comply with telecommunications regulatory framework, more specifically, the Brazilian Telecommunications Act, approved by Law No. 9,472 of 16 July 1997, and the Multimedia Communications Service Regulation, approved by ANATEL Resolution nº 614, of 28 May 2013 ("**SCM Regulation**"), alongside other regulations. The Company provides IP capacity to telecommunications service providers through a submarine cable that comes from the United States of America to the Brazilian Northeast (the SAM-1).

SCM Regulation sets forth general rules for provisioning of multimedia services, obligations and rights of providers and its users, network interconnection, conditions for license transfer, non-discriminatory conditions to all users, as well as the duty to provide the service according to quality standards established by specific regulation.

With regards to the provision of services related to the Tower Segment, since Company is not considered a telecommunications service provider, it is not obliged to comply with the telecommunications framework, except for the provisions dealing with technical aspects relating to telecommunications towers and other infrastructure installation.

The main NRA in relation to telecommunications services is ANATEL (National Telecommunications Agency), which regulates and supervises the telecommunications sector in general.

The Administrative Sanctions Regulation, approved by Resolution No. 589, of 7 May 2012, seeks to establish the criteria and parameters to be used by ANATEL in case of violations of regulatory framework, contractual obligations, or administrative orders issued by the Agency. The Resolution No. 629, of 16 December 2013, establishes terms and conditions to execute Conduct Adjustment Agreements, aimed at suspending administrative proceedings currently in course, if license holder assume certain obligations to fully comply with regulations and provide compensations to users.

Other Laws and Regulations

Purchase of goods and services. The Resolution No. 155, of 16 August 1999 (as amended by Resolution No. 421, of 2 December 2005) determines that the telecommunication provider has to follow a specific procedure to procure services and purchase equipment or materials relating to the telecommunication services it provides, with the objective to give transparency to the procurement process and preference to local products and services (local content). This procedure is only applicable to purchases higher than BRL 919,000.00.

Share of infrastructure. The Joint Resolution No 1, of 24 November 1999, from ANATEL/ANP/ANEEL is an administrative regulation adopted by oil and gas, electric energy and telecommunications regulatory agencies to define certain infrastructure as essential facilities, and consequently, oblige entities of these economic sectors to share their infrastructure (administrative easements, cables, towers, ducts, posts etc.) in a non-discriminatory manner and at reasonable prices. Specifically applicable for the telecom sector, the Resolution No. 274, of 5 September 2001, imposes infrastructure sharing among telecom providers in a nondiscriminatory manner.

In addition to the telecom framework, the Company has to comply with other laws and regulations, especially the municipal legislation on land use and occupation, as well as to obtain the relevant environmental license, whenever required.

Rules of regulatory asymmetry for exploitation of towers. Companies holding a significant market power in all or some of the Brazilian regions may have to observe the rules of regulatory asymmetry for exploitation of towers. These rules may limit the maximum leasing prices of antenna space in the towers.

Competition Law

The Brazilian Competition Law (Law No. 12,529 of 30 November 2011) establishes the fair competition principle and is intended to ensure to the economic agents the opportunity to compete fairly and free of economic power abusive practices. The Administrative Council for Economic Protection (the "**Brazil CADE**") is the agency in charge of enforcing competition rules. This antitrust law establishes a pre-merger notification regime for concentration transactions, with new turnover thresholds (one participant with gross revenue of BLR750 million in Brazil and other participant with gross revenue of BRL75 million in Brazil) and maximum time length for merger review procedure (240 days, extendable to 330 days). Resolution No. 10, of 29 October 2014 (in force as of 4 January) established some additional interpretation about the filling triggers provided in the Law regarding vertical and horizontal "partnerships agreements" that shall be subject to antitrust clearance. Furthermore, the Brazil CADE leads an ex-post control concerning the behavior of economic agents that offend fair competition in the market.

The infringement of the economic order, by a company, is subject to a fine of 0.1% to 20% of the gross revenues of said company, group or conglomerate, obtained in the last year prior to the administrative proceeding, in the business activity in which the offense occurred, which will never be less than the advantage obtained, when it will be possible its prediction.

Peru

The provision of wholesale connectivity services (both IP and capacity) in Peru for international data transmission through the Cable Segment qualifies as a telecommunication public service subject to the Unified Text of the Telecommunications Act (the "**Peruvian Telecommunication Law**"). Therefore, the Company must have a concession granted by the Ministry. It is important to notice that this kind of services do not need the assignment of radiolectric spectrum because for its provision the concessionaire uses wired communication means.

According to the Ministerial Resolution 440-2003-MTC/03, since 2003, the Company has an authorisation issued by the Ministry of Transport and Communications (the "**Ministry**") for the provision of public telecommunication services. The Ministry and the Company signed the "Concession Agreement for the provision of the international long distance unswitched service" with a duration of 20 years and it is renewable. In addition, the Ministerial Resolution No. 0517-2007-MTC/17 of 18 April 2007, amended the Concession Agreement, regarding the technical feature of the network. Also, the Company has obtained before the General Coastguards Bureau ("**DICAPI**") the right to use an aquatic area of approximately 52,576,147.2 m^2 for the implementation of fibre optic submarine telecommunications cables. In order to maintain such right, the Company must annually pay a fee for the occupation surface of the assigned aquatic area.

The Peruvian Telecommunication Law contains the main applicable rules to all telecommunications services (licensing, services classification, spectrum management, main obligations, tax obligations, etc.). Pursuant to the Peruvian Telecommunication Law and its regulation, the most relevant obligations of a concessionaire of public telecommunication services are:

(i) To operate and manage the service according to the terms of the concession contract;

(ii) To install the infrastructure required to provide the service, complying with the municipal regulations or the regulations of other public entities (which shall not constitute bureaucratic barriers);

(iii) Provide the service uninterruptedly (except for force majeure cases);

(iv) Present the guarantees required by the concession contract;

(v) Establish adequate procedures to solve customer claims;

(vi) Pay taxes generated by the concession; and

(vii) Provide OSIPTEL and the Ministry (as defined below) with information when required.

Also, the principal economic obligations regulated in the Peruvian Telecommunication Law and the Unified Text of the Telecommunications Regulations are:

(i) In order to obtain a concession, a fee based on the initial investment to be made in Peru must be paid to the Ministry (0.25% of initial investment);

(ii) Commercial exploitation of services by concessionaires is subject to a fee of 0.5% of the gross annual income (billed and received), paid to the Ministry;

(iii) Supervision fees are paid to OSIPTEL for final services, value added and carrier services (1% of the gross annual income billed and received);

(iv) Final services and carrier services concessionaires must pay a fee of 1% of their gross annual income (billed and received) to the Special Fund for Investment in Telecommunications ("**FITEL**", by its acronym in Spanish). FITEL is in charge of funding projects for achieving universal service in Peru.

The installation of telecommunications infrastructure or the leasing of space on such infrastructure for multi–tenant communication sites to wireless communication services is not consider as a telecommunication public service within the scope of the Peruvian Telecommunication Law (therefore, is not subject to its provisions). Notwithstanding the aforementioned, the Tower Segment is subject to laws and regulations on matters such as environmental, health and safety, electromagnetic emissions, sharing of networks or zoning.

For the installation of telecommunication infrastructure, the competent authority, in this case the municipalities, must issue a license to install telecom infrastructure in accordance with the Special and Temporary Regime. Pursuant to Article 14 of Supreme Decree 003-2015-MTC, when the installation of all or part of telecommunications infrastructure affects areas or properties protected and/or regulated by special laws, the authorisation of the competent authority is required to obtain the authorisation to install telecommunications infrastructure.

According to the Certificate No. 023-IP dated on 6 April 2016, Towerco Latam Perú S.A.C. (currently, Telxius Torres Perú SAC) has been registered in the Registry of Providers of Passive Infrastructure for Public Mobile Services. Such registration will be valid until 31 March 2021.

According to the Supreme Decree 024-2014-MTC the registration in this registry constitutes sufficient tittle to exercise the rights that the national regulation gives in order to deploy passive infrastructure for the provision of public telecommunications services. The registration has a validity of five years, renewable for equal periods of five years. The renewal request has to be filed 30 days before the expiration date. In addition, a passive infrastructure provider has to comply with, amongst others, the following obligations:

(i) Deliver quarterly, copies of contracts entered into for the provision of passive infrastructure for public mobile services to the Ministry and OSIPTEL; and

(ii) Passive infrastructure providers shall not negotiate or execute exclusivity agreements with operators of public telecommunication services.

It is important to notice that if the passive infrastructure providers do not comply with the obligations listed above the consequence may be the cancellation of the registry. The provider will not be able to apply for new register within one year.

The main NRAs in relation to the Cable Segment and the Tower Segment, and their main responsibilities are:

- The Ministry is an entity of the Executive Branch responsible for approving and enforcing the policies for the development of transport, communications systems, telecommunication services and telecommunication infrastructure. The Ministry is also responsible for issuing policies and national regulations regarding telecommunications infrastructure and supervising the development of telecommunications infrastructure in Peru. For this purpose, the Ministry manages the Registry of Public Use Infrastructure and the Registry of Providers of Passive Infrastructure.

- The Supervisory Agency for Private Investment in Telecommunications ("**OSIPTEL**", by its acronym in Spanish) is a regulatory agency in charge of supervising all public telecommunications services. OSIPTEL is attached to the Prime Minister's Cabinet. According to Law 28295, which creates a particular regime for shared use of infrastructure by telecom operators, OSIPTEL has the power to (i) issue regulations regarding shared use of such infrastructure, (ii) impose fines to operators that do not comply with shared use obligations, and (iii) issue orders mandating the shared use of public use infrastructure.

The Municipalities are the competent authorities to issue licenses to install telecommunication infrastructure. Telecommunication operators and passive telecommunications infrastructure providers may obtain those licenses.

Competition regulation

In Peru, the application of Legislative Decree 1034 (the "**Peruvian Antitrust Act**") is exclusive competence of an administrative agency: the National Institute for the Defense of Competition and Protection of Intellectual Property ("**INDECOPI**" for its acronym in Spanish). Notwithstanding the above mentioned, in accordance with article 53 of Law of Functions and Powers of OSIPTEL, OSIPTEL has the exclusive authority to determine antitrust violations in telecommunications matters.

An infringement of the Peruvian Antitrust Act is subject to the imposition of fines. Fines could be up to 12% of the gross income of the company or economic group in the year in which the fine is imposed. Fines could also be imposed to the legal representatives or representatives of the governing bodies of the infringing companies. Those fines could be up to 100 UIT (approximately $120,000.00).

Chile

The General Telecommunications Law (the "**Chilean LGT**") is the main regulation applicable to the services provided by the Company. As a general principle, the Chilean LGT and the so-called Law of Antennas promotes the colocalization of radiant systems of different companies in a single physical infrastructure, in order to mitigate the urban and visual impact generated by this type of work. The main NRAs in relation to electronic communications and their main responsibilities are Ministry of Transport and Telecommunications and Department of Telecommunications.

The provision of leasing of space on multi-tenant communications sites to wireless service providers of voice and data or physical infrastructure, and the provision of wholesale connectivity services (both IP and Capacity) for international data transmission through the Company's undersea infrastructure and international circuits required to have authorisation from the Department of Telecommunications, through a concession of intermediate service infrastructure.

The Subsecretary of Telecommunications, by the Ordinance No. 342 of 11 July 2000 authorised the Company to subscribe a Concession Agreement to install, operate and exploit a fibre optic system on a submarine cable in territorial waters between Regions I and V, and to operate and exploit a fibre optic system on a terrestrial cable using third-party media, between Valparaiso and Paseo de Los Libertadores on Region V. The resolution established the location of some terminal equipment, points of presence and amplifiers. This concession has a duration of 30 years.

The referred concession was amended by the Ordinance No. 77 of 31 January 2001, authorising the Company to operate and exploit a fibre optic system on a terrestrial cable using third-party media on Valparaiso, Region V – Santiago and Metropolitan Region and to install, operate and exploit some terminal equipment, points of presence and amplifiers.

The Subsecretary of Telecommunications, by the Ordinance No. 87 of 6 April 2011 granted to the Company a public service concession for data transmission by satellite.

Other Laws and Regulations

The Company could be subject to other laws and regulations on matters such as environmental, health and safety, zoning, administrative concessions related to the use of public domain in the coast line (mooring points for submarine cables).

Competition Law

In Chile, the legal body that regulates competition is constituted by Decree Law No. 211 of 1973, the revised text, coordinated and was set up by Decree-Law No. 1 of 2005, the Ministry of Economy. The objective of the legislation on free competition is to promote and defend the maintenance of effective competition in the markets.

For this purpose there is a double agency. On the one hand, the National Economic Prosecutor in order to investigate possible attacks to competition for which the law gives a number of powers to meet its objectives and, moreover, the Court of Defense of Free Competition, court manager to hear and decide any event, act or convention to prevent, restrict or violate free competition or tend to produce their effects.

The importance of considering and respecting the rules on free competition is that the Competition Tribunal can impose materials such as sanctions:

a) To modify or terminate acts, contracts, agreements, systems or agreements that are contrary to the provisions of this act;

b) order the modification or dissolution of partnerships, corporations and other legal entities of private law which have participated in the acts, contracts, agreements, systems or agreements that the previous letter refers to; and

c) Fines up to an amount approximately to $15.4 million and, in the case of punishing collusion, up to an amount approximately to $23 million.

Note that these fines can be imposed on the legal person corresponding to its directors, administrators and anyone who was involved in carrying out the respective act.

Colombia

The provision of wholesale connectivity services (both IP and capacity) in Colombia for international data transmission through the Company's undersea infrastructure and international circuits constitutes a public service of provision of telecommunications and networks.

The ICT Law 1341 ("**ICT**") rules that any telecommunications services provider that completes a registration procedure with the MINTIC, as set down in Decree 4849 of 2009, is allowed to provide telecommunications services and operate networks (other than radio broadcast and television services) pursuant to a "general habilitation". As part of the process of obtaining a general habilitation, a telecommunications services provider must file a form and submit certain technical (description of the network and services) and corporate information to MINTIC. Rights to use the radio spectrum are not included in a general habilitation and must be obtained through a separate procedure described below under "*—Radio Spectrum and Pricing*".

The Company is registered in the Ministry of Technology and Communications to provide carrier and valued services and the Ministerial Resolution No. 003667 of 10 September 2013 incorporated the Company in the Registry of Satellite Capacity Suppliers. This habilitation does not have a limit of time.

The principal regulatory entities in charge of the design, regulation, operation, surveillance and control of the ICT regime in Colombia are:

- The Ministry of Information and Communication Technologies ("**MINTIC**") establishes the national policy for ICTs, manages the radio spectrum through ANE, manages the national registry of networks and service providers, and establishes the fees to be charged to private entities for the use of radio spectrum and the provision of communications services.

- The National Spectrum Agency ("**ANE**") is a special administrative unit of MINTIC regulated by Decree 4169 of 2011. ANE's purpose is to provide technical support to MINTIC required for the management, planning, surveillance and control of the radio spectrum.

- The Communications Regulatory Commission ("**CRC**") is also a special administrative unit of MINTIC. The purpose of CRC is to promote competition within the ICT regime and prevent the abuse of a dominant position in the market, as well as to regulate the market for networks and communications services other than radio broadcast services. Pursuant to general Colombian antitrust laws, a market participant may be deemed to have a "dominant position" if it has the ability to set the conditions of a market, regardless of the ability of consumers or competitors to contest its actions. Although CRC has the responsibilities outlined above, SIC is the only agency authorised by Colombian law to investigate, sanction and impose penalties for antitrust breaches.

- The Information and Communications Technology Fund ("**FONTIC**"), an entity formerly known as the *Fondo de Comunicaciones*, is also a special administrative unit of MINTIC. Its purpose is to finance plans, programs and priority projects aimed at facilitating universal access to information and communication technologies by all the inhabitants of Colombia.

With regards to the main obligations, operators are obligated to contribute 2.2% of their gross revenues from the provision of the networks and services to FONTIC. In addition, providers must allow access to networks and use of essential facilities upon request, under the following: Non-discrimination (same charges involves same access), transparency, prices based on cost plus a reasonable profit, promotion of free and fair competition, prevention of abuse of dominant position, interconnection practice at a given location and time will not be harmful for networks.

The CRC declared essential facilities the submarine cable heads and are regulated through CRC Resolution 2065 of 2009. As a result, operators of cable heads need to publish a reference offer. The operators are free to set the rate for access, but need to respect the principles of non-discrimination and transparency.

Although the ICT regime allows private entities to provide telecommunications services, the Colombian government reserves the right to impose additional obligations on telecommunications service providers in exceptional circumstances relating to issues of national defense, emergencies, public safety, internal unrest, disaster or similar events. These additional obligations may include making networks and services available to the Colombian government at no cost, and/or the imposition of easements on telecommunications networks and infrastructure, among others

Other Laws and Regulations

The Company could be subject to other laws and regulations on matters such as environmental, health and safety, zoning, administrative concessions related to the use of public domain in the coast line (mooring points for submarine cables).

Competition Law

The Law 1340 de 2009 established the competition regime. Under this competition law the superintendence of industry and commerce ("**SIC**") is the Colombian competition consumer protection, industrial property and personal data protection authority. It regulates competition law enforcement, including antitrust investigation and merger review for all industries. Law 1340 of 2009 allows the SIC to impose fines up to 100,000 times the minimum wage, or 150% of the profits resulting from the illegal conduct in question.

Ecuador

The Organic Telecommunications Law of 2015 and its General Regulation provides all the requirements for the operation of submarine cable capacity.

Agencia de Regulación de las Telecomunicaciones ("**ARCOTEL**") is the main NRAs in relation to telecommunications and their main responsibilities are: the administration, regulation and control of telecommunications and radio spectrum and its management, as well as the technical aspects of managing media using radio spectrum or installing and operating networks.

The Company has a "Permit for the Provision of Submarine Cable Capacity", issued 29 August 2007, with a duration of 20 years, and it is renewable.

In accordance with a recent local regulation and the above mentioned permit in force, the Company has requested an extension of its permit to sell capacity in the PCCS which will be granted once the administrative act is signed by the Executive Director of ARCOTEL accordingly to procedures and requisites established by ARCOTEL.

Main obligations of the Company are specified in the permit: report on a quarterly basis to the regulatory the services provided, the traffic originated and terminated in Ecuador, maintain a legal representative domiciled in Ecuador, fulfill the obligations arising from the permit.

Other Laws and Regulations

The Company has a Registration Certificate of Environmental Activity "Operation and Maintenance of Fiber Optic Submarine Cable Sam 1 Ecuador, located in the area of Punta Carnero, Guayas, Ecuador" dated February 2016.

Competition Law

The Ecuatorian organic law on regulation and control of power market was enacted in 2011.

The main objective of this law is to avoid, prevent, correct, eliminate and punish the abuse of economic operators with market power; prevention, prohibition and punishment of collusive agreements and other restrictive practices; control and regulation operations economic concentration; and prevention, prohibition and punishment of unfair practices, seeking efficiency in markets, fair trade and general welfare for consumers and users, for the establishment of a social, solidarity and sustainable economic system.

The Company pays yearly dues to ARCOTEL for concentration market.

Argentina

The basic legal framework for the provision of telecommunications services in Argentina is set forth in the National Telecommunications Law No. 19798 of 1972 and in the specific regulations governing each type of telecommunications service, which has been modified by Law "Argentina Digital" No. 27078. This new legal framework entered into force on 7 January 2015 and regulates information and communication technology as public interest services, creates a new NRA, sets net neutrality provisions and allows telecommunications licensees to provide (non-satellite) broadcasting services (previously banned by the Media Law), and set a new license system.

The Resolution No. 17/2001 of 20 March 2001 by the Secretary of Communications granted to the Company, a unique license to provide all telecommunication services (mobile, wired or wireless, national or international, with or without own structure). The term is indefinite.

The NRAs in relation to electronic communications and their main responsibilities are:

- Ministry of Communications is the decentralized organism responsible for establishing national policies for Telecommunication development with the objective of democratizing access to information, communications and new technologies throughout the national territory, thus bridging the digital divide.

- National Agency of Communications ("**ENACOM**" by its Spanish acronyn) is a decentralized organism that operates in the field of the Secretariat of Communications of the Federal Planning Ministry, Public Investment and Services, whose role and functions are regulation, control, oversight, and verification of those aspects concerned to the provision of communication services, postal services, and the use of spectrum. Also, services which use the radio spectrum are subject to the prior expressed obtainment of the necessary authorisation to use it, which is also granted by the ENACOM.

Other Laws and Regulations

The Company could be subject to other laws and regulations on matters such as environmental, health and safety, zoning, administrative concessions related to the use of public domain in the coast line (mooring points for submarine cables).

Competition Law

Law on Defense of Competition No. 25156 prohibits any acts or behaviors contrary to the law. The enforcement authority will be assisted by the National Commission for the Defense of Competition created by Law No. 22262.

Guatemala

The Telecommunications General Act is the main law regulating the telecommunications sector in Guatemala, which establishes the general framework in which operators may carry on their activity. Electronic communications services providers, such as the Company, have a legal right to deploy electronic communications networks.

As a general principle, any individual or legal entity that pretends to provide electronic communications services or install or exploit a telecommunications network must notify in advance to the *Superintendencia de Telecomunicaciones* ("**SIT**") as the main NRAs in relation to electronic communications and their main responsibilities, and also are as the body in charge of the Operators Registry.

As an exception, services which use the radio spectrum are subject to the prior expressed obtainment of the necessary authorisation to use it, which is also granted by the SIT.

On 22 August 2000, the Company was provided with a Certification of inscription in the Register of Telecommunications. Additionally, the Company is registered in the Operators Registry as Operador de Red Comercial for the provision of wholesale connectivity services (both IP/IPX and capacity) for international data transmission through the Company's undersea infrastructure and international circuits of IP.

Even there is not a special legal framework for antitrust matters, disperse laws that attempt to promote certain aspects of free competition is available.

Panama

The Panamanian Telecommunications General Act is the main law regulating the telecommunications sector in Panama, which establishes the general framework in which operators may carry on their activity. Electronic communications services providers, such as the Company, have a legal right to deploy electronic communications networks.

As a general principle, any individual or legal entity that pretends to provide electronic communications services or install or exploit a telecommunications network must obtain a license from the *Autoridad Nacional de los Servicios Públicos* ("**ASEP**") as the main NRAs in relation to electronic communications and their main responsibilities, and also are as the body in charge of the Operators Registry. As an exception, services which use the radio spectrum are subject to the prior expressed obtainment of the necessary authorisation to use it, which is also granted by the ASEP.

The ASEP by Resolution No. 8453 of 13 April 2015 granted to the Company a license to provide Telecommunications Transport Service with a duration of 20 years (renewable).

Practices restricting competition are prohibited in Panama by antitrust legislation. These practices include, *inter alia*, (i) abuse of dominant position and (ii) prohibited collusive agreements.

MANAGEMENT AND BOARD OF DIRECTORS

The Spanish Companies Act is the principal legislation under which Telxius operates. In order to adapt the Company to the corporate governance requirements and practices of listed companies, the Company's Board of Directors at the meetings held on 20 June 2016 and 7 September 2016 approved the Board of Directors Regulations and the Internal Code of Conduct, respectively, which will become effective upon Admission.

In the same way, the sole shareholder of the Company on 10 June 2016 approved (i) several amendments to the Company's Bylaws and a restated text of the Bylaws, and (ii) the General Shareholders' Meeting Regulations, which will become effective upon Admission. On 13 July 2016 the sole shareholder of the Company acknowledged the approval of Board of Directors Regulations. On 6 September 2016, the sole shareholder of the Company approved further amendments to the Company's Bylaws.

Board of Directors

The Company's Bylaws (*estatutos sociales*) provides, in accordance with Spanish Companies Act that the Board of Directors will be responsible for the representation and administration of the Company, subject to the provisions of the Company's Bylaws which provided for certain matters expressly reserved to the Shareholders' Meetings.

The Company's Bylaws provides for a board of directors that consists of between five and 15 members (both inclusive), elected to serve for a term of up to two years with no limits with respect to re-election (except for independent directors that cannot be considered as independent directors whether they have been directors for a continuous term of more than 12 years). As of the Admission, the Company's Board of Directors will comprise nine members. If a Director does not serve out his or her term, the Board of Directors may fill the vacancy by appointing a replacement director to serve until the next shareholders' meeting is held. Any natural or legal person may serve on the Board of Directors, except for persons specifically prohibited by applicable law, the Company's Bylaws and the Board of Directors Regulations. A Director may be removed from office by the shareholders at a shareholders' meeting even if such removal is not included on the agenda for that shareholders' meeting.

The Chairman of the Board of Directors is appointed among its members. As at the date of this Prospectus, the proprietary director Mr. Guillermo Ansaldo Lutz, representing the Selling Shareholder has been appointed as Chairman of the Board of Directors.

The Board of Directors Regulations provides that the Chairman of the Board of Directors shall be elected from among the members of the Board of Directors. The Secretary and, where appropriate, the Deputy-Secretary of the Board of Directors need not be directors.

The Board of Directors shall be responsible (unless it falls to the General Meeting) for approving the non-delegable matters provided for in the law and, in all cases, pursuant to articles 249 bis and 529 ter of the Spanish Companies Act, the Company's Bylaws and the Board of Directors Regulations, the following non-delegable matters:

(i) Its own organisation and functioning and, in particular, the approval and amendment of the Board of Directors Regulations;

(ii) Supervision of the effective functioning of any Board Committees created and of the actions of any delegate bodies and executives designated by it.

(iii) Authorisation or dispensation from the obligations deriving from the duty of loyalty and to avoid conflicts of interest in accordance with the provisions of the Board of Directors Regulations, where such authorisation or dispensation does not correspond to the general shareholders' meeting.

(iv) Decisions relating to directors' compensation within the framework of the Bylaws and, as the case may be, the compensation policy approved by the general shareholders' meeting.

(v) The appointment and removal of the Chief Executive Officer of the Company, and the establishment of the terms of his/her contract.

(vi) The appointment and removal of executives reporting directly to the Board of Directors or any of its members, and the establishment of the basic conditions of their contracts, including compensation.

(vii) Preparation of the financial statements and their presentation to the general shareholders' meeting.

(viii) Approval of the financial information to be published periodically by the Company due to its listed status.

(ix) Preparation of any kind of report required by law from the managing body, provided that the transaction referred to in the report cannot be delegated.

(x) Call of the general shareholders' meeting, preparation of the agenda and the proposed resolutions.

(xi) Determination of the general strategies and policies of the Company.

(xii) Approval of: (a) the strategic or business plan (including any significant amendments to the business of the group of companies comprised by the Company and its subsidiaries (for the purposes of the Company's by-laws, the "Group") and the pursuit of new activities within the corporate purpose); (b) the management objectives; (c) the financial plan and annual budget; (d) the investment and financing policy; (e) the cash policy; (f) the treasury stock policy; (g) the shareholder and market information policy; (h) the risk management and control policy, including tax risks; (i) the corporate governance policy; and (k) the dividend policy.

(xiii) Supervision of the internal reporting and control systems.

(xiv) Definition of the structure of general powers of the Company to be granted by the Board of Directors or by its delegate bodies.

(xv) Approval of the assumption of contractual commitments involving a financial outlay by the Company or by any other Group entity that are of particular significance, due to the fact of not having been included in the budget or exceeding the limits approved by the Board of Directors.

(xvi) Approval of any acquisitions, investment or expenditure (including capital expenditure) by the Company or any Group entity that are of particular significance, due to the fact of not having been included in the budget or exceeding the limits approved by the Board of Directors.

(xvii) Approval of any disposals or transfers by the Company or any Group entity that are of particular significance, due to the fact of not having been included in the budget or exceeding the limits approved by the Board of Directors.

(xviii) Approval of financial debt transactions (under any form or arrangement, both banking and otherwise, and regardless of the amount) or the grant of financing or security of any kind by the Company or any Group entity, as well as the trading of all types of financial derivatives, unless transactions that, under the ordinary course of business, the Board of Directors excepts by granting the applicable powers in favour of the Chief Executive Officer and/or other executives.

(xix) Approval of the creation or termination of business alliances or joint ventures and execution, amendment or termination of profit-sharing agreements.

(xx) Decisions regarding holdings of the Company in other businesses or companies and the exercise of any rights corresponding to the Company in its capacity as member or shareholder of such businesses or companies in connection with corporate transactions of special relevance.

(xxi) In general, approval of investments and transactions of all types which, due to their quantum or special characteristics, are strategic or carry a special tax risk, unless such approval corresponds to the general shareholders' meeting.

(xxii) Approval of any donation or contribution to activities of general interest or for charitable purposes within the context of the Company's corporate social responsibility policy.

(xxiii) Approval of the appointment and removal of members of the managing bodies of the main subsidiaries and investees of the Group (as determined by the Board of Directors from time to time) and of their chairman and Chief Executive Officer.

(xxiv) Approval of the settlement of, and admission of claims in, lawsuits where they are of particular relevance for the activity of the Company or of the Group, save in cases of duly justified urgency, in which case approval may be granted by the Chairman of the Board of Directors together with the Chief Executive Officer and shall be subject to ratification by the first Board meeting held thereafter.

(xxv) Definition of the Group structure and approval of any significant change thereto, as well as the creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions or operations of an analogous nature which, due to their complexity, may reduce the transparency of the Company or its Group.

(xxvi) Approval, subject to a report by the Audit and Control Committee, of transactions performed by the Company or Group companies with directors or shareholders who hold, individually or concertedly with others, a significant holding, the approval of which shall fall to the Board of Directors in accordance with the applicable legislation.

(xxvii) Any powers delegated to the board of Directors by the General Meeting, unless the Board has been expressly authorised to further delegate them.

The Company's Bylaws state that the Board of Directors, at the proposal of its Chairman and with the vote in favour of, at least, two-thirds of its members, may appoint a Chief Executive Officer (*consejero delegado*), with the powers it deems appropriate from the list set out below and that may be delegated pursuant to the law, the Company's Bylaws and the Board of Directors Regulations. Respecting in all cases the matters reserved to the Board of Directors detailed above, the Chief Executive Officer may only be delegated the following powers for their exercise within the ordinary course of business:

(i) To represent the Company in all administrative, judicial, commercial and criminal matters and acts in any jurisdiction (ordinary, administrative, special, labour, etc.) and at any instance, exercising all actions to which the Company may be entitled in the defense of its interests, in and out of court, granting and conferring the appropriate powers of attorney on court procedural representatives and appointing lawyers to represent and defend the Company before such courts and bodies.

(ii) To manage, run and govern the Company in the ordinary course of business, managing the Company's businesses in a constant manner and, to this end, to establish the internal rules and operating regime of the Company, organizing and regulating its services, whether technical, commercial, financial, administrative or of any other nature, and representing the Company, through the use of the corporate signature, in all such acts, contracts and transactions in which the Company has an interest or of which it is a party.

(iii) To exercise any type of right held by the Company.

(iv) To draw on the corporate funds in order to use them for the operation, administration and management of the businesses and transactions making up the corporate purpose of the Company in the ordinary course of business.

(v) To authorise the Company's expenses and, in particular, the administration and management expenses.

(vi) To establish the Company's organisational chart, appointing and removing executives and other officers (with the exception of senior executives, the appointment and removal of which corresponds to the Board of Directors), assigning offices, functions and responsibilities and, in general, to resolve matters relating to the organisational structure of the Company.

(vii) To appoint, post and dismiss Company personnel, assigning the appropriate salaries and bonuses.

(viii) To negotiate, arrange, enter into and formalize all types of acts and contracts (including acts of administration, acquisition, disposal, encumbrance, alienation or any other concerning absolute ownership) with respect to any type of assets or rights, on the terms and conditions and by means of the provisions he/she sees fit, all within the corporate purpose and the ordinary course of business and with the exception, in all cases, of acts, contracts and transactions involving matters reserved to the Board of Directors.

(ix) To purchase, sell, swap, substitute, assign, encumber, acquire and dispose of any type of assets or rights of the Company within the ordinary course of business, with the exception, in all cases, of transactions involving matters reserved to the Board of Directors.

(x) To arrange, modify, terminate or cancel all types of leases or subleases, both as lessor and lessee, for the price, term and on the conditions that the Chief Executive Officer sees fit, including the recording thereof in public deeds and their registration at any Property Registry, all within the ordinary course of business, with the exception, in all cases, of transactions involving matters reserved to the Board of Directors.

(xi) To sign and act in the name of the Company in the ordinary course of business, opening and closing demand deposits, drawing on them, accepting or paying supra protest bills of exchange; to transfer funds, income, loans or securities, using any procedure for the transfer or movement of money; to approve the balances of settled accounts, to make and withdraw deposits or security deposits, to offset accounts, formalize changes, etc.

(xii) To grant general or special powers of attorney, or have other individuals or entities considered appropriate by the Chief Executive Officer replace him/her in some or all of his/her powers, and to empower certain persons so that they may act in branches or sectors of the business, with the maximum scope of his/her own powers, signing for such purpose all public documents as may be necessary.

(xiii) Any other powers, other than those set out above, expressly delegated by the Board of Directors, subject to the limitations established in the Bylaws.

The exercise of the powers granted to the Chief Executive Officer shall require express and specific authorisation from the Board of Directors of the Company where they involve matters reserved to the decision of the Board of Directors according to the law, the Bylaws or the Board of Directors Regulations. Furthermore, in all cases, the exercise of the powers conferred on the Chief Executive Officer is limited to the scope of the ordinary course of business of the Company.

As at the date of this Prospectus, Mr. Alberto Manuel Horcajo Aguirre has been appointed as Chief Executive Officer. In this regard, on 1 August 2016 the Company, in accordance with article 249 of Spanish Companies Act and following the approval of the Board of Directors, entered into a director's service agreement with the Chief Executive Officer, which will remain in force until Mr. Alberto Manuel Horcajo Aguirre ceases to be a Director of the Company, or otherwise terminated pursuant to the terms of the agreement.

Pursuant to article 245 of the Spanish Companies Act and article 32.1 of the Bylaws, the board of directors shall meet at least once per quarter. However, in accordance with the Board of Directors Regulations, it is expected that the Board of Directors will meet, at least eight times per year and any other time the Chairman considers convenient for the Company. The meetings scheduled may be amended by the Board of Directors or the Chairman, informing the Directors about this as soon as possible. The Chairman of the Board of Directors is also required to call a meeting at the request of three Board members or the Lead Independent Director, if any.

The Company's Bylaws state that the Board of Directors shall be validly assembled provided that the majority of its members are present in person or by valid proxy. Board resolutions shall be adopted by an absolute majority of votes from among the directors present at the meeting, in person or by valid proxy, other than in the events in which the law, the Company's Bylaws or the Board of Directors Regulations require for the validity of certain resolutions to the vote in favour of a higher number of directors. Except for the appointment of the Chief Executive Officer, and for the approval or amendment of the Board of Directors Regulations, the current Company's Bylaws and the Board of Directors Regulations do not contain any special majorities to pass any resolution different from those that are established by the legislation in force as of the date of this Prospectus.

Directors

As of the date of Admission, the Board of Directors of the Company will consist of one executive Director, four independent Directors and four proprietary Directors (*consejeros dominicales*) representing the Selling Shareholder.

The Company's Directors, their positions within the Board of Directors, their category as Directors and, where relevant, the shareholder they represent are detailed in the table below. As of the date of Admission, all of the Directors have been appointed by the sole shareholder of the Company on the following dates.

Name	Date of appointment	Expiry date of appointment	Title	Category	Shareholder represented
Mr. Guillermo Ansaldo Lutz..........	13/06/16	13/06/18	Chairman	Proprietary	Telefónica, S.A.
Mr. Alberto Manuel Horcajo Aguirre.......................................	13/06/16	13/06/18	Chief Executive Officer	Executive	N/A
Mrs. Carmen Gómez de Barreda Tous de Monsalve.........	07/09/16	07/09/18	Director	Independent	N/A
Mrs. Patricia Estany Puig..............	07/09/16	07/09/18	Director	Independent	N/A
Mr. Guillermo Jasson García..........	07/09/16	07/09/18	Director	Independent	N/A
Mr. Nicolás Villén Jiménez............	07/09/16	07/09/18	Director	Independent	N/A
Mrs. María García-Legaz Ponce.....	13/06/16	13/06/18	Director	Proprietary	Telefónica, S.A.
Mr. Enrique Lloves Vieira.............	13/06/16	13/06/18	Director	Proprietary	Telefónica, S.A.
Mr. Enrique Blanco Nadales..........	13/06/16	13/06/18	Director	Proprietary	Telefónica, S.A.

As of the date of this Prospectus, the appointments of the independent Directors are pending to be registered with the Commercial Registry of Madrid, subject to the listing of the Shares on the Spanish Stock Exchanges and on the SIBE. Such appointments were decided by the Company's sole shareholder on 7 September 2016.

The categories of directors have been determined by applying the definitions set out in the Spanish Companies Act. As of the date of this Prospectus, the category assigned to each director has not been confirmed by the Company's Nominating, Compensation and Corporate Governance Committee, as this committee was not in place yet on the date of each of the appointments. However, once this committee is formed and as soon as practicable following Admission, it will confirm the assigned categories in accordance with applicable law and the Board of Directors Regulations.

The Non-Director Secretary of the Board of Directors is Mr. Miguel Garrido de las Heras and the Non-Director Deputy-Secretary of the Board of Directors is Mr. Jaime Zurita Carrión.

All members of the Board of Directors and the Secretary of the Board of Directors designate the Company's registered office as their professional address for the purpose of this Prospectus.

Directors' Biographical information

Biographical information for each of the current members of the Company's Board of Directors, including a brief description of each director's business experience and education is presented below.

Mr. Guillermo Ansaldo Lutz

Mr. Ansaldo was born in Argentina in 1962. He has a degree in Industrial Engineering from the Universidad de Buenos Aires and a Master in Business Administration from The Amos Tuck School of Business Administration, Dartmouth College. As at the date of this Prospectus, Mr. Ansaldo has been appointed as Chairman of the Board of Directors of Telxius.

From 1989 to 2000 he worked for McKinsey & Company. From 1989 to 1993, he was based in Madrid, Spain. In 1993 he returned to Argentina and two years later he was elected partner. During his career at McKinsey, he focused on financial institutions and the telecom sector.

From 2000 to 2004, he held the position of Chief Executive Officer at Telefónica de Argentina S.A.

In April 2005 he was appointed CEO of Telefónica de España, subsidiary of the fixed telephony business of Telefónica España, a position from where he has contributed to the development of Broadband and Imagenio in Spain.

From December 2007 to September 2011, Ansaldo was Chairman and CEO of Telefónica España, responsible for Telefónica, S.A.'s fixed and mobile businesses in Spain. He has also been director of Teleinformática y Comunicaciones, S.A.U. (from December 2005 to December 2011) and Tuenti Technologies, S.L. (from November 2012 to June 2014).

Since then he is the top executive of the Telefónica Global Resources operating unit.

Mr. Alberto Manuel Horcajo Aguirre

Mr. Horcajo has a degree in Law from Universidad Complutense of Madrid, an MBA and Master in Public and International Affairs from Columbia University and a SEP from Stanford University.

Mr. Horcajo held offices as Chairman, CEO and CFO of various Telefónica subsidiaries, including, Chairman of Atento (2001-2004) and CFO of Telefónica Brazil (2013-2016).

He has also held the position of Chief Executive Officer of Transportes Azkar (1992-2001). In addition, from 2002 to 2013 Mr. Horcajo was an independent director of Grupo Lantero, a company operating in the packaging industry.

Since 2012, he is a member of the advisor board of the Education and Investigation Institute and a member of the Board of Trustees of its Foundation, both nonprofit entities related to University of Navarra.

Mrs. Carmen Gómez de Barreda Tous de Monsalve

Mrs. Gómez de Barreda holds a degree in Economics and Business Administration from Universidad Pontificia de Comillas and a Master in Business Administration from IESE Business School (Universidad de Navarra).

She is currently the general manager of CORES and a member of the board of directors of Red Eléctrica Corporación, S.A., where she holds the office of lead independent director and president of the nomination and remuneration committee. Mrs. Gómez de Barreda has over 25 years of experience in several companies and public institutions in the energy sector such as Enagás, Repsol, Unión Fenosa, the Spanish National Energy Commission (*Comisión Nacional de la Energía*) and BP Oil.

Mrs. Patricia Estany Puig

Mrs. Estany holds a degree in business administration and an MBA from ESADE, and also completed a PIM (International Management Program) from HEC París and an AMP (Advanced Management Program) from Harvard Business School.

She is a Managing Director of J.P. Morgan International Ltd. Mrs. Estany joined the company in Spain in 2010, to give momentum to the Private Banking business, although she had already worked at the London branch of J.P. Morgan, in the Capital Markets Division (1993-1996). In addition, she is currently an independent director of Atresmedia.

With more than 20 years of experience in the financial sector, Mrs. Estany has held different senior positions in different entities, such as Lombard Odier (2008-2010), Consulnor Catalunya (2005-2008) and Credit Lyonnais, both at the New York and London offices (1988-1993).

Mrs. Estany began her professional career at the Paris-based office of Andersen Consulting, in 1985. From 1997 to 2004, Ms. Estany led the internationalisation and restructuring processes of different family-owned companies for which she worked.

She is a member of the board of directors of Foment del Treball and member of the Board of Trustees of the ESADE Foundation, where she is also a member of the Audit Committee and the Institutional Committee. Mrs. Estany has also held the offices of Vice President (2003-2007) and member of the Board (2000-2007) of ESADE Alumni.

Mr. Guillermo Jasson García

Mr. Jasson holds a degree in industrial engineering from Universidad de Buenos Aires and a Master in Business Administration from The Amos Tuck School of Business at Dartmouth College.

Mr. Jasson is the managing partner at Cross Fields Capital LLC since 2009. He started his career in 1985 at BGH SA where he held several positions including car audio business general manager, before joining McKinsey & Company as a consultant from 1990 to 1997. Between 1997 and 2009, he held several managing positions in Morgan Stanley.

In addition, Mr. Jasson is currently a member of the board of The Mexico Institute at Woodrow Wilson International Center for Scholars and the Latin American Board of The Amos Tuck School of Business at Dartmouth College.

Mr. Nicolás Villén Jiménez

Mr Villén holds a degree in industrial engineering from Universidad Politécnica de Madrid and a Master in Electrical Engineering from University of Florida, as well as an MBA from Columbia University. He was awarded with a Fulbright Scholarship and a Samuel Bronfman Fellowship.

Mr. Villén has a wide experience in the infrastructure sector where he has occupied several managerial positions. Currently, Mr. Villén externally advises IFM Investors (an Australian infrastructure fund) and Airports of Regions (a Russian airport management group), and is a board of directors' member of ACR Grupo (real estate sector), Banca March (banking sector), Applus (a testing, inspection & certification company) and Parques Reunidos (leisure sector).

From 2009 to 2012, Mr. Villén was Chief Executive Officer of Ferrovial Aeropuertos, the Airport Division of Ferrovial, an infrastructure sector company, which included all BAA Limited airports (Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen, Southampton and Naples). From 1993 to 2009, he was the chief financial officer of Ferrovial. Prior to that he worked as Midland Montagu Ventures' CEO, Smith Kline & French's CEO and International Vice-President, amongst other responsibilities, in Abbott Laboratories (health sector) and Corning Glass Works (specialized in glass, ceramics, and optical physics). During his tenure at Ferrovial, he held numerous international board positions, including at BAA Limited. He has also been a director at Aer Lingus, CLH and Dinamia.

Mrs. María García-Legaz Ponce

Mrs. García-Legaz has a BA in Economic and Business Sciences from the Universidad Complutense of Madrid (Colegio Universitario San Pablo CEU). She began her professional career in the Telefónica Group in 1993 in the finance department and has held a number of different positions until being named as the Chief of Staff, heading the Chairman and COO Office in November 2012.

Mrs. García-Legaz was previously Head of Telefónica S.A. Investor Relations (2008-2012), Chief of Staff for the General Director of Telefónica España, and Head of Telefónica Móviles Investor Relations from the moment the company was listed (2000-2006).

Mr. Enrique Lloves Vieira

Mr. Lloves is the Director of Corporate Development and Industrial Alliances at the Telefónica Group. He holds a degree in Economics and Business Administration and a degree in Law from Universidad Pontificia Comillas.

He has previously held offices at Altadis Group as senior vice president of Group Strategy and Planning, vice chairman of Altadis USA and chairman of Tabacalera Cigars International. He has also served as director of Sociedad Estatal de Participaciones Patrimoniales.

Mr. Lloves started his career as a financial analyst at Banesto Bolsa and Beta Capital.

Mr. Enrique Blanco Nadales

Mr. Blanco is the Chief Technology Officer within the Global Resources Division of Telefónica. He has a degree in Physics from the University Complutense of Madrid. He holds a Master Degree in Management (PDG) from IESE Business School (University of Navarra).

He began his career in Telefónica in 1985 and has mainly developed his professional career in Telefónica de España, S.A.U. He has worked in Direction of Technology and Direction of Operations, where he performed several Director positions linked to the development and management of Systems, Company Partners and National Local Networks, and was appointed Director of Operations and Engineering, with a team of about 18,000 employees.

Directors' managerial positions and shareholdings

The table below sets out all entities (except (i) family-owned and asset-holding companies, (ii) holdings in listed companies which are not relevant, (iii) companies within the Telxius Group and (iv) any other companies without relevance for the activities of the Company) in which the members of the Board of Directors have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this Prospectus, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Director	Company	Position/Title	Sector	In office
Mr. Guillermo Ansaldo Lutz	Telefónica de España, S.A.U.	Director and Executive President	Telecommunications	No
	Telefónica Móviles España, S.A.U.	Director and Executive President	Telecommunications	No
	Teleinformática y Comunicaciones, S.A.U.	Director	Telecommunications	No
	Tuenti Technologies, S.L.	Director	Telecommunications	No
Mr. Alberto Manuel Horcajo Aguirre	Grupo Lantero	Independent Director	Packaging	No
	Instituto de Educación e Investigación de la Universidad de Navarra	Board member	Education	Yes
	Fundación de la Universidad de Navarra	Board member	Education	Yes
	Telefónica subsidiaries (among others, Atento and Telefonica Brasil)	Board member, CFO	Telecommunications	No
Mrs. Carmen Gómez de Barreda Tous de Monsalve	CORES	General Manager	Oil & gas	Yes
	Red Eléctrica	Independent Director	Utilities	Yes
Mrs. Patricia Estany Puig	J.P. Morgan International Ltd	Managing Director	Banking	Yes
	Atresmedia	Independent Director	Media	Yes
Mr. Guillermo Jasson García	Cross Fields Capital LLC	Managing Partner	Private Equity	Yes

Director	Company	Position/Title	Sector	In office
	Tuck Club of New York	President	Non for Profit	Yes
	Smithsonian Institution	Latino Center Advisory Board Member	Museum	No
	Kraft Foods	Advisory Board Member	Food	No
	Woodrow Wilson International Center for Scholars	Member of the Board	Education	Yes
	Latin American Board of The Amos Tuck School	Member of the Board	Education	Yes
Mr. Nicolás Villén Jiménez....................	Ferrovial	Airports Division CEO	Infrastructures	No
	ACR Grupo	Independent Director	Real estate	Yes
	Banca March	Independent Director	Banking	Yes
	Parques Reunidos	Independent Director	Leisure	Yes
	Applus Services	Independent Director	Testing, inspection &certification	Yes
	Aer Lingus	Independent Director	Airline	No
	CLH	Independent Director	Pipelines	No
	Dinamia	Independent Director	Private Equity	No
Mrs. María García-Legaz Ponce	Telefónica Group	Chief of Staff-	Telecommunications	–
Mr. Enrique Lloves Vieira......................	Fonditel Pensiones S.G.F.P. S.A.	Director	Pension Fund	Yes
	Wayra Investigación y Desarrollo, S.L.U.	Director	Research and development	No
	Telefónica Group	Director of Corporate Development and Industrial Alliances	Telecommunications	Yes
Mr. Enrique Blanco Nadales	Telefónica Global Technology, S.A.U.	Director	Telecommunications	No
	Telefónica Investigación y Desarrollo, S.A.U.	Director	Telecommunications	No
	Wayra Investigación y Desarrollo, S.L.U.	Director	Research and development	No
	Quantenna Communications	Member of the Board of Observers	Telecommunications	Yes
	Assia	Director	Telecommunications	No
	Telefónica S.A.	Global Chief Technology Officer	Telecommunications	Yes

Board of Directors Regulations

The Company's Board of Directors is governed by the Company's Bylaws and the Board of Directors Regulations that were adopted by the Company's Board of Directors on 20 June 2016 and that are registered with the Commercial Register. The Board of Directors Regulations develop the Company's Bylaws and establish the principles for the functioning of the Company's Board of Directors, including the basic rules for its organisation and functions and the standards of conduct for and rights and duties of the Board members tending to ensure the best management of the Company.

Pursuant to the Board of Directors Regulations, directors must tender their resignation to the Board and formalize such resignation in the following cases: (i) when they cease to hold the executive positions to which their appointment as Directors is linked, or when the reasons for which they were appointed no longer exist; (ii) when they are affected by any of the cases of incompatibility or prohibition established by law, the bylaws and the Board of Directors Regulations; (iii) when they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company (iv) when their remaining on the Board of Directors might jeopardize the proper and diligent performance of their duties; (v) when they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee and (vi) when their remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

Board Committees

In accordance with the Spanish Companies Act, the Company's Bylaws and the Board of Directors Regulations, as of the date of Admission the Board of Directors of the Company will have an Audit and Control Committee (*Comisión de Auditoría y Control*) and a Nominating, Compensation and Corporate Governance Committee (*Comisión de Nombramientos, Retribuciones y de Buen Gobierno*) which will be both governed by Company's Bylaws and the Board of Directors Regulations. Both committees were created by the Board of Directors by virtue of the resolutions adopted on 7 September 2016. A brief description of each committee is presented below.

Audit and Control Committee

The Audit and Control Committee shall be comprised of a minimum of three Directors appointed by the Board of Directors. The Spanish Companies Act and the Board of Directors Regulations require all members of the Audit and Control Committee to be non-executive Directors, and the majority of them must be independent directors. In appointing its members, and particularly its Chairman, the Board of Directors shall take into account their knowledge and experience in accounting, auditing or both, as well as in risk management. As a group, the members of the Committee shall have relevant technical knowledge relating to the industry to which the Company belongs.

The Chairman of the Audit and Control Committee is appointed by the Board of Directors from amongst the independent members of the Committee to serve for a maximum term of four years and may be re-elected as Chairman at least one year after his or her removal. The secretary of the Audit and Control Committee is appointed by the Audit and Control Committee. The Audit and Control Committee may adopt its own additional particular regulations.

A quorum for the Audit and Control Committee shall be validly established with the attendance, in person or by proxy, of at least one half of the members thereof, and the Committee shall adopt resolutions by a majority of those present at the meeting in person or by proxy. In the event of a tie, the Chairman of the Committee shall cast the deciding vote.

After Admission, the Audit and Control Committee will be comprised of three members appointed by the Board of Directors. The initial members of the Audit and Control Committee will be:

Name	Date of appointment	Title	Category
Mr. Nicolás Villén Jiménez	07/09/16	Chairman	Independent
Mrs. Patricia Estany Puig...........	07/09/16	Member	Independent
Mr. Enrique Lloves Vieira	07/09/16	Member	Proprietary

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

a) To report to the Shareholder Meeting on matters raised at the committee and within the purview thereof, and particularly regarding the results of the audit.

b) To submit to the Board of Directors proposals for the selection, appointment, reelection or replacement of the external auditor, taking responsibility for the selection process in accordance with the provisions of law, as well as the terms for the hiring thereof, and regularly obtain information from the auditor regarding the audit plan and the implementation thereof, in addition to preserving the independence thereof in the performance of its duties.

c) To supervise internal audit.

d) To supervise the process of preparing and submitting mandatory financial information and submit recommendations or proposals to the board of directors intended to safeguard the integrity thereof.

e) To supervise the effectiveness of the Company's internal control system, internal audit, and systems for the management of risk, including tax risks, and to discuss with the Auditor significant weaknesses in the internal control system detected during the audit, all without infringing the independence thereof. With respect thereto, it shall be responsible for proposing to the Board of Directors a risk control and management policy.

f) To establish and supervise a mechanism to allow employees to confidentially and, if appropriate, anonymously report potentially significant irregularities, particularly any financial or accounting irregularities detected within the Company.

g) To establish and maintain appropriate relations with the auditor in order to receive, for review by the committee, information on all matters that could entail a threat to the independence thereof, as well as any other matters relating to the audit procedure, and when applicable, authorisation of services other than those that are prohibited, upon the terms contemplated by applicable law, and such other communications as may be provided for in auditing legislation and auditing rules.

h) To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion on whether the independence of the auditor has been compromised.

i) To analyse and report on the financial terms, accounting impact and, if applicable, the exchange ratio proposed for structural modifications and corporate transactions that the Company expects to carry out, prior to submission to the Board of Directors.

j) To report in advance to the Board of Directors on all matters provided by law and the Company Bylaws.

k) Related transactions:

(i) To report in advance, regarding the essential terms (price, term and subject matter), of related-party transactions between the Company and Telefónica, or among any of the companies in their respective groups, the approval of which is reserved to the Board of Directors according to the Framework Agreement described below under "*—Framework Agreement of relations between the Selling Shareholder and the Company*".

(ii) To report in advance on the sections of the regular public information and of the annual corporate governance report of the Company related to the Framework Agreement and related-party transactions between Telefónica and the Company, or among any of the companies of their respective groups.

(iii) To report any events of concurrence of business opportunities between companies in the Telefónica group and in the Group and to monitor the compliance with the provision of the Framework Agreement on the matter.

(iv) To regularly report on compliance with the Framework Agreement.

(v) To report in advance of any proposal for amendment of the Framework Agreement and on transactions seeking to resolve any dispute that may arise between the signatories thereof due to application of the Framework Agreement.

(vi) To report in advance of any other related-party transactions affecting the Company (including the transactions performed by the Directors).

l) To perform all those duties of the audit committee at any time contemplated by legislation in force in respect of the companies in its Group considered to be public-interest entities (*entidades de interés público*) (as defined by applicable law) for which the Board of Directors so approves, provided that they are wholly-owned, directly or indirectly, by the Company, and that the administration thereof is not vested in a board of directors.

m) To evaluate all matters relating to non-financial risks of the Company including operational, technological, legal, social, environmental, political and reputational risks.

n) To coordinate the reporting process of non-financial information, in compliance with applicable legislation and international standards.

The Audit and Control Committee must meet at least four times a year (once each quarter). The Audit and Control Committee may also meet at the request of the Board of Directors or its

Chairman whenever is necessary to perform the duties for which the Audit and Control Committee was established. The Audit and Control Committee has not yet met as of the date of this Prospectus and will be effectively established after Admission.

Nominating, Compensation and Corporate Governance Committee

The Nominating, Compensation and Corporate Governance Committee shall comprise the number of members the Board of Directors determines from time to time, which shall in no case be less than three, and shall be appointed by the Board of Directors. The Spanish Companies Act and the Board of Directors Regulations require all members of the Nominating, Compensation and Corporate Governance Committee to be non-executive Directors, and the majority of them must be independent directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee is appointed by the Board of Directors, amongst the independent members of the Committee. The secretary of the Nominating, Compensation and Corporate Governance Committee is appointed by the Committe. The Nominating, Compensation and Corporate Governance Committee may adopt its own additional particular regulations.

A quorum for the Nominating, Compensation and Corporate Governance Committee shall be validly established with the attendance, in person or by proxy, of at least one-half of the members thereof, and the Committee shall adopt resolutions by a majority of those present at the meeting in person or by proxy. In the event of a tie, the Chairman of the Committee shall cast the deciding vote.

After Admission, the Nominating, Compensation and Corporate Governance Committee will be comprised of three members appointed by the Board of Directors. The initial members of the Nominating, Compensation and Corporate Governance Committee will be:

Name	Date of appointment	Title	Category
Mrs. Carmen Gómez de Barreda Tous de Monsalve.........	07/09/16	Chairwoman	Independent
Mr. Guillermo Jasson García	07/09/16	Member	Independent
Ms. María García-Legaz Ponce......	07/09/16	Member	Proprietary

The Nominating, Compensation and Corporate Governance Committee shall be responsible, among other duties, for:

a) Evaluating the skills, knowledge and experience necessary within the Board of Directors;

b) Establishing a goal for representation of the less represented gender on the Board of Directors and prepare guidance on how to reach this objective;

c) Submitting proposed appointments of independent directors to the Board of Directors for appointment by co-opting to fill a vacancy or for submission of such proposals to a decision by the shareholders at the Shareholders' Meeting, as well as proposals for the re-election or removal of such directors by the shareholders at the Shareholders' Meeting;

d) Reporting on proposed appointments of the other directors of the Company for appointment by co-opting to fill a vacancy or for submission of such proposals to a decision by the General Meeting, as well as proposals for the re-election or removal thereof by the Shareholders' Meeting. To also report on proposals for the appointment and removal of the Secretary and any Deputy Secretary of the Board of Directors, as well as proposals for the appointment, re-election and removal of Directors from the relevant subsidiaries thereof;

e) Reporting on proposals for the appointment and removal of the senior executive officers of the Company and its relevant subsidiaries;

f) Reporting on the proposals for appointment of the members of the committees of the Board of Directors, as well as the respective Secretary and, if applicable, the respective Deputy Secretary;

g) Proposing to the Board of Directors, when appropriate, the appointment of the Lead Independent Director from among the independent directors;

h) Together with the Chairman of the Board of Directors, organizing and coordinating a periodic assessment of the Board of Directors;

i) Reporting on the periodic evaluation of the Chairman of the Board of Directors;

j) Examining or organizing the succession of the Chairman of the Board of Directors and, if applicable, making proposals to the Board of Directors so that such succession occurs in an orderly and planned manner;

k) Proposing to the Board of Directors, within the framework established in the Bylaws, the compensation for the Directors and reviewing it periodically to ensure that it is in accordance with the tasks performed by them;

l) Proposing to the Board of Directors, within the framework established in the Bylaws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the executive directors and the senior executive officers of the Company, as well as the basic terms of their contracts;

m) Preparing and proposing to the Board of Directors an annual report regarding the director compensation policy;

n) Verifying the information regarding the compensation of the Directors and senior executive officers set forth in the various corporate documents, including the annual report on the Director compensation policy;

o) Supervising the strategy of communications with shareholders and investors relations, including small-and medium-size shareholders;

p) Evaluating the degree of compliance with the Company's Bylaws, with the Board of Directors Regulations, with the Internal Code of Conduct and, in general, with the rules of governance of the Company and make the proposals necessary for its improvement, evaluating periodically the compliance with the corporate governance system of the Company, for it to achieve its mission to promote the corporate interest and take into account, as appropriate, the legitimate interests of the rest of the stakeholders; and

q) Reviewing the corporate responsibility policy of the Company, ensuring that it seeks to create value, and supervising the corporate social responsibility strategy and practices and evaluating its degree of compliance, and of the processes of relations with the various stakeholders.

The Nominating, Compensation and Corporate Governance Committee shall meet at the request of the Board of Directors, whenever necessary to perform the duties for which the Nominating, Compensation and Corporate Governance Committee was established in addition to the meetings established in the annual schedule. The Nominating, Compensation and Corporate Governance Committee have not yet met as of the date of this Prospectus and will be effectively established after Admission.

Senior Management

The following table sets out the key members of the Company management, aside from the Chief Executive Officer, which includes the Chief Legal Officer, the Internal Audit Director and those managers reporting to the Chief Executive Officer (the "**Senior Management**"), and their respective positions as of the date of this Prospectus.

Name	Date of first appointment[(1)]	Title
Mr. Antonio Manuel Ledesma Santiago	01/02/16	Chief Financial Officer
Mr. Miguel Garrido de las Heras	01/02/16	Chief Legal Officer
Mr. Miguel Echavarría	01/02/16	Chief Administrative Officer
Mr. Rafael Arranz	15/02/16	Chief Operating Officer Cable
Mr. Carlos San Paulino Sánchez	15/02/16	Director Tower Spain
Ms. Diana Ramos	15/02/16	Director Tower Brazil
Mr. Rodrigo Torres	01/06/16	Head of Tower Chile
Mr. Carlos Flores	19/05/16	Head of Tower Peru
Mr. Manfred Kickartz	01/06/16	Director Tower Germany
Ms. Piedad García-Manso Zurita	15/03/16	Internal Audit Director
Mr. Jorge Abadía Pozuelo	01/06/16	Corporate Development

(1) Although the formalisation of the employment contracts may have taken place at a later date, the date expressed is the one which they were assigned the indicated roles. On 29 July 2016 the Board of Directors ratified the appointment of all the Senior Management.

Senior Management biographical information

Biographical information for each of the current members of the Senior Management team, including a brief description of each business experience and education, is presented below.

Mr. Rafael Arranz. Chief Operating Officer Cable

With more than 24 years of experience, Mr. Arranz has held offices as Sales and Capacity & IP Executive Vice-president at Telefónica International Wholesale Services.

Mr. Arranz holds a telecommunications engineering degree from Madrid's Polytechnic University and an international master degree from Instituto Carlos V.

Mr. Miguel Garrido de las Heras. Chief Legal Officer

Mr. Garrido holds a Law degree from Madrid's Carlos III University and an LLM from Instituto de Empresa.

He has over 19 years of experience in the legal sector. Mr. Garrido started his career as lawyer at different law firms, including CMS and Allen&Overy, before joining the legal department of Telefónica. He was a director at this legal department prior to his appointment as Chief Legal Officer of Telxius.

Mr. Miguel Echavarría. Chief Administrative Officer

Mr. Echavarría holds an HR degree from Universidad Del Salvador (Argentina) and an MBA in IDE (Ecuador).

He is the former HR Director of Corporate Center and Global Resources at Telefónica. Mr. Echavarría has 27 years of experience in and outside of the Telefónica Group and has held several HR, processes and commercial positions in Spain, Argentina and Ecuador.

Mr. Antonio Ledesma. Chief Financial Officer

Mr. Ledesma is a former Director of Corporate Development at Telefónica and Responsible of the CEO's Office at Telefónica Europe.

He started his 19-year long career at J.P. Morgan in the investment banking area.

Mr. Ledesma holds an economics degree from the University of Salamanca and an MBA from IESE Business School.

Mr. Carlos San Paulino Sánchez. Director Towers Spain

Before joining Telxius, Mr. San Paulino was the Regional Director of Telefónica España and Director of Torre de Collserola.

He has 30 years of experience and holds a Certified Electronical Ingenieer Degree from Escuela Industrial de Barcelona (Barcelona's Polytechnic University).

Mr. Manfred Kickartz. Director Towers Germany

Mr. Kickartz holds a telecommunications engineering degree and a Master degree from RWTH Aachen University.

Mr. Kickartz has over 23 years of experience in the telecommunications sector, where he has occupied several positions, such as Outsourcing Project Leader at Telefónica O2 Germany, CEO of Huawei Technologies and different positions at Nokia.

Ms. Diana Ramos. Director Towers Brazil

Ms. Ramos holds an Administration degree from Instituto Metodista Izabela Hendrix and an executive education in tax law and finance from FGV.

She has 15 years of experience and held the office of Director of Accounting at Telefónica Brazil before joining Telxius.

Mr. Rodrigo Torres. Head of Tower Chile

Mr. Torres holds the title of Engineer in Finance and Administration from the University of Chile and a Master in Management and Tax Planning at the University Adolfo Ibañez.

Mr. Torres began his career in the logistics and distribution industry, holding the position of head of finance for three years.

In 2003 he joined Telefónica as a financial management specialist, reaching the post of head of Projects and Cash Management, where he participated and led important projects of M&A.

From 2013 to date, he held the position of Administration Manager in Telefónica Chile.

Mr. Carlos Flores. Head of Tower Peru

Mr. Flores during the past 10 years has held numerous executive positions in Telefónica del Perú related to strategy and development of national telecommunication infrastructures, and evaluation and financing of investment projects.

Mr. Flores has been Manager of networks strategy, Engineering of Mobile Access, Mobile Concession and Rural Business.

Mr. Jorge Abadía Pozuelo. Corporate Development

Mr. Abadía has a degree in economics from the Universidad Autónoma de Madrid. With more than 26 years of experience, he joined Telefónica 24 years ago starting as investment analyst and holds executives positions, mainly in M&A, since 2000. He has successfully completed M&A transactions with an aggregate value of over €20,000 million in Latin America, Europe and Asia.

During the last five years he has been CEO of Telefónica Costa Rica.

Mrs. Piedad García-Manso Zurita. Internal Audit Director

Mrs. García-Manso joined Telefónica in 2002, working in the Internal Audit Department of Atento and Telefónica Gestión de Servicios Compartidos. Mrs. García-Manso was appointed Director of Internal Audit of business processes of Telefonica in 2011 and also of financial processes of Telefónica in 2015. She was also a member of the Committee of the Business Principles of Telefónica Group.

Mrs. García-Manso holds a degree in Economics and Business Administration from the Pontifical University of Comillas (ICADE) and has over 25 years of experience working in different companies such as KPMG (in the financial audit department), and in the financial division of Grupo Televisa España and USF Euroholding.

Senior Management positions and shareholdings

The table below sets out all entities (except (i) family-owned and asset-holding companies, (ii) holdings in listed companies which are not relevant, (iii) companies within the Telxius Group and (iv) any other companies without relevance for the activities of the Company) in which the members of the Senior Management have been appointed as members of the administrative, management or supervisory bodies or in which they have held shareholdings at any time during the five year period preceding the date of this document, indicating whether or not each person is still a member of such bodies or holds any shares in any such entities.

Senior Manage	Company	Position/title	In office
Mr. Rafael Arranz..............................	–	–	–
Mr. Miguel Garrido de las Heras.......	Tuenti Technologies, S.L.	Director	No
	Atento Inversiones y Teleservicios, S.A.	Director	No
Mr. Miguel Echavarría	Pleyade Peninsular	Director	No
Mr. Antonio Manuel Ledesma	Telefónica Deutschland	Member of the Supervisory Board	No
	Telefónica Czech Republic	Member of the Supervisory Board	No
	Banco Inversis, S.A.	Director	No
	Venturini España S.A.U	Sole Director	No
Mr. Carlos San Paulino Sánchez	Torre de Collserola	Director	No
Mr. Manfred Kickartz........................	–	–	–
Ms. Diana Ramos	–	–	–
Mr. Rodrigo Torres............................	–	–	–
Mr. Carlos Flores...............................	–	–	–
Mr. Jorge Abadía Pozuelo	Telefónica Costa Rica	Director	Yes
	Telefónica Móviles El Salvador, S.A. de C.V.	Substitute Director	Yes
Ms. Piedad García-Manso	–	–	–

Other commitments

Upon Admission, the Company's website will be adapted to the requirements imposed by the Spanish securities market regulations.

In addition, upon Admission, the Company intends to use its best efforts to comply with the recommendations and lines of action regarding control of financial information (*Sistema de Control Interno de Información Financiera* or *SCIIF*), whose implementation is still pending as of the date of this Prospectus. The Company intends to implement the SCIIF as soon as reasonably possible within the next year.

Conflicts of interest

As of the date of this Prospectus, the Company is not aware of any conflict of interest affecting its Directors vis-à-vis the Company and/or Telefónica.

Pursuant to article 229 of the Spanish Companies Act, directors are required to report all circumstances that may give rise to a conflict of interests to the Board of Directors as soon as they become aware of such circumstances. Directors should refrain from voting on matters in which they may have a personal interest, whether directly or indirectly.

Additionally, according to article 529.ter (h) of the Spanish Companies Act, the Board of Directors will be responsible for authorising, where appropriate, after the issue of a report from the Audit and Control Committee, any transactions between the Company (or any of its group companies) and any of the Directors of the Company or any of the significant shareholders of the Company (including, as the case may be, the Selling Shareholder), any of their corresponding group companies or any party related to such significant shareholders. Such authorisation shall not be necessary if all the following conditions are met in respect of the relevant transaction: (a) the transaction is performed pursuant to an agreement with standard conditions and which are applied to large number of customers (*contratos de adhesión*); (b) the transaction is performed for a price generally applied by the party acting as the supplier; and (c) the transaction does not exceed one per cent of the Company's annual turnover. Those directors representing significant shareholders must also refrain from participating in the debate and voting of decisions relating to conflict of interests between the Company and the significant shareholder.

In this regard, the Board of Directors Regulations set forth that the Directors should refrain from engaging in commercial or professional transactions with the Company, without having first informed and received approval for the transaction from the Board of Directors, which shall request a report from the Audit and Control Committee, pursuant to article 529.ter (h) of the Spanish Companies Act.

The Company is not aware of any agreement or arrangement between significant shareholders, clients, suppliers or any others by virtue of which any of the above mentioned directors and members of the Senior Management team have been so appointed, without prejudice to the appointment of proprietary directors proposed by Telefónica.

Non-compete obligation

Directors, or persons related to them, are not entitled to engage in activities, whether directly or indirectly, that compete, actually or potentially, with the Company or that, in any other manner, puts the Director in a permanent conflict of interest with the Company, except with the express authorisation of the shareholders' meeting and provided that they fulfil the requirements set out in articles 230.3 and 529.ter (h) of the Spanish Companies Act.

To the best of the Company's knowledge, as at the date of this document, no director renders services to an entity that is a competitor of the Company.

Internal Capital Markets Code of Conduct

On 7 September 2016, the Board of Directors approved the internal capital markets code of conduct (*Reglamento interno de conducta en los mercados de valores*) (the "**Internal Code of Conduct**"), to take effect upon Admission. The Internal Code of Conduct regulates, amongst other issues, the conduct of Directors and management with regard to the treatment, use and disclosure of non-public material information relating to the Company. The Internal Code of Conduct applies, amongst others, to all members of the Board of Directors, Senior Management and employees with access to material non-public information, as well as to the Company's external advisors handling such non-public material information.

In particular, Directors shall not engage in, or suggest any person to engage in, transactions over securities issued by the Company or any of its group companies over which they have insider information due to their office. Furthermore, the Directors are not permitted to use non-public information of the Company for private purposes, unless (i) such use of information does not breach any law or regulation, (ii) no prejudice is caused to the Company, and (iii) the Company does not hold any exclusivity right or similar position over the information intended to be used, unless expressly authorised by the Board of Directors.

Corporate governance

The Spanish Companies Act sets out certain mandatory legal provisions applicable to Spanish companies whose shares are listed on Spanish Stock Exchanges. In addition, the Spanish Corporate Governance Code sets out certain recommendations on corporate governance to be considered (on a "comply or explain" basis) by companies whose shares are listed on Spanish Stock Exchanges. As at the date of this document, the Company believes that it substantially complies with these recommendations.

Some of the Company's corporate practices currently vary from the recommendations in certain respects. Nevertheless, the Company is committed to observe strict corporate governance policies and adapt its practices as appropriate to all of the above mentioned principles of good governance, as soon as possible after Admission.

The Company's corporate practices vary from the recommendations in the following ways:

- Recommendation 4: As of the date of this Prospectus, the Company is a sole-shareholder company and so it has not been discussed whether or not a policy for information and communication with shareholders, proxy advisors and institutional investors is necessary.

  However, once the Shares have been admitted to trading, the Company will consider as a priority the implementation of a policy for information and communication with shareholders, proxy advisors and institutional investors, fully transparent and respectful with respect to the treatment of shareholders and institutional investors. Therefore, once established the processes and guidelines deemed appropriate, the Company will proceed with the implementation of such policy, which shall be made available in the Company's website, including information related to how the policy has been put into practice.

- Recommendation 7: As of the date of this Prospectus, the Company is a sole-shareholder company and so it has not been discussed whether or not the general shareholders meetings shall be broadcast live. However, once the Shares have been admitted to trading, the Company will consider the possibility of broadcasting the general shareholders meetings through its website (bearing in mind the organizational and development criteria of the general shareholding meetings).

- Recommendation 14: As of the date of this Prospectus, the Company has not approved a policy for selecting directors. However, once the Company's Shares have been admitted to trading, the Company will proceed with the approval of such policy as it is considered a priority (such policy is estimated to be approved during 2017).

- Recommendation 48: Both Article 35 of the Bylaws and Article 21 of the Board of Directors Regulation set forth, when regulating the Nominating, Compensation and Corporate Governance Committee, that the Board of Directors may agree to create two separate committees, attributing to each of them separate powers regarding nominations, to one of them, and compensation, to the other one, and being the corporate governance powers attributable to any of them.

To this date, the Board of Directors has not considered the separation of the Nominating, Compensation and Corporate Governance Committee, given that the meeting in one single committee of all the powers related to the evaluation of the directors and to their compensation enables the coordination and the establishment of a "pay for performance" compensation system.

Furthermore, this recommendation is expressly addressed to large capitalization companies, and thus is not expected to apply to Telxius upon Admission.

- Recommendation 54: As of the date of this Prospectus, the Company has not approved a corporate social responsibility policy different from the one applicable to the Telefónica Group. Nevertheless, given that this is a matter of priority for the Company, once the Shares have been admitted to trading the Company will approve this policy (such policy is estimated to be approved during 2017).

- Recommendation 61: Per this recommendation, a major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

  Although the variable remuneration of the Chief Executive Officer does not entail the award of Shares or financial instruments whose value is linked to the price of the Shares, his variable remuneration is linked to the market price of the Shares and the performance of the Company.

- Recommendation 63: Pursuant to this recommendation, contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

  The Company partially complies with this recommendation. The Nominating, Compensation and Corporate Governance Committee will be empowered to propose to the Board of Directors to cancel a variable remuneration payment in the event of circumstances such as those described in this recommendation. The Nominating, Compensation and Corporate Governance Committee will also assess if exceptional circumstances of this kind may even entail the termination of the relationship with the person responsible, proposing measures which are deemed pertinent to the Board of Directors.

In relation to other recommendations, to be complied in practice, the Company will adopt a decision before the first General Shareholders' Meeting, considering the Company's circumstances, its technical capacities and the Group shareholdings structure.

The Board will prepare an annual corporate governance report and such report will be submitted to the Company's shareholders for informative purposes. The report will be announced through the publication by the Company of a relevant fact notice (*hecho relevante*) and published in the Company's web page.

Pursuant to article 529.decies of the Spanish Companies Act, the proposal of appointment or re-election of members of the board of listed companies corresponds to the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors, and to the board itself in other cases and such proposal of appointment or re-election must be preceded by a report by the Nominating, Compensation and Corporate Governance Committee.

As of the date of this Prospectus, neither the appointment of the current directors was preceded by proposals and reports of the Nominating, Compensation and Corporate Governance Committee nor the category assigned to each director confirmed by the Nominating, Compensation and Corporate Governance Committee, as this committee was not in place yet on the date of each of the appointments. However, once this committee is formed and as soon as practicable following Admission, it will issue the corresponding proposals and reports and confirm the assigned categories in accordance with applicable law and the Board of Directors Regulations.

As set forth in the Board of Directors Regulations, the Nominating, Compensation and Corporate Governance Committee is required to periodically review the level of compliance by the Company and, where appropriate, the subsidiaries, submitting its proposals and recommendations to the Board of Directors in order to improve such rules.

Furthermore, pursuant to the Company's Board of Directors Regulations, the Nominating, Compensation and Corporate Governance Committee is required to prepare a report on the annual corporate governance report prior to its approval by the Board of Directors of the Company. The first report to be prepared by the Company will be the report in respect of the year ended 31 December 2016.

Upon Admission, the Company's website will be adopted to the requirements imposed by the Spanish securities market regulations.

Directors compensation

The Company's Bylaws establishes that the office of Director is remunerated, save for the office of proprietary director, which is not remunerated. Moreover, executive directors who receive remuneration for the performance of executive functions shall not receive remuneration for the office of director, despite their remuneration as detailed herein below.

With the exceptions provided for in the preceding paragraph, directors' compensation for the office of director, that is, as members of the Board of Directors and for the performance of the duty of supervision and collective decision-making inherent in such body, shall consist of fixed and specific monthly remuneration for their membership of the Board of Directors and of its Board Committees.

The compensation amount that the Company may annually pay to all of its directors as remuneration for the items mentioned above shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the directors, taking into account the duties and responsibilities assigned to each director, their membership on Board Committees within the Board of Directors and other objective circumstances that it deems relevant.

In addition, independently of the compensation established as per the above, the Company's Bylaws includes the possibility for the establishment of director compensation systems that are linked to the listing price of the shares or that entail the delivery of shares or of stock options. The application of such compensation systems must be approved by the shareholders at the

General Shareholders' Meeting, who shall determine the value of the shares to be taken as a reference, the number of shares to be delivered to each director, the exercise price of stock options, the duration of such compensation system and other conditions they deem appropriate.

In addition, directors shall be entitled to payment or refund of the reasonable expenses they may have incurred adequately for their attendance to meetings and performance of other tasks related directly to the discharge of their duties as director, such as travel, accommodation, restaurant and any other expenses that they may incur.

The director compensation policy shall be set in what corresponds to the compensation system provided for in the Bylaws, as detailed above and shall be approved by the General Shareholders' Meeting at least once every three years as a separate item from the agenda.

In accordance with the abovementioned, the sole shareholder of the Company, at the proposal of the Board of Directors of Telxius, has agreed a remuneration policy that establishes that each member of the Board of Directors, excluding executive director and proprietary directors, by reason of their office as director, will receive, where appropriate in accordance with the abovementioned, the following fixed annually amounts in order to remunerate the responsibility and time commitment required by such office:

- €60 thousand for their membership of the Board of Directors in their standing as such;
- €20 thousand for their membership of any of the Committees; and
- €10 thousand in addition for their chairmanship of any of the Committees.

In the case of the independent Directors, the abovementioned remuneration will be accrued from the Offering date, given that the achievement of the Offering is a condition for their appointment. The remuneration of the Executive Director will be accrued from 3 August 2016.

The sole shareholder has also established an annual fixed remuneration for the entirety of the nine members of the Board of Directors with the current categories of €400 thousand, adjustable according to the abovementioned and to any variations that might take place in the number or category of directors and on the basis of the time served in post of the incoming and outgoing directors. This amount does not include the compensation that, as a fixed salary or variable remuneration, or in any other concept, corresponds to the executive Directors, according to the Bylaws, as detailed below.

The Company estimates that the total remuneration payable to the members of the Board of Directors in 2016 will amount to approximately €100 thousand, considering a pro rata of three months (from October to December 2016). Said amount does not include Executive Director's remuneration.

In the case of the Executive Director, the Company estimates that the total fixed remuneration payable in 2016 will amount to approximately €250 thousand. The aforementioned remuneration would be expressly confirmed by the Nominating, Compensation and Corporate Governance Committee, when it has been formed.

The Company's Bylaws have been amended on 13 June 2016 in order to allow the office of Director as to be remunerated, given that said office was non-remunerated until that moment.

In addition, the Directors may not obtain any remuneration from other entities within the Group.

With respect to executive Directors, their compensation has being designed considering the applicable corporate law and the Bylaws of the Company, and has the following components:

Fixed compensation

For the development of their executive functions within the Company, the executive Directors shall receive an annual fixed compensation payable monthly.

Such remuneration shall be established by the Board of Directors, prior proposal of the Nominating, Compensation and Corporate Governance Committee if it would exist, when it has been formed, in accordance with the level of responsibility and leadership within the Company, and considering the retention of key personnel and talented people and with a balance among the different remuneration to be paid.

The gross fixed annual remuneration shall be annually increased considering the criteria to be fixed by the Nominating, Compensation and Corporate Governance Committee, from time to time. The annual increase of the annual remuneration shall never exceed 20% of the gross total remuneration of the previous year.

In certain scenarios, such as when changing responsibilities, the duties or special retention or motivation necessities, the Nominating, Compensation and Corporate Governance Committee may agree on higher increases, to be reported in the correspondent annual report about Directors remuneration.

Notwithstanding the above, for year 2016, the amounts have being established by the Board of Directors considering the Bylaws of the Company but without prior proposal of the Nominating, Compensation and Corporate Governance Committee as this will be formed after Admission. Such fixed annual amounts have being fixed at €600,370. The aforementioned remuneration would be expressly confirmed by the Nominating, Compensation and Corporate Governance Committee, when it has been formed.

Variable compensation

The compensation policy of the Company established that only executive Directors may have a variable remuneration component, which will be as follows:

(i) *Short-term variable compensation (bonus):*

Short-term variable compensation shall be tied to the achievement of a combination of economic/financial, operational and qualitative specific, predetermined and measurable objectives, in line with the corporate interest of the Company and its strategic plan.

The quantitative objectives (generally, economic/financial and operational objectives) carry a maximum weight of 80% of the overall incentive. They consist of metrics that ensure the right balance between the financial and operational aspects of the management of the Company.

The qualitative objectives carry a maximum weight of 20% of the overall incentive.

The Nominating, Compensation and Corporate Governance Committee will be in charge of approving the targets, at the beginning of each financial year, and evaluating their achievement, at year end.

This evaluation will be carried out on the basis of the audited result of the Company, which will be firstly analysed by the Audit and Control Committee, and of the degree of achievement of the targets.

After said analysis is made, the Nominating, Compensation and Corporate Governance Committee will make a proposal for bonuses subject to the Board of Directors' approval. The Nominating, Compensation and Corporate Governance Committee will also take into account the quality of the Company's result in a long-term approach and any risk associated with the proposal for variable compensation.

In order to ensure that annual variable remuneration is effectively related to the professional performance of its beneficiaries, when the level of achievement of quantitative objectives is determined, all positive or negative economic effects will be eliminated, arising from extraordinary events that may distort assessment results.

The achievement scale determined at the beginning of the year includes a minimum threshold, below which no incentive is paid- a target level- representing 100% achievement of objectives, and a maximum level, specific for each metric figure.

In order to calculate variable remuneration, the level of achievement and weighting of each individual and/or global objective will be taken into account, applying rules and internal procedures for the assessment of objectives, established by the Company for its executives.

The annual bonus will be paid entirely in cash.

The terms of the annual variable compensation system applicable to executive Directors, including the structure, maximum remuneration levels, objectives set and the weight of each, will be reviewed annually by the Nominating, Compensation and Corporate Governance Committee taking into account the Company's strategy and the needs and situation of the business, and will be subject to approval by the Board of Directors.

In particular, for the year 2016, the Board of Directors has selected those quantifiable and measurable metrics that best reflect the drivers of value creation within the Group, on the basis of the Bylaws but without the previous proposal by the Nominating, Compensation and Corporate Governance Committee, which will not be formed until the date of Admission. The aforementioned remuneration would be expressly confirmed by the Nominating, Compensation and Corporate Governance Committee, when it has been formed.

These metrics and their relative weight are as follows:

- 80% of the objectives are operational and financial:
  - 30% of the objectives are tied to OIBDA ("**Operating Income Before Depreciation and Amortization**"), which reflects both the Group's growth and progress in operating performance.

- 30% of the objectives are tied to Operating Revenue, which is used to measure the Group's growth.

- 20% of the objectives are tied to Free Cash Flow, the generation of which makes it possible to reduce the debt load.

- The remaining 20% of the objectives are qualitative, referring to the satisfaction level of the customers, and they are measured by the Audit and Control Committee by using the standard criteria applicable to such indices.

The Operating Revenue and the Free Cash Flow will be determined in accordance with the applicable international accounting legislation.

The amount of the bonus is limited to 131.25% of the fixed compensation in the case of the Chief Executive Officer.

(ii) *Medium and long-term variable compensation (multiannual):*

As of the completion of the Offering, executive directors will participate as participants in certain medium and long-term variable remuneration schemes that were granted before the Offering, and some other medium and long-term variable remuneration schemes implemented at the Offering:

Plans introduced prior to the Offering

(i) Long-term incentive plan based on Telefónica, S.A. shares: "Performance and Investment Plan"

Certain Telxius managers, including executive directors, are participants of the Telefónica Group's plan referred to as "Performance & Investment Plan" ("**PIP**"), based on the delivery of Telefónica shares in respect of variable compensation and according to the fulfillment of the objectives established for each one of the cycles into which PIP is divided, as it was approved by the General Shareholders' Meeting of Telefónica on 30 May 2014.

The PIP is divided into three cycles lasting three years each, independent of each other. Some Telxius managers have been granted with the PIP at the first cycle commenced on 1 October 2014 (the delivery of these shares will take place on 1 October 2017), at the second cycle, commenced on 1 October 2015 (the delivery of these shares will take place on 1 October 2018) and will be granted with the third cycle next 1 October 2016 (with the delivery of the shares that apply on 1 October 2019).

The specific number of Telefónica shares to be delivered to each Telxius manager which, within the maximum amount established, shall be delivered to them at the end of each cycle and shall be conditional on, and determined according to, the total shareholder return on the share of Telefónica ("**TSR**").

In this regard, the TSR is calculated according with the following formula:

$$TSR = \frac{A}{B} - 1$$

Where

A: the average "Total Return Index" on each stock market business day during the six weeks up to and including the end date of each cycle.

B: the average "Total Return Index" on each stock market business day during the six weeks up to and including the day preceding the starting date of each cycle.

Where the "Total Return Index" is the value of a holding of shares (valued at the closing share price on the relevant day) acquired with an investment of €100 on the first stock market business day which falls within the six weeks preceding the starting date and the end date of each cycle, and assuming gross dividends paid on a share are used to purchase additional shares at the closing price on the ex-dividend date.

At the start of the relevant cycle, each manager of Telxius considered as participant is allocated a theoretical number of Telefónica shares. The calculation of the concrete number of Telefónica shares to be delivered to each Telxius manager at the end of each cycle is based on the evolution of the TSR of the share of Telefónica during the duration period of each cycle, in comparison to the TSR's experienced by the following companies within the telecommunications sector, weighted according to their relevance to Telefónica ("**Comparison Group**"):

Vodafone Group, America Movil, Deutsche Telekom, BT Group, Orange, Telecom Italia, Telenor, TeliaSonera, Swisscom, Koninklijke KPN, Tim Participaçoes, Proximus, Millicom y Oi.

The number of shares to be delivered will vary between 30% of the theoretical number of shares, where the TSR on the share of Telefónica is, at least, the median of the Comparison Group, and 100% in the event that such performance is in the third quartile or above of the Comparison Group, such percentage being calculated by linear interpolation where it falls between the median and the third quartile. Additionally, the PIP could establish that, for all or part of the participants in the Plan, in case the evolution of the TSR on the share of Telefónica is in the ninth decile or above, the delivery percentage might be higher than 100% (and up to 125%), being calculated by linear interpolation where it falls between the third and the ninth decile.

The aggregated theoretical number of Telefónica shares assigned to the beneficiaries of Telxius is breakdown as follows:

	PIP 2014	**PIP 2015**
Name:		
Alberto Horcajo	24,932	25,000
Telxius employees	46,736	52,309
Total	71,668	77,309

If Telxius managers meet an objective of investment in, and holding of, Telefónica shares, they will receive an additional number of shares. Under this co-investment condition Telxius managers must directly own 25% of the number of shares assigned under the PIP. The shares must be owned at the first anniversary of the starting date of each cycle, and Telxius managers must hold those until the end of the cycle, in order to be entitled to receive an additional award of 25% of the original number of shares awarded.

Moreover, Telxius managers must continue to be employees of the Telefónica Group on the delivery date of each cycle, notwithstanding any exceptions considered appropriate.

(ii) Global Employee Share Plan of Telefónica

Executive directors are participants, among others Telxius employees, of the "Global Employee Share Plan" of Telefónica ("**GESP**"), approved by the General Shareholders' Meeting of Telefónica on 30 May 2014.

All the members of the Senior Management of Telxius have been eligible as beneficiaries of the GESP.

Through this plan, Telxius employees are offered with the possibility of acquiring shares of Telefónica, with the commitment from the latter to deliver free of charge to Telxius employees a certain number of shares in Telefónica, provided that certain requirements are met.

Under GESP, Telxius employees have a period for acquiring the shares ("**Purchase Period**") with a term of one year, and a period for holding the shares ("**Holding Period**") with a term of, at least, one year from the end of the Purchase Period.

Each Telxius employees can allocate a maximum amount of €1,800, and a minimum amount of €300 during the entire period. If the employee remains with the Telefónica Group and maintains the shares for an additional year after the Purchase Period (vesting period), they will have the right to receive one free share for each share that they have acquired and maintained.

If all or part of the acquired shares are sold before the end of the Holding Period, the Telxius employee will forfeit the right to the free-of-charge delivery of the shares corresponding to the acquired shares sold.

Plans that the Company intends to introduce this financial year

(i) Long-term incentive Cash Plan

This financial year 2016 Telxius is planning to implement a long term incentive remuneration scheme ("**LTI**") in a maximum amount of €3,000,000 to be granted to certain managers, including executive directors, who will receive a certain amount of cash subject to the achievement of corporate targets, and to the maintenance of the labour relationship with Telxius.

Telefónica and Telxius will determine the members of Telxius' management team (including executive directors and top managers) who will participate in LTI. The group of potential beneficiaries is comprised of approximately 20 Telxius' executives.

The term of LTI would be three years starting six weeks after the Admission, and ending at the third anniversary of the Admission date. However, it will be possible to include anticipated vesting periods at the first and second anniversary of the Admission date.

The amount of the LTI to be paid will depend on the level of achievement of each target, considering that if the objectives are achieved at a 100% level, each participant will receive an amount in concept of LTI equal to 100% of his or her 2016 annual fixed remuneration.

Payment of the LTI will depend on the evolution of the value of the TSR of Telxius (50%) and in the evolution of certain financial key performance indicators to be defined within six weeks after the Admission (50%).

(ii) IPO Success Bonus

This financial year 2016 Telxius is planning to implement a one-off incentive remuneration scheme ("**IPO Success Bonus**") to be granted to certain Telxius key managers and employees, including the Executive Director, to reward and recognize their support in launching the IPO. Given the fact that Telxius' Nominations and Remuneration Committee will not be established as of the date of the Admission, the determination of the beneficiaries was delegated by the Board of Directors to the Chief Executive Officer, following the proposal of the Chief Administrative Officer. The IPO Success Bonus has been approved by Telefónica, S.A., and its cost will be borne by Telefónica.

Under the IPO Success Bonus, the beneficiaries will receive one month after the Admission date a variable remuneration which will be up to 25% of their annual fixed remuneration, subject to the maintenance of their labour or corporate relationship with Telxius one month after the Admission date. The only condition for the payment of this bonus is the successful execution of the IPO of Telxius, and apart from the one month permanence period mentioned before, there is no other condition to be eligible to receive this incentive.

In exceptional circumstances, beneficiaries who are not part of the management team could be granted a higher IPO Success Bonus amounting up to a maximum of 50% (instead of 25%) of their annual fixed remuneration on the recommendation of Telxius' Executive Director or Telxius' Head of Human Resources and approved by Telxius' Nominations and Remuneration Committee.

The Company estimates that the amount payable to the IPO Success Bonus beneficiaries will amount to a maximum of €3,000,000, broken down as follows:

Category	IPO Success Bonus (in thousands of €)
Chief Executive Officer	150
Senior Management (excluding Chief Executive Officer)	460
Other Telxius employees	2,390
Total	3,000

Benefits in-kind

Executive Directors will benefit the same rights provided for the rest of the staff employees regarding the Pension Plan of defined contribution of the Company.

Executive Directors will participate in an Employee Welfare Plan by which they could receive a certain retirement pension, provided that certain conditions are met, allowing the Director to receive a pension equivalent to the guaranteed in the Executive Employee Welfare Plan ("**PPSD**"), under the same assumptions covered by the aforementioned Plan.

In addition, Executive Directors will benefit from a life and accident insurance covering the contingencies of death and permanent disability, a general health and dental coverage insurance, meal vouchers or meal card and has assigned a company vehicle, in line with the general compensation policy applicable to the executives of the Company.

Management compensation

The estimated Senior Managers' annual remuneration for fixed and variable for year 2016 adds up to €2,715 thousands. This amount includes fixed and variable pay for Mr. Antonio Manuel Ledesma Santiago, Mr. Miguel Garrido de las Heras, Mr. Miguel Echavarría, Mr. Rafael Arranz, Mr. Carlos San Paulino Sánchez, Ms. Diana Ramos, Mr. Rodrigo Torres, Mr. Carlos Flores, Mr. Manfred Kickartz, Ms. Piedad García-Manso Zurita and Mr. Jorge Abadía Pozuelo. Out of that total amount, €1,840 thousands relate to fixed annual salary and €875 thousands to variable salary.

Total fixed salary for 2016	Total variable salary target for 2016	Total salary estimated for 2016
€1,840 thousands	€875 thousands	€2,715 thousands

These amounts do not include other benefits such as a company car or pension plan. Pension plan varies per country and sits typically around 5% of fixed annual salary where the employee contributes with a personal contribution of around 2%. In 2016 the directors in this group will not receive any compensation based on Telefónica or Telxius shares.

As detailed above for Directors, this financial year 2016 Telxius is planning to implement a one-off incentive remuneration scheme ("**IPO Success Bonus**") to be granted to certain Telxius key managers and employees, including the Executive Director, previously designated by the Chief Executive Officer, following the proposal of the Chief Administrative Officer, to reward and recognize their support in launching the IPO. Under the IPO Success Bonus, the beneficiaries will receive one month after the Admission date a variable remuneration which will be up to 25% of their annual fixed remuneration, subject to the maintenance of their labor or corporate relationship with Telxius one month after the Admission date. The IPO Success Bonus for the Senior Management (excluding the Chief Executive Officer) can sum up to a maximum of €460 thousands and it is not included in the €2,715 thousands stated previously.

Finally, all the members of the Senior Management of Telxius may participate in the plans detailed in "*—Directors Compensation—Variable Compensation—(ii) Medium and long-term variable compensation (multiannual)*" above, as long as Telxius is consolidated within the Telefónica Group by the global integration method. All of the members of the Senior Management of Telxius has been eligible as beneficiaries of said plans.

All the members of the Senior Management of Telxius may also participate in the plans detailed in "*—Plans that the Company intends to introduce this financial year*" above provided that they are eligible as beneficiaries by the Nominating, Compensation and Corporate Governance Committee.The members of the Senior Management of Telxius may not obtain any remuneration from other entities within the Telxius Group, without prejudice of the variable remuneration pending to be collected derived from the activities carried out for their former employers.

Framework Agreement of relations between the Selling Shareholder and the Company

In order to fulfil the recommendation 2 of the Spanish Corporate Governance Code, the Selling Shareholder and the Company entered into the Framework Agreement on 29 July 2016 for the regulation of the relations between Telefónica and Telxius in the following areas:

- Governance structure of Telxius in order to provide Telxius with an independent management body

  Telefónica undertakes that independent directors will have an important presence in the Board of Director of Telxius and are, at least, one third of the total members of the Board of Directors.

- Powers of the Audit and Control Committee in relation to related-party transactions.

  The Audit and Control Committee, which will be created within the Company's Board of Directors, will be assigned powers regarding, among others, information duties about related-party transactions (see section "*Management and Board of Directors—Audit and Control Committee*").

- Definition of the area of activity of the Telxius group based on the principle of protection of the corporate interest of Telxius and of its minority shareholders.

  The Framework Agreement establishes that the area of activity of Telxius and of the companies of its group is focused on the ownership, management and exploitation of certain telecommunications infrastructures described in this Prospectus and these activities will be carried on by Telxius and the companies of the Telxius group. The Framework Agreement clarifies that other companies of the Telefónica Group may carry out activities in the same areas.

  In cases in which Telefónica and Telxius have an interest or compete in relation to the same business opportunity with third parties included within the area of activity of Telxius, Telefónica, as controlling shareholder, undertakes to refrain from impeding or influencing

Telxius so that the latter does not compete or waives such opportunity in favour of Telefónica.

The Audit and Control Committee of Telxius shall report in relation to the business opportunity in question.

- Right of first offer

  According to the Framework Agreement, if Telefónica wishes to transfer or to build a passive infrastructure asset, it shall offer first to Telxius the possible acquisition (or entrust the construction of the asset) of such asset and embark on negotiations with Telxius for a period of 30 calendar days, during which both parties shall endeavor in good faith to reach an agreement for the sale or construction, as the case may be, of such asset.

- The business relations between Telefónica and the Telefónica Group and Telxius and the Telxius Group

  The Framework Agreement identifies the significant agreements in force between companies of the Telefónica Group and companies of the Telxius Group for provision of services, under which companies of the Telefónica Group transfer property or rights to companies of the Telxius Group and under which the Telxius Group grants the use of tower infrastructure and of cable infrastructure to other companies of the Telefónica Group.

  Regarding the new agreements for provision of services by companies of the Telefónica Group to companies of the Telxius Group, the Framework Agreement establishes that these agreements shall be in writing and governed by the following general principles: (a) transparency and market conditions; (b) the commitment of the parties to provide the services with the utmost diligence; and (c) the commitment of the parties to keep confidential and to refrain from disclosing any restricted information to which they have access as a consequence of the provision of the services.

  New agreements for the transfer of property or rights by companies of the Telefónica Group to companies of the Telxius Group shall be documented in writing and governed by the following general principles: (a) transparency and the making of the transfer and of the payment of the price under market conditions; (b) the transferor's responsibility for failure to provide good title or peaceful possession or hidden defects of the property or right transferred in accordance with market standards; and (c) the commitment of the parties to keep confidential and to refrain from disclosing any restricted information to which they have access as a consequence of the transaction.

  New agreements granting use of tower infrastructure or of cable infrastructure by companies of the Telxius Group to other companies of the Telefónica Group shall be documented in writing and governed by the following general principles: (a) transparency and the performance thereof under market conditions; (b) the commitment of the parties to fulfil their contractual obligations with the utmost diligence; and (c) the commitment of the Parties to keep confidential and to refrain from disclosing any restricted information to which they have access as a consequence of the contract.

All related-party transactions between companies of the Telxius Group and other companies of the Telefónica Group must be authorised by the Board of Directors with a prior report of the Audit and Control Committee of Telxius.

Transactions which simultaneously fulfil the conditions established by article 529 ter (h) of the Spanish Companies Act shall be exempt from this approval.

- The flow of information between Telxius and Telefónica as a consequence of its subsidiary-parent company relationship

  Telxius undertakes to provide Telefónica with the necessary information requested by the latter for the fulfilment by Telefónica of its legal obligations as a parent company and to effectively design the policies and coordinate the strategies of the Telefónica Group.

  On the other hand, Telefónica undertakes to provide Telxius with the necessary information requested by the latter for the fulfilment by Telxius of its legal obligations as a listed company and for tendering or offering services before any public or private authority.

- The mechanisms for resolution of conflicts of interest which may arise between Telefónica and Telxius

  The Framework Agreement establishes the mechanisms for resolution of conflicts of interest which may arise between Telefónica and Telxius, directly or through companies of their respective groups, so that the independent action of Telxius is maintained.

The enforceability and entry into force of the Framework Agreement is subject to the listing of the Shares of Telxius on the Spanish Stock Exchanges and on the Spanish Continuous Market and shall be in force (i) as long as Telefónica (individually or together with other companies of the Telefónica Group) directly or indirectly holds a majority stake (greater than 50%) in the share capital of Telxius, or (ii) even if that stake is equal to or less than 50% of its share capital, as long as more than half of the Directors of Telxius have been appointed at the request of Telefónica or of companies of the Telefónica Group.

In the Framework Agreement:

- The "**Telefónica Group**" comprises Telefónica and all companies, other than those that form the Telxius group, which are placed in relation to Telefónica in the situation envisaged in article 42 of the Spanish Commercial Code.

- The "**Telxius Group**" comprises Telxius and all companies which are placed, in relation to it, in the situation envisaged in article 42 of the Spanish Commercial Code.

No convictions and other negative statements

To the best of the Company's knowledge, none of its Directors or members of its Senior Management team have, in the five years preceding the date of this document: (i) been convicted in relation to fraudulent offences; (ii) acted as directors or senior managers of entities affected by bankruptcy, receivership or liquidation; (iii) been publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies); or (iv) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer of securities or from acting in the management or conduct of the affairs of any issuer.

Family relationships

There are no family relationships and no “close relatives” (as this term is defined in applicable regulations for related-party transactions and, in particular, in Order EHA/3050/2004, of 15 September 2004, on information to be disclosed by listed companies regarding related-party transactions) amongst the directors, the directors and other members of the Group’s senior management or the members of the Group’s senior management.

Agreements with directors and senior management including post-termination benefits

As per the contract signed between Telxius and the Chief Executive Officer on 1 August 2016, he is entitled to receive a compensation amounting to two years of his total annual remuneration in case that the contract is unilaterally terminated by the Company provided that the termination is not a result of a breach attributable thereto nor is due solely to his will. The annual remuneration on which the indemnity is based is the last fixed remuneration and the arithmetic mean of the last two variable remuneration payments received by contract.

The members of the Senior Management of Telxius will not obtain any post termination payments, save the eventual indemnity established by the labour legislation for severance payments under unfair dismissals. In addition, employees based in Spain may opt to participate in a voluntary pension plan. Under this plan, in general terms, each employee would contribute with 2.2% of his or her fixed monthly salary to a pension fund managed by Fonditel Pensiones S.G.F.P. S.A., while the Company would contribute with 4.51% of his or her fixed monthly salary. The Chief Executive Officer will also be entitled to participate in this voluntary pension plan.

Telxius’ managers in Spain also participate in unit-linked plans. Benefits derived from these plans are not deemed to be vested rights, and will only be accrued if the retirement age is achieved.

Lock-up arrangements

To the best of the Company’s knowledge, none of its Directors or members of its Senior Management team intend to purchase Shares in the Offering. Consequently, no post-Admission lock-up arrangement has been envisaged for Telxius’ Directors or members of its Senior Management.

PRINCIPAL AND SELLING SHAREHOLDER

The following table sets forth certain information with respect to the ownership of the Shares prior to the Offering and after the Offering assuming that all the Offered Shares are sold in the Offering and full exercise of the Over-Allotment Option.

	Prior to the Offering		Number of shares offered in the Offering	Over-Allotment Option	Total (number + Over-Allotment Option)	After the Offering			
Owner	Number of Shares beneficially owned	%	Number of Shares			Number of Shares owned (assuming a full exercise of the Over-Allotment Option)	%	Number of Shares owned (assuming no exercise of the Over-Allotment Option)	%
Telefónica, S.A.	250,000,000	100	90,909,091	9,090,909	100,000,000	150,000,000	60%	159,090,909	63.64%
Public	-	-	-	-	-	100,000,000	40%	90,909,091	36.36%

All the total issued ordinary share capital of Telxius is held by the Selling Shareholder.

All the Shares rank, and will rank after the Offering, *pari passu* in all respects with each other, including for voting purposes and for all distributions of the Company’s profits and proceeds from liquidation.

RELATED-PARTY TRANSACTIONS

The Company enters into transactions with certain related parties or its affiliates from time to time and in the ordinary course of its business. Material related-party transactions entered into during the period covered by the Financial Statements and up to the date of this Prospectus are set out below (see section "*Management and Board of Directors—Framework Agreement of relations between the Selling Shareholder and the Company*").

For additional information on Telxius' related-party transactions, see Note 6 to the 2015 Audited Consolidated TIWS América Financial Statements and Note 8 to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements.

As provided for in the Board of Directors Regulations, any transactions that the Company enters into with members of the Board of Directors or shareholders, who hold, individually or together with others, a significant holding, or with persons related thereto, must be approved by the Board of Directors, following a report from the Audit and Control Committee.

All related-party transactions carried out during the year ended 31 December 2015 and the six-month period ended 30 June 2016 have been carried out at arm's length within the ordinary course of the Company's business.

Related-party transactions with the Company's shareholders

On a pro forma basis, for the six-month period ended 30 June 2016 and the year ended 31 December 2015, revenues derived from related-party transactions with Telefónica group companies amounted to €210,994 thousand and €444,458 thousand respectively (without taking into account the Pro forma Cable adjustments and the Adjustments related to PPA as detailed in section "*Presentation of Financial and Other Information— Revenue break-down*"). Most of those revenues are covered by the contracts set forth in section "Material Contracts".

For the six-month period ended 30 June 2016 and the year ended 31 December 2015, other related-party revenues not covered by the agreements set forth in section "*Material Contracts*" consist of Capacity services rendered to other Telefónica Group companies amounting to €8,274 thousand and €30,699 thousand respectively.

In terms of expenses, for the six-month period ended 30 June 2016 and the year ended 31 December 2015 the most relevant ones incurred with Telefónica Group companies amount to €4,783 thousand and €9,521 thousand and correspond to different transactions coming from the supply of services such as certain management services (these in particular under an agreement which provides for Telefónica to provide Telxius with certain management and other corporate services in exchange for a fee, see section "*Material Contracts—Management Services Agreement*"), commercial, IT, construction and maintenance of the Company's infrastructure, key equipment and services, offices leases, and for certain ancillary services.

As of 30 June 2016 and 31 December 2015, the amounts outstanding with companies in the Telefónica Group as per the Company's 1H 2016 Audited Consolidated Telxius Interim Financial Statements were the following:

	As of 30 June 2016	As of 31 December 2015
	(in thousands of €)	
Current advance payments	2,925	2,829
Non-current advance payments	16,864	17,059
Trade receivables	170,752	227,359
Cash	72,427	12,980
Trade payables	74,330	319,103
Other non-trade payables	7,302	-
Current deferred revenue	6,411	10,618
Non-current deferred revenue	31,878	30,700
Current interest-bearing debt	1,683	-
Non-current interest-bearing debt	700,000	-
Total	**1,084,572**	**620,648**

Related-party transactions with managers and/or directors

In the year ended 31 December 2015 and the six-month period ended 30 June 2016, the Company's Directors and senior managers and their related parties did not carry out any transactions other than ordinary business with the Group or applying terms that differ from market conditions.

During said periods, the Directors and senior managers of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Spanish Companies Act.

MARKET INFORMATION

Prior to the Offering, there has been no public market for the Shares. The Company will apply to list the Shares on the Spanish Stock Exchanges and to have them quoted through the SIBE of the Spanish Stock Exchanges (*Mercado Continuo*) under the ticker symbol “TLX”.

The Spanish securities market for equity securities comprises the Spanish Stock Exchanges (located in Madrid, Barcelona, Bilbao and Valencia) and the SIBE.

Automated Quotation System

The SIBE links the Spanish Stock Exchanges, providing any equity securities listed on it with a uniform continuous market in order to eliminate certain differences arising among the various local exchanges. The principal feature of the system is the computerised matching of bid and offer orders at the time of placement. Each order is completed as soon as a matching order occurs, but can be modified or cancelled until completion. The activity of the market can be continuously monitored by investors and brokers. The SIBE is operated and regulated by Sociedad de Bolsas, S.A. (*Sociedad de Bolsas*), a company owned by the companies that manage the Spanish Stock Exchanges. All trades on the SIBE must be placed through a brokerage firm, a dealer firm, or a credit entity that is a member of one of the Spanish Stock Exchanges.

In a pre-opening session held each trading day from 8:30 a.m. to 9:00 a.m. (Madrid time), an opening price is established for each equity security traded on the SIBE based on a real-time auction in which orders can be placed, modified or cancelled, but not completed. During this pre-opening session, the system continuously displays the price at which orders would be completed if trading were to begin. Market participants only receive information relating to the auction price (if applicable) and trading volume permitted at the current bid and offering prices. If an auction price cannot be determined, the best bid and offering prices and their respective associated trading volumes are disclosed instead. The auction terminates with a random 30 second period in which the shares are allocated. Until the allocation process has finished, orders cannot be placed, modified or cancelled. In exceptional circumstances (including the admission of new securities to trade in the SIBE) and subject to prior notice to the CNMV, Sociedad de Bolsas may fix an opening price disregarding the reference price (i.e., the previous trading day's closing price), alter the price range for permitted orders with respect to the reference price and modify the reference price.

The computerised trading hours, known as the open session, range from 9:00 a.m. to 5:30 p.m. (Madrid time). The SIBE sets out two ranges of prices for each security named “static” and “dynamic” in order to monitor the volatility of the trading price of each security. During the open session, the trading price of a security may fluctuate within a certain predetermined percentage above and below the “static” price (i.e., the price resulting from the closing auction of the previous trading day or the immediately preceding volatility auction in the current open session) (the “static range”). In addition, the trading price may range within a certain predetermined percentage above and below the “dynamic” price (i.e., the trading price of the immediately preceding trade of the same security) (the “dynamic range”). If, during the open session, there are matching bid and offer orders for a security within the computerised system which exceed any of the above “static” and/or “dynamic” ranges, trading on the security is automatically suspended and a new auction, known as volatility auction, is held where a new reference price is set, and the “static” and “dynamic” ranges will apply over such new reference price. The “static” and “dynamic” ranges applicable to each specific security are set up and reviewed periodically by Sociedad de Bolsas. From 5:30 p.m. to 5:35 p.m. (Madrid time), known as the closing auction, orders can be placed, modified and cancelled, but no trades can be completed.

Between 5:30 p.m. and 8:00 p.m. (Madrid time), trades may occur outside the computerised matching system without prior authorisation of Sociedad de Bolsas (provided such trades are however disclosed to Sociedad de Bolsas) at a price within the range of 5% over the higher of the average price and the closing price for the trading day and 5% below the lower of the average price and closing price for the trading day provided that: (i) there are no outstanding bids or offers in the computerised system matching or improving the terms of the proposed off-system transaction; and (ii) among other requirements, the trade involves more than three hundred thousand euro (€300,000) and more than 20% of the average daily trading volume of the relevant security during the preceding three months. These off-system trades must also relate to individual orders from the same person or entity and shall be reported to Sociedad de Bolsas before 8:00 p.m. (Madrid time).

Trades may take place at any time (with the prior authorisation of Sociedad de Bolsas) and at any price if:

- they involve more than one million five hundred thousand euro (€1,500,000) and more than 40% of the average daily trading volume of the relevant security during the preceding three months;
- the transaction results from a merger, spin-off or the restructuring of a group of companies;
- the transaction is carried out for the purposes of settling a litigation process or completing a complex set of sale and purchase agreements; or
- for any other reason which justifies the authorisation of such transaction at the discretion of Sociedad de Bolsas.

Information with respect to computerised trades, which take place between 9:00 a.m. and 5:30 p.m., is made public immediately. On the other hand, information with respect to off-system trades is reported to Sociedad de Bolsas by the end of the trading day and is also published in the Stock Exchange Official Gazette (*Boletín de Cotización*) and in the computer system by the beginning of the next trading day.

Clearance and Settlement System

The Spanish clearance, settlement and recording system has been recently adapted by Act 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms (*Ley 11/2015, de 18 de junio, sobre recuperación y resolución de entidades de crédito y empresas de servicios de inversión*) and Royal Decree 878/2015, of 2 October, (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*) to the provisions set forth in Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014, on improving securities settlement in the European Unión and on central securities depositories, amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

Following this reform, which first phase is applicable to equity securities since 27 April 2016, transactions carried out on the Spanish Stock Exchanges are cleared, settled and recorded by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal ("**Iberclear**"), as central securities depositary, and BME Clearing, S.A., as central clearing counterparty (CCP). The second phase of the reform is scheduled for February 2017 and it will deal with fixed income securities.

Iberclear is owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a listed holding company which holds 100%, interest in each of the Spanish official secondary markets and settlement systems. BME Clearing, S.A.U. is also owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.

Shares of listed Spanish companies are represented in book-entry form. Iberclear and its participating entities are responsible for keeping records in book-entry form (*anotaciones en cuenta*). The recording system is a two-tier level registry: the keeping of the central record corresponds to Iberclear and the keeping of the detail records correspond to the participating entities in Iberclear.

Access to become a participating entity in Iberclear is restricted to: (i) credit institutions, (ii) investment services companies which are authorised to render custody and administration of financial instruments, (iii) the Bank of Spain, (iv) the General Administration and the General Social Security Treasury, (v) other duly authorised central securities depositories and central clearing counterparties and (vi) other public institutions and private entities when expressly authorised to become a participating entity in central securities depositories.

The central registry managed by Iberclear reflects: (i) one or several proprietary accounts which will show the balances of the participating entities' proprietary accounts; (ii) one or several general third-party accounts that will show the overall balances that the participating entities hold for third parties; (iii) individual accounts opened in the name of the owner, either individual or legal person; and (iv) individual special accounts of financial intermediaries which use the optional procedure of settlement of orders. Each participating entity, in turn, maintains the detail records of the owners of such shares.

Pursuant to Spanish law, the legal owner of the shares is deemed to be either:

- the participating entity registered in the records of Iberclear as holder of the shares in its own name; or
- the investor registered in the records of the participating entity as holder of the shares; or
- the investor registered in the records of Iberclear as holder of the shares in a segregated individual account.

BME Clearing is the CCP in charge of the clearing of transactions closed on the Spanish Stock Exchanges. BME Clearing interposes itself on its own account as seller in every purchase and as buyer in every sale. It calculates the buy and sell positions *vis-à-vis* the participants designated in such buy or sell instructions. The CCP then generates and sends to Iberclear the relevant settlement instructions.

The settlement and registration platform managed by Iberclear, which operates with the trade name of ARCO, receives the settlement instructions from BME Clearing and forwards them to the relevant participating entities involved in each transaction. Formerly transactions were settled under the T+3 settlement standard, and, it is intended that from 3 October 2016 (including transactions executed on 29 September 2016) ARCO shall operate under a T+2 settlement standard, by which any transactions must be settled within two business days following the date on which the transaction was completed. This change in the settlement cycle is due to Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July, on improving securities settlement in the European Unión and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation 236/2012, which provides that the settlement period shall not exceed the second business day after the relevant trade takes place.

The acquisition of a legal title over shares of a company listed in one of the Spanish Stock Exchanges requires the intervention of a Spanish official stockbroker, broker-dealer or other entity authorised by Spanish law to record the transfer of listed shares. In order to evidence title over any given listed shares, the relevant participating entity must issue a certificate of ownership at the shareholder's request (*certificado de legitimación*). If the shareholder is a participating entity or a person holding shares in a segregated individual account, Iberclear must issue such certificate with respect to the shares held in their name.

Euroclear and Clearstream, Luxembourg

Shares deposited with depositaries for Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, Société Anonyme ("**Clearstream**") and credited to the respective securities clearance account of purchasers in Euroclear or Clearstream against payment to Euroclear or Clearstream, will be held in accordance with the Terms and Conditions Governing Use of Euroclear and Clearstream, the operating procedures of the Euroclear System (as amended from time to time), the Management Regulations of Clearstream and the instructions to Participants of Clearstream (as amended from time to time), as applicable. Subject to compliance with such regulations and procedures, those persons on whose behalf accounts are kept at Euroclear or Clearstream and to whom shares have been credited ("**Investors**"), will be entitled to receive a number of shares equal to that amount credited in their accounts.

With respect to shares deposited with depositaries for Euroclear or Clearstream, such shares will be initially recorded in the name of Euroclear or one of its nominees or in the name of Clearstream or one of its nominees, as the case may be. Thereafter, investors may withdraw shares credited to their respective accounts if they wish to do so, upon payment of the applicable fees (as described below), if any, and once the relevant recording in the book-entry records kept by the members of Iberclear has occurred.

Under Spanish law, only the shareholder of record in Iberclear's registry is entitled to dividends and other distributions and to exercise voting, pre-emptive and other rights in respect of such shares. Euroclear (or its nominees) or Clearstream (or its nominees) will, respectively, be the sole record holders of the shares that are deposited with any depositaries for Euroclear and Clearstream until investors exercise their rights to withdraw such shares and record their ownership rights over them in the book-entry records kept by the members of Iberclear.

Cash dividends or cash distributions, as well as stock dividends or other distributions of securities, received in respect of the shares that are deposited with the depositories for Euroclear and Clearstream will be credited to the cash accounts maintained on behalf of the investors at Euroclear and Clearstream, as the case may be, after deduction of any applicable withholding taxes, in accordance with the applicable regulations and procedures for Euroclear and Clearstream. See section "*Taxation*" below.

Euroclear and Clearstream will endeavour to inform investors of any significant events of which they become aware affecting the shares recorded in the name of Euroclear (or its nominees) and Clearstream (or its nominees) and requiring action to be taken by investors. Each of Euroclear and Clearstream may, at their discretion, take such action as they deem appropriate in order to assist investors in exercising their voting rights in respect of the shares. Such actions may include: (i) acceptance of instructions from investors to grant or to arrange for the granting of proxies, powers of attorney or other similar certificates; or (ii) exercise by Euroclear or its nominees and Clearstream or its nominees of voting rights in accordance with the instructions provided by investors.

In case the Company offers or causes to be offered to Euroclear (or its nominees) and Clearstream (or its nominees), acting in their capacity as record holders of the shares deposited with the depositaries for Euroclear and Clearstream, any rights to subscribe for additional shares or rights of any other nature, each of Euroclear and Clearstream will, respectively, endeavour to inform investors of the terms of any such rights of which they become aware in accordance with the applicable provisions in the aforementioned regulations and procedures. Such rights will be exercised, insofar as practicable and permitted by applicable law, according to written instructions received from investors, or, alternatively, such rights may be sold and, in such event, the net proceeds will be credited to the cash account kept on behalf of the investor with Euroclear or Clearstream.

Tender offers

Tender offers are governed in Spain by articles 128 ff. of the Spanish Securities Market Act and Royal Decree 1066/2007, of 27 July (*Real Decreto 1066/2007, de 27 de julio, de régimen de las ofertas públicas de adquisición de valores*), which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004. Other than the referred tender offer regulation, there is no other special regulation in Spain which may govern mandatory tender offers over the Shares.

Tender offers in Spain may qualify as either mandatory or voluntary.

Mandatory tender offers must be launched for all the shares of the target company and all other securities that might directly or indirectly entitle to acquire or subscribe such shares (including, without limitation, convertible and exchangeable notes) at an equitable price and not subject to any conditions when any person or entity acquires control of a Spanish company listed on the Spanish Stock Exchanges, whether such control is obtained:

- by means of the acquisition of shares or other securities that directly or indirectly entitle to subscribe or acquire voting shares in such company;
- through shareholder agreements with shareholders or other holders of said securities; or
- as a result of other situations of equivalent effect as provided in the applicable Spanish regulation on tender offers (i.e., indirect control acquired through mergers, share capital decreases, changes in the target's treasury stock, etc.).

A person or entity is deemed to have control over a target company, either individually or jointly with concerted parties, whenever:

- it acquires, directly or indirectly, a percentage of the company's voting rights equal to or greater than 30%; or

- it has acquired less than 30% of the voting rights and appoints, during the 24 month-period following the date of acquisition of said percentage of voting rights, a number of directors that, together with those already appointed by it (if any), represents more than one-half of the members of the target company's board of directors. The Spanish regulation on tender offers also sets forth certain situations where directors are deemed to have been appointed by the bidder or persons acting in concert therewith unless evidence to the contrary is provided.

Notwithstanding the above, Spanish regulations establish certain exceptional situations where control is obtained but no mandatory tender offer is required, including, among others:

- subject to the CNMV's approval;

- acquisitions or other transactions resulting from the conversion or capitalisation of credit into shares of listed companies the financial feasibility of which is subject to serious and imminent danger, even if the company is not undergoing bankruptcy proceedings, provided that such transactions are intended to ensure the company's financial recovery in the long-term; or

- in the event of a merger, provided that those acquiring control did not vote in favour of the merger at the relevant general meeting of shareholders of the offeree company and provided also that it can be shown that the primary purpose of the transaction is not the takeover but an industrial or corporate purpose; and

- when control has been obtained after a voluntary bid for all of the securities, if either the bid has been made at an equitable price or has been accepted by holders of securities representing at least 50% cent of the voting rights to which the bid was directed.

For the purposes of calculating the percentages of voting rights acquired, the Spanish regulation establishes the following rules:

- percentages of voting rights corresponding to: (i) companies belonging to the same group as the bidder; (ii) members of the board of directors of the bidder or of companies of its group (unless evidence to the contrary is provided); (iii) persons acting in concert with or on behalf of the bidder; (iv) voting rights which may be exercised freely and over an extended period by the bidder under proxy granted by the actual holders or owners of such rights, in the absence of their specific instructions with respect thereto; and (v) shares held by a nominee (such nominee being as a third-party whom the bidder totally or partially covers against the risks related to acquisitions or transfers of the shares or the possession thereof), will be deemed to be held by the bidder (including the voting rights attaching to shares that constitute the underlying asset or the subject matter of financial contracts or swaps when such contracts or swaps cover, in whole or in part, against the risks inherent in ownership of the securities and have, as a result, an effect similar to that of holding shares through a nominee);

- both the voting rights arising from the ownership of shares and those enjoyed under a usufruct or pledge or under any other contractual title, will also be deemed to be held by the bidder;

- the percentage of voting rights shall be calculated based on the entire number of the company's shares with voting rights, even if the exercise of such rights has been suspended. Treasury stock held directly or indirectly by the target company (according to the information available on the date of calculation of the percentage of voting rights held by the bidder) shall be excluded from the calculation. Non-voting shares shall be taken into consideration only when they carry voting rights pursuant to applicable law; and

- acquisitions of securities or other financial instruments which entitle the holder to the subscription, conversion, exchange or acquisition of shares which carry voting rights will not result in the obligation to launch a tender offer either until such subscription, conversion, exchange or acquisition occurs.

Notwithstanding the foregoing, upon the terms established in the applicable Spanish regulation on tender offers, the CNMV will conditionally exempt a person or entity from the obligation to launch a mandatory bid when another person or entity not acting in concert with the potential bidder, directly or indirectly holds an equal or greater voting percentage in the target company.

The price of the mandatory tender offer is deemed to be equitable when it is at least equal to the highest price paid or agreed by the bidder or any person acting in concert therewith for the same securities during the twelve months preceding the announcement of the tender offer. Other rules used to calculate such equitable price are set forth in the applicable Spanish regulation. However, the CNMV may change the price determined pursuant to said rules in certain circumstances (extraordinary events affecting the price, evidence of market manipulation, etc.).

Mandatory offers must be launched as soon as possible and at any event within one month from the acquisition of the control of the target company.

Voluntary tender offers may be launched in those cases in which a mandatory offer is not legally required. Voluntary offers are subject to the same rules established for mandatory offers except for the following:

- they might be subject to certain conditions (such as amendments to the bylaws or adoption of certain resolutions by the General Shareholders' Meeting of the target company, acceptance of the offer by a minimum number of shares of the target company, approval of the offer by the General Shareholders' Meeting of the bidder; and any other condition deemed by the CNMV to be in accordance with law), provided that the fulfilment of such conditions may be verified by the end of the offer acceptance period; and

- they may be launched at any price, regardless of whether it is lower than the abovementioned "equitable price". However, if they are not launched at an equitable price and if the tender offer shares representing at least 50% of the voting rights are tendered in the offer (excluding voting rights already held by the bidder and those belonging to shareholders who entered into an agreement with the bidder regarding the tender offer), the bidder may become obliged to launch a mandatory tender offer.

- In any case, by virtue of an amendment to the Spanish Securities Markets Act operated by Law 1/2012, of 22 June, the price in a voluntary tender offer must be the higher of (i) the equitable price and (ii) the price resulting from an independent valuation report, and must at least consist of cash as an alternative if certain circumstances have occurred during the two years prior to the announcement of the offer (basically, the trading price for the shares being affected by price manipulation practices, market or share prices being affected by natural disasters, force majeure, or other exceptional events, or the target company being subject to expropriation or confiscation resulting in significant impair of the company's real value).

The Spanish regulation on tender offers sets forth further relevant provisions, including, amongst others:

- the board of directors of the target company will be exempt from the prohibition to carry out frustrating or defensive actions against a foreign bidder provided the latter's board of directors is not subject to equivalent passivity rules and subject to prior approval by the company's general shareholders' meeting within the 18 month period before the date of the public announcement of the tender offer;

- defensive measures included in a listed company's bylaws and transfer and voting restrictions included in agreements among a listed company's shareholders will remain in place whenever the company is the target of a tender offer, unless the shareholders decide otherwise (in which case any shareholders whose rights are diluted or otherwise adversely affected shall be entitled to compensation at the target company's expense); and

- squeeze-out and sell-out rights will apply provided that following a mandatory tender offer (or as a result of a voluntary offer for all the of the target's capital stock) the bidder holds shares representing at least 90% of the target company's voting capital stock and the tender offer has been accepted by the holders of securities representing at least 90% of the voting rights over which the offer was launched.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of material information regarding the Company's capital stock and certain applicable provisions in connection therewith to be found in the Company's Bylaws (*estatutos sociales*) and (amongst other regulations) the Spanish Companies Act, the Spanish Securities Market Act and Royal Decree 878/2015 on clearing, settlement and registration of securities represented in book-entries form, on the legal framework of central depositaries and central counterparties, and on the transparency requirements for securities admitted to trading on a secondary market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario oficial*).

This summary does not purport to be complete nor to describe all of the applicable provisions and regulations in connection with the matters described herein and is qualified in its entirety by reference to the Company's Bylaws and to the Spanish Companies Act (or any other applicable regulations from time to time). It is recommended that prospective investors refer to the Company's Bylaws and the Spanish Companies Act (or any other regulation referred herein) for further details. A copy of the Company's deed of incorporation and Bylaws are available at the Company's registered office (Ronda de la Comunicación, s/n, Distrito Telefónica, 28050 – Madrid (Spain)) and upon Admission, at the CNMV's offices. Furthermore, a copy of the Company's Bylaws will be also available on the Company's website (http://telxius.com/en/shareholders-investors/corporate-bylaws/).

General

The Company was incorporated as a corporation (*sociedad anónima*) for an indefinite term under public deed executed on 10 October 2012, under the corporate name Telefónica América, S.A. On 10 March 2016, under public deed, the Company changed its corporate name to Telxius Telecom, S.A.

The Company's corporate purpose is the investment, administration and management of corporations in the telecommunications sector.

At the date of this Prospectus, the Company's issued capital stock consists of €250,000,000 divided into a single series of 250,000,000 ordinary shares, with a nominal value of €1.00 each and each with an ISIN code ES0105146007 allocated by the Spanish National Agency for the Codification of Securities (*Agencia Nacional de Codificación de Valores Mobiliarios*), an entity dependent upon the CNMV. All of the Company's ordinary shares are fully subscribed and paid-up. Non-residents in Spain may hold shares and vote, subject to the restrictions described under "*—Restrictions on Foreign Investment*". The Shares are, and will be, freely transferable in accordance with the Spanish Companies Act, the Spanish Securities Market Act and any implementing regulations. At the date of this Prospectus there are no exchangeable securities issued.

The Company's shares are represented by book entries and the entity responsible for maintaining the corresponding accounting records is *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.* ("**Iberclear**"), with registered office at Plaza de la Lealtad 1, 28014, Madrid, Spain.

On 30 March 2016 the Company increased its share capital by €87,500,000 by issuing 87,500,000 shares of €1.00 nominal value each, with a share premium of €1,362,500,000. Furthermore, on 27 May 2016 the Company carried out an additional share capital increase by €162,440,000 by issuing 162,440,000 shares of €1.00 nominal value each, with a total share premium of €339,108,532. Immediately following such increases, the subscribed capital of the Company was represented by 250,000,000 registered ordinary shares with a nominal value of €1.00 each, with the same rights and obligations, subscribed and fully paid up.

The summary table below outlines these main changes in the Company's share capital during the last three years:

Date	Corporate action	Nominal value	Share premium	Number of issued shares	Number of resulting shares	Resulting share capital
30 March 2016	Capital increase	€1.00	€1,362,500,000	87,500,000	87,560,000	€87,560,000
27 May 2016	Capital increase	€1.00	€339,108,532	162,440,000	250,000,000	€250,000,000

On 13 July 2016, the Selling Shareholder, in its capacity as sole shareholder of the Company, adopted a resolution authorising the Board of Directors of Telxius to approve share capital increases in the Company within five years from 13 July 2016, in a maximum amount of 50% of the total issued ordinary share capital of the Company as at 13 July 2016.

As of the date of this Prospectus, there are no shareholders' agreements in place, and no convertible or exchangeable debt securities or warrants have been issued by the Company.

Dividend and liquidation rights

Dividend distribution

The payment of dividends to the Company's shareholders shall be authorised by the Company's general shareholders' meeting by a majority of the attending shareholders (both personally and by proxy) at proposal of the Board of Directors. Shareholders are entitled to an amount of dividends proportional to their paid-up stockholding in the Company. However, there is no right to receive a minimum dividend.

Unless the general shareholders' meeting decides otherwise, dividends become payable by the Company from the next day on which the distribution agreement is adopted by the general shareholders' meeting.

Prior to any dividend distribution, the Spanish Companies Act requires companies to allocate at least 10% of their annual net profit to a non-distributable mandatory reserve (*reserva legal*) until such reserve amounts to, at least, 20% of the Company's capital stock. As at the date of this document, legal requirements in connection with the minimum allocation of net profits to the non-distributable mandatory reserve have been satisfied.

Furthermore, the Spanish Companies Act also requires the creation of a non-distributable reserve equal to the amount of goodwill (*fondo de comercio*) recorded as an asset on the Company's balance sheet, and that an amount at least equal to 5% of such goodwill (*fondo de comercio*) will be allocated from the net income of each year to such non-distributable reserve until such time as the non-distributable reserve is of an amount at least equal to the goodwill (*fondo de comercio*) recorded on Telxius' balance sheet. If, in any given year, there are no profits or there are insufficient profits to transfer an amount equal to 5% of the goodwill (*fondo de comercio*) recorded on the balance sheet, the Spanish Companies Act requires that the shortfall be transferred from freely distributable reserves to the non-distributable reserve. Since 1 January 2016, the creation of a non-distributable mandatory goodwill (*fondo de comercio*) reserve is no longer required. Amounts previously allocated to the non-distributable mandatory goodwill (*fondo de comercio*) reserve shall be reclassified as voluntary reserves and can be distributed in the amount exceeding the goodwill (*fondo de comercio*) recorded as an asset in the balance sheet of a company.

These mandatory reserves will be distributed only upon liquidation of the Company.

According to the Spanish Companies Act, dividends may only be paid to shareholders of the Company from: (i) the Company's annual net profit (once the mandatory reserve requirements have been met, if applicable, and provided that net profits shall be applied to offset losses from previous years in the event that such losses cause the Company's net equity to fall below the capital stock amount); or (ii) distributable reserves, provided that (x) the value of the Company's net equity (*patrimonio neto*) does not, and as a result of the payment of dividends will not, amount to less than the capital stock; and (y) the distributable reserves are equal or higher than the R&D expenses recorded as an asset in the company's balance sheet. Furthermore, net profits will in any case be applied to offset losses from previous years in the event that such losses cause the Company's net equity to fall below the capital stock amount.

Upon Admission the Company's equity structure will be sufficient to comply with the minimum thresholds set out in the Spanish Companies Act to permit dividend distribution (see section "*Capitalization and Indebtedness*").

In accordance with article 947 of the Spanish Commercial Code (*Real Decreto de 22 de agosto de 1885, Código de Comercio*), a shareholder's right to any given dividend expires if unclaimed during five years after the date it becomes payable. In case of expiration of these claims, Telxius will retain the unclaimed dividend.

In general terms, dividends payable to non-residents of the Kingdom of Spain for tax purposes are subject to Spanish withholding tax at a rate of 19% from 2016 onwards. However, residents of certain countries may be entitled to an exemption or reduction of withholding tax in certain cases (see section "*Taxation—Spanish Tax Considerations—Taxation of Dividends*").

Shareholder liquidation rights

Upon liquidation of a company, shareholders are entitled to any remaining assets in proportion to their respective shareholdings, once the company's debts, taxes and any expenses related to the liquidation have been paid.

Shareholders' meetings and voting rights

Meeting call

Pursuant to the Company's Bylaws, the regulations of the Company's general shareholders' meeting (*Reglamento de la Junta General de Accionistas*) which were approved by the Selling Shareholder on 10 June 2016 and registered with the Commercial Registry, and the Spanish Companies Act, ordinary general shareholders' meetings are to be held annually during the first six months of each fiscal year on a date fixed by the Board of Directors. Extraordinary general shareholders' meetings may be called by the Board of Directors: (i) whenever it deems appropriate; or (ii) at the request of shareholders representing at least three per cent of the Company's capital stock. Once the Shares are trading, meeting notices for all general shareholders' meetings shall either be published in the Commercial Registry's Official Gazette (*Boletín Oficial del Registro Mercantil*) or in a newspaper of wide circulation in the Kingdom of Spain, on the Company's website and on the CNMV's website (www.cnmv.es).

Pursuant to the provisions of the Spanish Companies Act an extraordinary general shareholders' meeting may be called by the Board of Directors at least 15 days in advance of the date of the meeting (as opposed to the default one month period) if the shareholders are entitled to vote on the matters considered at the meeting by electronic means accessible to all such shareholders at any given general shareholders' meeting. The decision to shorten the default notice period before an extraordinary general shareholders' meeting must be adopted by the Company's ordinary general shareholders' meeting by a majority of at least two thirds of the voting capital stock. Such decision will remain in force, at least, until the following ordinary general shareholders' meeting.

As per Article 12 of the Company' Bylaws, the Shareholders' Meeting shall decide on the matters assigned to it by law or the Bylaws and, in particular, regarding the following

a) Approval of the annual financial statements, the allocation of profit/loss, and corporate management.

b) Appointment, re-appointment and removal of directors, and ratification of directors appointed by co-optation.

c) Appointment, re-appointment and removal of auditors.

d) Appointment and removal of liquidators.

e) Exercise of company action for liability against any of the persons referred to in letters b) to d) of above.

f) Approval of the directors' compensation policy on the terms established in the law.

g) Approval of the establishment of director compensation systems consisting of the award of shares or stock options or compensation linked to the share value.

h) Authorisation or dispensation granted to directors with respect to prohibitions deriving from the duty of loyalty and the duty to avoid conflicts of interest, where the grant of authorisation or dispensation legally corresponds to the Shareholders' Meeting.

i) Authorisation to acquire own shares or shares of the controlling company.

j) Amendment of the Bylaws.

k) Increase and reduction of share capital, and delegation to the Board of Directors of the power to increase share capital, in which case it may also be attributed the power to exclude or establish restrictions on pre-emptive rights, on the terms established in law.

l) Issuance of debentures or other securities that recognize or create debt, whether non-convertible, convertible or exchangeable, and the delegation to the Board of Directors of the power to make such issues, in which case it may also be attributed the power to exclude or establish restrictions on pre-emptive rights, on the terms established in the law.

m) Exclusion of, or establishment of restrictions on, pre-emptive rights.

n) Structural modifications, such as alteration of legal form, merger, spin-off, global transfer of assets and liabilities, and relocation of the registered address abroad, as well as transactions having a similar effect to a structural modification.

o) Acquisition of essential assets, their disposal or the contribution of essential assets to another company. An asset shall be deemed to be essential when the amount of the transaction exceeds 25% percent of the value of the assets recorded in the last approved balance sheet.

p) Transfer to dependent entities of essential activities previously pursued by the Company itself, even though the Company maintains full control thereover. Activities and operating assets shall be deemed to be essential when the volume of the transaction exceeds 25% percent of the total assets on the balance sheet.

q) Winding-up of the Company.

r) Transactions the effect of which is tantamount to liquidating the Company.

s) Approval of the final liquidation balance sheet.

t) Statements relating to any other matter reserved to the Shareholders´ Meeting by law or pursuant to these Bylaws or that the Board of Directors resolves to submit to its decision.

All the foregoing matters can be dealt with at ordinary or extraordinary general shareholders' meetings, provided that, with limited exceptions, they are included in the agenda, except for the approval of the annual accounts, the allocation of profits and approval of corporate management, which shall be dealt with only at ordinary general shareholders' meetings.

Voting and attendance rights

Each Share of the Company entitles the holder to one vote in the general shareholders' meeting and there is no limit as to the maximum number of votes that may be issued by any shareholder, companies belonging to the same group or any person acting in coordination with any of the former.

Holders of record of at least 300 Shares with voting rights are entitled to attend the Company's general shareholders' meeting with right to speak and vote. The general shareholders' meeting notice shall indicate the date on which shares must be held for a shareholder to be effectively entitled to attend the meeting and exercise any voting rights. Pursuant to the Spanish Companies Act, shareholders that are duly registered in the book-entry records (*anotaciones en cuenta*) managed by Iberclear and its participating entities at least five days in advance to the date of the general shareholders' meeting shall in any case be entitled to attend and vote at such meeting.

Amendments to the Company's Bylaws that directly or indirectly affect the rights of a specific class of shares, including any voting and attendance rights, shall only be valid when adopted by the general shareholders' meeting and adopted by the majority of shareholders affected in compliance with the requirements set out in the Spanish Companies Act. The Company's Bylaws do not provide any particular provision in this respect.

Save for the prohibition for companies, either Spanish or foreign, or those whose principal shareholders, directly or indirectly, hold a significant stake in a company performing activities in the telecommunications market or other sectors that compete with the Company to be appointed as Director (see section "*Management and Board of Directors—Conflicts of Interest—Non-compete obligation*"), the Company's Bylaws and internal regulations do not include any provision that would have the effect of delaying, deferring or preventing a change of control of the Company and do not provide for conditions to be met by changes in the capital of the Company which are more stringent than the provisions of the Spanish Companies Act.

Proxies

Pursuant to the Spanish Companies Act, shareholders may vote by proxy. Proxies must be given for each general shareholders' meeting in writing or by electronic means acceptable under the Company's Bylaws on or before midnight on the third day before the date where the general shareholders' meeting is to take place on its first call (unless this term is expressly reduced by the Board of Directors in the relevant shareholders' meeting call notice). Proxies may be given to any person, whether or not a shareholder. Proxies may be revoked by the shareholder by giving the Company notice prior to the meeting or by personally attending the meeting.

Proxy holders are required to disclose any conflict of interest to the shareholder prior to their appointment. In case a conflict of interest arises after the proxy holder's appointment, it shall immediately be disclosed to the shareholder. In both cases, the proxy holder shall refrain from exercising the shareholder's voting rights after disclosure of the conflict of interest unless the shareholder has provided new specific voting instructions for each matter in respect of which the proxy holder is to vote on its behalf. A conflict of interest may (amongst other things) be deemed to arise when the proxy holder: (i) is one of the Company's controlling shareholders or an entity controlled by such shareholder; (ii) is a member of the Company's administrative, management or supervisory body, or that of one of the controlling shareholders or of another entity controlled by such shareholders; (iii) is the Company's employee or auditor, or that of a controlling shareholder or another entity controlled by any of such shareholders; (iv) is a natural person related to those mentioned in (i) to (iii) above (*persona física vinculada*), as this concept is defined under the Spanish Companies Act (i.e., the spouse or similar, at that time or within the two preceding years, as well as ascendants, descendants, siblings, and their respective spouses) and under the Spanish Ministry of Economy and Competitiveness Order ECC/3050/2004, of 15 September 2014 (*Orden EHA/3050/2004 de 15 de septiembre sobre información de las operaciones vinculadas que deben suministrar las sociedades emisoras de valores admitidos a negociación en mercados secundarios oficiales*).

A proxy holder may act on behalf of more than one shareholder without limitation as to the maximum number of represented shareholders. Where a proxy holder holds proxies from several shareholders with diverging voting instructions, it shall be entitled to cast votes differently as appropriate for each shareholder.

Pursuant to the Spanish Companies Act, entities rendering investment services, acting in their capacity as professional financial intermediaries, can also be appointed as proxy holders. Seven days in advance of a general shareholders' meeting, financial intermediaries shall provide the Company with the identity of each client that has appointed them as proxy holders, the number of shares in respect of which votes shall be cast and the voting instructions received from each client. Financial intermediaries shall also be entitled to cast different votes for each indirect shareholder in observance of diverging voting instructions from their clients when the entities are registered as direct holders of the shares at the book-entry level.

Celebration of the meeting and adoption of resolutions

According to the Company's Bylaws, by reference to the Spanish Companies Act and other applicable laws, holders of at least 25% of the Company's voting stock shall attend (both personally and by proxy) a general shareholders' meeting on its first call in order to form a quorum at such meeting. If such quorum is not met on the meeting's first call, the meeting can be reconvened by a second call, which, according to the Spanish Companies Act, requires no minimum quorum. Pursuant to the Spanish Companies Act, at least 50% or 25% of the Company's voting stock shall, respectively on a general shareholders' meeting first and second call, attend (both personally and by proxy) the meeting for the adoption of any agreement to amend the Company's Bylaws (including, without limitation, increases and reductions of capital stock), issue notes, eliminate or limit pre-emptive rights over new shares, authorise a conversion, merger, or spin-off of the Company, approve global transfers of the Company's assets and liabilities or change the Company's registered office abroad.

At least 24 hours must lapse between a general shareholders' meeting's first and second call.

Generally, resolutions can be passed by simple majority of the votes issued by the attending shareholders (both personally and by proxy). However, where the general shareholders' meeting is in second call, the adoption of any agreement to amend the Company's Bylaws (including, without limitation, increases and reductions of capital stock), issue notes, eliminate or limit pre-emptive rights over new shares, authorise a conversion, merger, or spin-off of the company, approve global transfers of the Company's assets and liabilities or change the Company's registered office abroad, the vote of two thirds of those attending shareholders (both personally and by proxy) is required, in case the attending shareholders (both personally and by proxy) hold less than 50% of the total capital stock of the Company.

The Spanish Companies Act allows shareholders to voluntarily group their shares so that the capital stock in aggregate is equal to or greater than the result of dividing the total capital stock by the number of Directors on the Board. Such grouped shareholders have the right to appoint a corresponding proportion of the members of the Board of Directors (disregarding any fractions) provided that there is a vacancy. Shareholders who exercise this grouping right may not vote on the appointment of the remaining other Directors.

Legal effects of resolutions passed by the general shareholders' meeting and opposition to the resolutions of the general shareholders' meeting.

A resolution passed by the general shareholders' meeting is binding on all shareholders.

Resolutions which are either: (i) contrary to Spanish law or the bylaws or the general shareholders' meeting or Board of Directors regulations of the Company; or (ii) detrimental to the corporate interests of the Company in benefit of one or more shareholders or third parties, may be contested on the terms set out in the Spanish Companies Act.

In certain circumstances (such as a significant amendment of the Company's corporate purpose, certain cases of conversion of the corporate form of the company or the change of its registered office overseas), Spanish corporate law entitles dissenting or absent shareholders to withdraw from the Company. If this right were to be exercised, the Company would be obliged to repurchase the relevant shareholding(s) from the withdrawing shareholder in accordance with the procedures established under applicable law.

Shareholder claims

Pursuant to the Spanish Companies Act, Directors are liable towards the company, the shareholders and the creditors for any actions or omissions that are illegal or contravene the bylaws and for failure to perform their legal and fiduciary duties diligently.

Under Spanish law, shareholders must bring any actions against the company's Directors as well as any other actions against the company or challenging corporate resolutions before the competent courts in the province where the company's registered office is located (in the Company's case, currently Madrid, Kingdom of Spain).

Representation and transfer of Shares

The Shares are represented by book-entry records and are indivisible. Joint holders of one or several Shares must appoint a single representative to exercise their rights jointly on their behalf. However, they shall all be jointly and severally (*solidariamente*) liable towards the Company for any obligations in their capacity as shareholders.

Iberclear (the managing entity for the Spanish clearance and settlement system of the Spanish Stock Exchanges) manages the central registry, which reflects the number of shares held by each of its participating entities (*entidades participantes*) from time to time as well as the amount of shares held by beneficial owners. Each participating entity, in turn, keeps a record of the owners of such shares. Since the Shares are represented by book-entry records, the Company will keep an electronic shareholder registry for which Iberclear shall report to the Company all transactions entered into by the Company's shareholders in respect of the Shares.

The Shares are freely transferable in accordance with the Spanish Companies Act, the Spanish Securities Market Act and any implementing regulations.

Transfers of shares quoted on the Spanish Stock Exchanges must be made through or with the participation of a member of a Spanish Stock Exchange. For more information, see section "*Market Information*". The transfer of shares may be subject to certain fees and expenses.

Restrictions on foreign investment

Exchange controls and foreign investments were, with certain exceptions, completely liberalized by Royal Decree 664/1999, of 23 April 1999 (*Real Decreto 664/1999, de 23 de abril, de régimen jurídico de las inversiones exteriores*), bringing the existing legal framework on foreign investments in line with the provisions of the Treaty of the European Union.

According to Royal Decree 664/1999, and subject to the restrictions described below, foreign investors may freely invest in shares of Spanish companies as well as transfer their interests, equity gains and dividends outside the Kingdom of Spain (subject to applicable taxes and exchange controls) by filing a standardized notice with the Spanish Registry of Foreign Investments (*Registro de Inversiones Exteriores*) kept by the General Bureau of Commerce and Investments (*Dirección General de Comercio e Inversiones*) within the Ministry of Economy and Competitiveness (*Ministerio de Economía y Competitividad*) following the investment in or divestment of (if any) a Spanish company. Such filing is to be made solely for statistical, economic and administrative purposes. In case the shares belong to a Spanish company listed on any of the Spanish Stock Exchanges, the duty to file a notice regarding the foreign investment or divestment falls with the relevant entity with whom the shares (in book-entry form) have been deposited or which has acted as an intermediary in connection with such investment or disinvestment.

If the foreign investor is a resident of a tax haven, as defined under Royal Decree 1080/1991 of 5 July 1991 (*Real Decreto 1080/1991, de 5 de julio*), notice must be provided to the Registry of Foreign Investments (*Registro de Inversiones Exteriores*) both before and after execution of the investment. However, prior notice from residents in tax havens is excluded in the following cases:

(i) investments in listed securities, whether or not trading in an official secondary market, as well as participations in investment funds that are registered with the CNMV; and

(ii) investments in connection with shareholdings that do not exceed 50% of the capital stock of a Spanish company.

Additional regulations apply to investments in certain industries, including air transportation, mining, manufacturing and sales of weapons and explosives for non-military use, national defence, radio, television and telecommunications. These additional restrictions do not apply to investments made by EU residents, except for those related to the Spanish defence sector and the manufacturing and sale of weapons and explosives for non-military use.

The Spanish Council of Ministers (*Consejo de Ministros*), acting on the recommendation of the Ministry of Economy and Competitiveness, may suspend the application of the aforementioned provisions relating to foreign investments for reasons of public policy, health or safety, either generally or with respect to investments in particular industries. In such cases, any purported foreign investments falling within the scope of the suspension would be subject to prior authorisation from the Council of Ministers of the Spanish government, acting on the recommendation of the Ministry of Economy and Competitiveness.

Law 19/2003, of 4 July, on the establishment of a regulatory regime relating to capital flows to and from legal or natural persons abroad and the prevention of money laundering (*Ley 19/2003, de 4 de julio, sobre régimen jurídico de los movimientos de capitales y de las transacciones económicas con el exterior*) ("**Law 19/2003**"), generally provides for the liberalisation of the regulatory environment with respect to acts, businesses, transactions and other operations between Spanish residents and non-residents in respect of which charges or payments abroad will occur, as well as money transfers, variations in accounts or financial debit or credits abroad. These operations must be reported to the Ministry of Economy and Competitiveness and the Bank of Spain only for informational and statistical purposes. The most important developments resulting from Law 19/2003 are the obligations of financial intermediaries to provide to the Ministry of Economy and Competitiveness and the Bank of Spain information corresponding to client transactions.

Exchange control regulations

Pursuant to Royal Decree 1816/1991 of 20 December 1991 (*Real Decreto 1816/1991, de 20 de diciembre, de transacciones económicas con el exterior*), as amended by Royal Decree 1360/2011 of 7 October (*Real Decreto 1360/2011, de 7 de octubre, que modifica el Real Decreto 1816/1991, de 20 de diciembre, sobre transacciones económicas con el exterior*) and EC Directive 88/361/EEC, any payments or transfers between non-residents and residents of the Kingdom of Spain must be effected through an official payment services supplier registered with the Bank of Spain (*entidades registradas*) or through a foreign entity provided that such foreign account was duly declared to the relevant Spanish authorities. All payments or transfers which exceed €6,010 (or its equivalent in another currency) must be notified through the payment services supplier to the relevant Spanish general administration authorities (*Administración General del Estado*) and the Bank of Spain if made in cash or by check payable to the bearer.

Pre-emptive rights and increases of capital stock

Pursuant to the Spanish Companies Act, shareholders have pre-emptive rights to subscribe for newly issued shares in consideration to cash contributions or newly issued notes that are convertible into shares. Such pre-emptive rights may be waived under special circumstances by a resolution passed by the general shareholders' meeting or the Board of Directors (in case the general shareholders' meeting of a listed company delegates the decision to increase the company's capital stock or issue convertible notes waiving pre-emptive rights to the Board of Directors), in accordance with the provisions of the Spanish Companies Act. In such cases, the resolution authorising the waiver of pre-emptive rights will only be valid if, amongst other requirements: (i) a report is issued by an independent expert appointed by the Commercial Registry (*Registro Mercantil*) stating, amongst other elements, the reasonable market value (*valor razonable*) of the shares (quotation price in case of listed companies unless other arrangements can be justified) and determining the theoretical value (*valor teórico*) of the pre-emptive rights and, in case of listed companies, also the net book value (*valor neto patrimonial*) of the shares; and (ii) the nominal value and issue premium of the newly issued shares is equivalent to the reasonable value assigned to such shares in the aforementioned independent expert's report, provided, however, that pursuant to article 505 of the Spanish Companies Act, listed companies are entitled to issue shares at a value equal or higher than their net book value, as determined by the independent expert's report.

Furthermore, pre-emptive rights will not be exercisable by shareholders in case of a capital stock increase that is required for the purposes of issuing convertible notes, completing a merger, acquiring all or part of another company's assets or capital increases in-kind contributions (*ampliaciones de capital no dinerarias*) or offsetting of credit rights. Pre-emptive rights are transferable, may be traded on the SIBE and may be of value to existing shareholders since new shares may be offered for subscription at prices lower than prevailing market prices.

Mandatory tender offers

There are not any special rules regulating mandatory tender offers relating to the Shares other than those deriving from the rules on mandatory tender offers set out in articles 128 ff. of the Spanish Securities Market Act and Royal Decree 1066/2007, of 27 July (*Real Decreto 1066/2007, de 27 de julio, de régimen de las ofertas públicas de adquisición de valores*), which have implemented Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, and which will apply to the Shares upon Admission.

Shareholder information rights

Until the seventh day before the general meeting is due to be held, shareholders may request in writing from the directors, any information or clarification they deem necessary regarding the items on the agenda, being obligated the directors to facilitate the information in writing by the day on which the general meeting is held.

During the general meeting, shareholders may verbally request any information or clarification they deem necessary, regarding the items of the agenda; and if it were not possible at that point, the directors must provide the requested information in writing within seven days of the general meeting having taken place.

The Directors will not be obliged to provide the previous information if it was deemed unnecessary for the recognition of the shareholder´s right or if there were objective reasons to consider that the information was going to be used for reasons detrimental to the company´s best interests or that may prejudice the company. However, the requested information may not be withheld when the application is upheld by shareholders representing at least 25% of the share capital.

Reporting requirements

Transactions affecting voting rights

Pursuant to Royal Decree 1362/2007 of 19 October 2007 (*Real Decreto 1362/2007, de 19 de diciembre, que desarrolla la Ley 24/1988, del Mercado de Valores*), any individual or legal entity who, by whatever means, purchases or transfers shares granting voting rights in a company listed in a secondary official market or other regulated market in the EU for which Spain is the country of origin (if the corporate address of the listed company is located in Spain), must notify the relevant issuer and the CNMV, if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 60%, 70%, 75%, 80% and 90% of the Company's total voting rights.

The notice shall be served by means of the standard form approved by the CNMV from time to time for such purpose, within four business days from the date on which the transaction is acknowledged (Royal Decree 1362/2007 deems a transaction to be acknowledged within two business days from the date on which it is entered into). Where the individual or legal entity effecting the transaction is a non-resident of the Kingdom of Spain, notice must also be served to the Spanish Registry of Foreign Investments (*Registro de Inversiones Exteriores*) (kept by the General Bureau of Commerce and Investments (*Dirección General de Comercio e Inversiones*) within the Ministry of Economy and Competitiveness (*Ministerio de Economía y Competitividad*).

The foregoing disclosure requirements also apply to those transactions (other than sales and purchases of shares) by which the proportion of voting rights of an individual or legal entity reaches, exceeds or falls below the aforementioned thresholds that trigger the obligation to report.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares or who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, shall also notify the company and the CNMV if the aggregate voting rights held by that individual or legal entity reaches, exceeds or falls below the aforementioned thresholds.

In case the person, legal entity or group effecting the transaction is a resident in a tax haven (as defined by applicable Spanish regulations), the threshold that triggers the obligation to disclose the acquisition or transfer of shares in a Spanish company is reduced to one per cent (and successive multiples thereof).

The Company shall report to the CNMV any self-acquisition of treasury stock which, together with all other acquisitions since the last disclosure, reaches or exceeds one per cent of the Company's capital stock (irrespective of whether the Company has sold any of the company's treasury stock in the same period). In such circumstances, the disclosure notice must include the number of shares acquired by the company since the last disclosure (detailed by transaction), the number of shares sold in such period (detailed by transaction), the share prices paid in such transactions and the resulting net holding of treasury stock.

The Company's bylaws and internal regulations do not provide for any significant shareholdings disclosure requirements more stringent than those established under Royal Decree 1362/2007 of 19 October (as mentioned in this sub-section) and Royal Decree 1333/2005 of 11 November, (as mentioned in the following sub-section).

Disclosure requirements applicable to Directors and Senior Managers

All members of the Board of Directors must report both to the Company and the CNMV any percentage or number of voting rights held by them in the Company from time to time and within five trading days from the time of their appointment or resignation as Directors.

In addition, pursuant to Royal Decree 1333/2005 of 11 November 2005 (*Real Decreto 1333/2005, de 11 de noviembre, que desarrolla la Ley 24/1988, del Mercado de Valores, en materia de abuso de mercado*) (implementing European Directive 2004/72/EC), any member of a company's Board of Directors or the company's Senior Managers (*directivos*) (as defined therein) and any persons having a close link (*vínculo estrecho*) with any of them, must similarly report any acquisition or transfer of the company's shares, derivatives and financial instruments linked to the company's shares, regardless of the amount and including information on the percentage of voting rights which they hold as a result of the relevant transaction. In addition, any member of a company's board of directors or the company's senior managers (*directivos*) (as defined in Royal Decree 1333/2005, 11 November 2005), must also report any stock-based compensation that they may receive pursuant to any of the company's compensation plans.

Disclosure of shareholder agreements

The Spanish Companies Act requires the parties to disclose shareholder agreements that affect the exercise of voting rights at a general shareholders' meeting of a listed company or contain restrictions or conditions in connection with the transfer of shares or convertible notes. The execution, amendment or extension of such agreements shall be immediately disclosed by the parties to the shareholder agreements to the company and to the CNMV and a copy of the agreement shall be filed with the relevant Commercial Registry (*Registro Mercantil*). If these requirements are not fulfilled, any provisions contained in such shareholder agreements which affect the exercise of voting rights and/or restrict or place conditions upon the transfer of shares, will not be effective. The shareholder agreements will be disclosed as relevant facts (*hechos relevantes*) on the CNMV's website.

Disclosure of net short positions

Moreover, in accordance with EU Regulation No. 236/2012 of the European Parliament and of the Council, of 14 March 2012, any person or legal entity holding net short positions on a company's shares must report them to the CNMV on a confidential basis in case they reach 0.2% of the capital stock and disclose any subsequent reductions or increases by 0.1% and successive multiples thereof no later than 3:30 p.m. on the following trading day. Positions over 0.5% (and each 0.1% increase above that) shall be publicly disclosed.

In addition, on 19 December 2007 the CNMV issued Circular 3/2007 (*Circular 3/2007, de 19 de diciembre, de la Comisión Nacional del Mercado de Valores, sobre los Contratos de Liquidez a los efectos de su aceptación como práctica de mercado*), which sets out the requirements to be met for liquidity contracts entered into between issuers and financial institutions for the management of treasury stock to be accepted as a market practice. The Company has no intention to sign any liquidity contract regarding the Offering.

Share repurchases

Pursuant to the Spanish Companies Act, the Company may only repurchase the Company's own shares derivatively within certain limits and in compliance with the following requirements:

(i) the repurchase must be previously authorised by the general shareholders' meeting in a resolution establishing the maximum number of shares to be acquired, the minimum and maximum acquisition price (if any) and the duration of the authorisation, which may not exceed five years from the date of the resolution; and

(ii) the repurchase, including the shares already acquired and currently held by the company or any person or company on the Company's behalf, does not reduce the company's net equity (*patrimonio neto*) below the aggregate amount of the Company's share capital and non-distributable reserves.

For these purposes, net equity (*patrimonio neto*) means the amount resulting from the application of the criteria used to draw up the Company's financial statements, minus the amount of profits directly allocated to such net equity, plus the amount of uncalled subscribed share capital and the total amounts of nominal value and issue premium for the subscribed share capital registered as a liability in the Company's accounting.

In addition:

(i) the aggregate nominal value of the shares directly or indirectly repurchased by the Company, together with the aggregate nominal value of the treasury stock already held by the Company and its subsidiaries, shall not exceed 10% of the Company's total capital stock; and

(ii) the repurchased shares shall always be fully paid-up. The repurchase shall be deemed null and void if: (i) the shares are partially paid-up (except in case of free repurchase); or (ii) the shares entail ancillary obligations.

Treasury stock lacks voting and economic rights. Economic rights bound to treasury stock (i.e. dividend distributions and liquidation rights) shall, except for the right to bonus shares, be distributed amongst the Company's shareholders in proportion to their respective shareholdings.

Regulation (EU) 596/2014 of 16 April, of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing, among others, Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation establishes rules in order to ensure the integrity of European Community financial markets and to enhance investor confidence in those markets. Article 5 of said Regulation establishes an exemption from the market manipulation rules regarding share buy-back programs by companies listed on a stock exchange in an EU member state. In order to benefit from the exemption, a buy-back program must (i) comply with certain requirements established under such buy-back program regulation; and (ii) its sole purpose must be the reduction of an issuer's capital stock (either in value or in number of shares) or the fulfilment of obligations arising from either:

(i) debt financial instruments exchangeable into equity instruments; or

(ii) employee share option programs or other allocations of shares to employees of the issuer or those of an associated company.

Notwithstanding the foregoing, on the date hereof no option over the shares of any member of the Group has been granted or has been agreed conditionally or unconditionally to be granted.

On 19 December 2007 the CNMV issued Circular 3/2007 setting out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares to constitute an accepted market practice and, therefore, be able to rely on a safe harbour for the purposes of market abuse regulations.

In addition, on 18 July 2013 the CNMV published certain guidelines for securities issuers and financial intermediaries acting on their behalf regarding the "discretionary transactions with own shares" (outside the scope of the buy-back program regulation). These guidelines are in line with the buy-back program regulation in respect of price limits and volumes and include certain restricted periods and a rule of separate management of the trading activity.

TAXATION

Spanish Tax Considerations

General

The following is a summary of certain Spanish tax implications of the acquisition, ownership and disposition of the Shares by Spanish and non-Spanish tax resident investors. This summary is not a complete analysis or description of all the possible Spanish tax implications of such transactions and does not purport to address all tax considerations that may be relevant to all categories of potential investors, some of whom may be subject to special rules (for instance, EU pension funds and EU harmonized collective investment institutions). In particular, this tax section does not address the Spanish tax consequences applicable to certain "look through" entities (such as trusts, estates or partnerships) that may be subject to a specific tax regime applicable under the Spanish Non-Residents Income Tax Act, approved by Royal Legislative Decree 5/2004 of 5 March, as amended by 26/2014 of 27 November (hereinafter, the "**NRIT Act**") or under the Spanish Personal Income Tax Act, approved by Act 35/2006, of 28 November, as amended by 26/2014 of 27 November (hereinafter, the "**PIT Act**").

Accordingly, prospective investors in the Shares should consult their own tax advisers as to the applicable tax consequences of their purchase, ownership and disposition of the Shares, including the implications arising under the tax laws of any other jurisdiction, based on their particular circumstances. The description of Spanish tax laws set forth below is based on the laws currently in effect in Spain as of the date of this document, and on administrative interpretations of Spanish law made public to date. As a result, this summary is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retrospective effect.

The description of Spanish tax laws set forth below is based on Spanish law as of the date of this document and on administrative interpretations of Spanish law, without taking into account the regional tax regimes applicable in the Historical Territories of the Basque Country and the Community of Navarre or the provisions passed by Regional Governments of Spain. This description is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retroactive effect.

As used in this particular section "*Spanish Tax Considerations*", the term "**Holder**" means a beneficial owner of the Shares:

- who is an individual or corporation resident for tax purposes in Spain or a corporation subject to NRIT operating in Spain through a permanent establishment; and
- who is an individual or corporation resident for tax purposes in any country other than Spain, and whose ownership of shares is not deemed to be effectively connected with a permanent establishment in Spain.

Resident individuals

Personal income tax (PIT)

Taxation of dividends

Article 25.1 of the PIT Act provides for a definition of "investment income" that includes dividends and other income items derived from the ownership of an equity interest in an entity (such as, for instance, attendance fees at general shareholders' meeting, income derived from any arrangement aimed at allowing another person to use or enjoy the shares and, generally, any other income obtained as a result of being a shareholder).

Investment income earned by Holders as a result of their ownership of the Shares is calculated as the gross income less certain tax-deductible expenses, such as general securities administration and custody fees. Discretionary fees relating to an individualized management of a portfolio of securities are not treated as tax-deductible. The resulting net investment income will be considered as "savings income" (along with any other income item obtained by a Holder that is not related to the ownership of the Shares and that is treated as "savings income"), and subject to PIT at the following progressive rates (as applicable in fiscal year 2016):

Savings tax base	Gross tax payable	Rest of savings tax base	Applicable tax rate
0.00	0.00	6,000.00	19%
6,000.00	1,140.00	44,000.00	21%
50,000.00	10,380.00	Onward	23%

Holders shall be liable for a PIT withholding on investment income at a rate of 19% as from fiscal year 2016, on the whole amount of the income obtained. This PIT withholding will be credited against the taxpayer's annual PIT due.

The distribution of share premium is not considered as dividend. This amount will decrease the acquisition value of the Shares and any excess will be subject to PIT as "savings income" at the progressive rates mentioned above (19% /21% /23% as from fiscal year 2016). These amounts will not be subject to withholding tax unless they derive from non-distributed profits.

Capital gains and losses

If the Shares are sold or otherwise transferred, such transaction may give rise to the recognition of a capital gain or loss. Such capital gain or loss will be measured by the difference between the Holder's tax basis in the Shares and their transfer price. Such transfer price will be based on either (i) the trading price of the Shares at the transfer date or (ii) the agreed transfer price, whichever is higher. Both the acquisition price and the transfer price will be increased or decreased to reflect the taxes and expenses borne by the transfer or related to the acquisition and sale of the Shares, respectively.

Where the taxpayer owns other equivalent securities, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first (FIFO).

Capital gains or losses that arise as a result of the transfer of the Shares are added to or netted from the "savings income" obtained by such Holder for the year in which such gain or loss was realized. Consequently, capital gains or losses derived from the transfer of Shares should be taxed at the progressive "savings income" PIT rates (see "*—Taxation of dividends*").

Additionally, capital gains derived from the transfer of the Shares are not subject to withholding tax.

Finally, losses derived from the transfer of the Shares cannot be considered as capital losses when equivalent shares have been acquired within the two months preceding or following the transfer that has triggered the loss. In these cases, the capital losses arising in connection with such transferred of Shares may only be claimed when the equivalent shares acquired by the taxpayer are subsequently transferred.

Preemptive subscription rights

During 2016, proceeds derived from the sale of pre-emptive subscription rights in respect of the Shares are not treated as income but are deemed to reduce a Holder's tax basis in such shares. Proceeds in excess of such tax basis shall be treated as capital gains.

As it has been previously mentioned, capital gains or losses arising as a result of transfers of subscription rights on the Shares will be subject to the tax rates abovementioned (see "— *Taxation of dividends*").

Net wealth tax

Under Royal Decree Law 13/2011, of 16 September – as amended by Act 36/2014, of 26 December in 2015, all Spanish-resident individual shareholders are liable for Net Wealth Tax (hereinafter, "**NWT**") on all net assets and rights deemed to be owned as of 31 December, irrespective of where these assets are located or where the rights may be exercised, and amounting to more than €700,000 (such amount may be lower depending on the Spanish region of domicile of the taxpayer). A Holder who is required to file a NWT return should value the Shares at their average trading price in the last quarter of the year. Such average trading price is published on an annual basis by the Spanish Ministry of Finance and Public Administration.

NWT is levied at rates ranging from 0.2% to 2.5% depending on the Spanish region of domicile of the taxpayer. Certain tax allowances may be available depending also on the Spanish region of domicile of the taxpayer.

Inheritance and gift tax

The transfer of the Shares by inheritance, gift or legacy (on death or as a gift) to individuals resident in Spain is subject to Inheritance and Gift Tax (hereinafter, "**IGT**") as set out in Act 29/1987, of 18 December, being payable by the person who acquires the securities, at an effective tax rate ranging from 0% to 81.6%, depending on relevant factors (such as e.g. the specific regulations imposed by each Spanish region, the amount of the pre-existing assets of the taxpayer and the degree of kinship with the deceased or donor).

Corporate income tax (CIT)

Taxation of dividends

Domestic corporations or these who, while subject to NRIT, for these purposes operate in Spain through a permanent establishment, will include dividends received in connection with Shares in their taxable base, subject to a 25% tax rate for tax periods starting from 2016 onwards, according to Act 27/2014, of 27 November (hereinafter, "**CIT Act**").

Unless one of the exclusions set out in article 21 of CIT Act may apply, Holders obtaining dividends or profit distributions in respect of the Shares shall be entitled to an exemption subject to (i) having a stake, direct or indirect, of at least 5% or an acquisition value over €20 million and (ii) holding the stake uninterruptedly for a year – requirement which may be fulfilled after the distribution of such dividend (and provided that other requirements that need to be analysed on a case by case basis are fulfilled).

As a general rule, the gross dividend received annually from the Shares will be subject to withholding tax at a 19% for tax periods starting as of 2016 onwards. Holders shall be able to credit such withholding tax against their annual CIT due.

Notwithstanding, it will not be subject to withholding tax dividends entitled to an exemption at the level of the Holder, provided that the requirements (briefly described in the precedent paragraph) set out in article 21 of CIT Act are fulfilled.

The distribution of share premium is not considered as dividend for tax purposes. This amount will decrease the acquisition value of the Shares and any excess will be subject to CIT at a 25% tax rate for tax periods starting as of 2016 onwards but may be entitled to an exemption at the level of the Holder, provided that the referred requirements set out in article 21 of CIT Act are fulfilled. These amounts will not be subject to withholding tax.

Taxation of gains and losses

Gains or losses arising from the sale of the Shares by a Holder (tax resident in Spain or subject to NRIT but operating in Spain through a permanent establishment) will be included in its CIT taxable base, and shall generally be subject to CIT at the above tax rate.

Gains arising from the sale of the Shares will not be subject to withholding tax and may also be entitled to an exemption at the level of the Holder, provided that the requirements (briefly described in the precedent section) set out in article 21 of CIT Act are fulfilled.

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Shares by inheritance, gift or legacy are not subject to the IGT but must include the market value of the Shares in their taxable income for CIT purposes.

Pre-emptive subscription rights

The income obtained from the sale of pre-emptive subscription rights will be accounted for in accordance with prevailing accounting regulations, which have full effect for tax purposes.

Non-resident shareholders

Non-residents income tax (NRIT)

Taxation of dividends

According to the NRIT Act, dividends paid by a Spanish resident company to a non-Spanish tax resident Holder not holding the Shares through a permanent establishment located in Spain are subject to NRIT, withheld at the source on the gross amount of dividends, currently at a tax rate of 19% as of 2016.

Certain corporate Holders resident in a EU Member State (other than a tax haven jurisdiction for Spanish tax purposes) may also be entitled to an exemption from NRIT dividend withholding tax to the extent that they are entitled to the benefits of the Spanish NRIT provisions that implement the regime of the EU Parent-Subsidiary Directive.

In order to be eligible for the exemption, the recipient of the dividends must hold, directly or indirectly, a stake of at least five per cent of the shares of the distributing entity or the acquisition value of the stake must be over €20 million. The abovementioned stake must be held uninterruptedly for at least one year prior to the distribution date or complete that period after the distribution of such dividend. Additionally, other requirements (including specific anti-abuse rules that need to be analysed on a case-by-case basis and procedural formalities, such as the supply of a government-issued tax residence certificate) must be met. Holders claiming the applicability of such exemption that have not met a minimum one year holding period as of a given dividend distribution date (but who could meet such requirement afterwards) should be aware that the NRIT Act requires the Company to withhold the applicable NRIT on such dividends, and that such Holders will need to request a direct refund of such withholding tax from the Spanish tax authorities pursuant to the Spanish refund procedure described below under "*Spanish refund procedure*".

In addition, Holders resident in certain countries may be entitled to the benefits of a double taxation convention ("**DTC**") in effect between Spain and their country of tax residence providing from a reduced tax rate or an exemption on dividends, subject to the satisfaction of any conditions specified in the relevant DTC, including providing evidence of the tax residence of the Holder by means of a certificate of tax residence duly issued by the tax authorities of its country of tax residence making express reference to the Holders' entitlement to the benefits of such DTC (or equivalent specific form required under an applicable DTC). In the case of U.S. persons, IRS Form 6166 will satisfy this certificate requirement. From a Spanish tax perspective, tax residence certificates issued by a foreign tax authority (or equivalent DTC forms) are deemed to be valid only for one year as from their date of issuance. In general, the U.S.-Spain DTC provides for a tax rate of 15% on dividends.

In accordance with the Order of the Ministry of Finance and Taxation of 13 April 2000, upon distribution of a dividend, the Company or the Company's paying agent will withhold an amount equal to the NRIT amount required to be withheld according to the general rules set forth above (generally, 19% as from fiscal year 2016), transferring the resulting net amount to the financial institution acting as a depositary of the shares held by such Holder. For this purpose, the depositary is the financial institution with which the Holder has ratified a contract of deposit or management with respect to shares in the Company held by such Holders. If the applicable depositary is resident, domiciled or represented in Spain and it provides timely evidence of the Holder's right to obtain the DTC-reduced tax rate or exemption, it will immediately receive the amount withheld, which will be credited to the relevant Holder (the "Quick refund Procedure"). For these purposes, the relevant certificate of residence (or equivalent DTC form) stating that the Holder is resident of such country within the meaning of the DTC must be provided before the tenth day following the end of the month in which the dividends were paid.

If such certificate of tax residence or, as the case may be, the equivalent DTC form referred to above, is not provided to it by the relevant depositary within the mentioned time frame the relevant NRIT withheld will be paid to the Spanish tax authorities, and a Holder entitled to an exemption or reduction of NRIT pursuant to the NRIT Act or pursuant to an applicable DTC may subsequently request a refund of the amounts withheld in excess from the Spanish tax authorities, following the standard refund procedure described below under "*Spanish refund procedure*".

Spanish refund procedure

According to Royal Decree 1776/2004, dated 30 July (NRIT regulations) and the Order of the Ministry of Finance and Taxation EHA/3316/2010, of 17 December, as amended, a refund of an amount withheld in excess of any applicable NRIT (taking into account an available exemption or reduction under the NRIT Act or applicable DTC) can be requested and obtained directly from the relevant Spanish tax authorities.

To pursue the refund claim, the Holder is required to file:

- the corresponding Spanish tax refund form (currently, Form 210);
- a valid certificate of tax residence issued by the relevant tax authorities of the Holder's country of residence stating that the Holder is a resident of such country (and, in case an exemption or reduction of NRIT is claimed pursuant to a DTC, such certificate must indicate that the relevant Holder is a resident therein within the meaning of the relevant DTC) or, as the case may be, the equivalent DTC form, as referred to above under "—*Taxation of dividends*" above; and
- a withholding tax certificate from the Company stating that Spanish NRIT was withheld and collected with respect to such Holder.
- a proof of beneficial ownership, and
- documentary evidence of the bank account in which the excess amount withheld should be paid.

For further details, prospective Holders should consult their own tax advisors.

Taxation of capital gains

Capital gains derived from the transfer or sale of the Shares will be deemed to be income arising in Spain, and, therefore, subject to NRIT (currently, at a 19% as from fiscal year 2016).

Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses derived from a given transfer of shares against capital gains obtained upon another transfer of shares.

However, capital gains derived from the transfer or sale of Shares will be exempt from taxation in Spain in any of the three following cases:

- Capital gains derived from the transfer of the Shares carried out on an official Spanish secondary stock market (such as the Spanish Stock Exchanges), by any Holder who is tax resident of a country that has entered into a DTC with Spain containing an "exchange of tax information" clause (such as the U.S.-Spain DTC). This exemption is not applicable to capital gains obtained by a Holder through a country or territory that is classified as a tax haven under the Spanish tax regulations, nor by a Holder holding the Shares through a permanent establishment located in Spain.
- Capital gains obtained directly by any Holder resident of another EU Member State or indirectly through a permanent establishment of such Holder in a EU Member State (other than Spain), provided that:
  - the Company's assets do not mainly consist of, directly or indirectly, real estate property located in Spain;
  - for the specific case of individual taxpayers, the Holder has not held a direct or indirect interest of at least 25% in the Company's capital or net equity during the preceding twelve months;
  - in the case of non-resident entities, the selling shall meet the requirements for the application of the exemption provided for in article 21 of the Corporate Income Tax Act; and
  - the gain is not obtained through a country or territory defined as a tax haven under the applicable Spanish tax regulations.
- Capital gains realized by Holders who benefit from a DTC entered into between their country of tax residence and Spain that provides for taxation of capital gains derived from the transfer of the Shares only in such Holder's country of tax residence.

In order to be eligible for the exemptions above mentioned, a Holder must timely file the applicable NRIT tax return before the Spanish tax authorities, attaching a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that the Holder is a resident of such country within the meaning of the relevant DTC) or, as the case may be, equivalent DTC form, as described under "*—Taxation of Dividends*" above. As it has been mentioned above, certificates of tax residence (or equivalent DTC forms) will be generally valid only for a period of one year after their date of issuance.

Prospective Holders should consult their own tax advisors to obtain detailed information regarding NRIT filings they may be required to make before the Spanish Tax Authorities.

Net wealth tax

In relation to fiscal year 2016, non-Spanish tax resident individual Holders holding the Shares will be subject to Spanish NWT to the extent that such Holders own shares (along with other property located in Spain and rights which could be exercised in Spain) valued for a combined net amount in excess of €700,000 as of 31 December 2016. Spanish NWT rates vary between 0.2% and 2.5%. For NWT valuation purposes, the Shares should be valued at their average trading price during the last quarter of such year (according to information published on an annual basis by the Spanish Ministry of Finance and Public Administration). Holders who benefit from a DTC that provides for net wealth taxation only in the Holder's country of residence will not be subject to NWT.

Individuals that are not resident in Spain for tax purposes who are resident in an EU or European Economic Area member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled. As such, prospective holders should consult their tax advisers.

Spanish inheritance and gift tax

Unless otherwise provided under an applicable DTC, transfers of the Shares upon death and by gift to individuals not resident in Spain for tax purposes are subject to Spanish IGT if the shares are located in Spain (pursuant to Spanish Act 29/1987), regardless of the residence of the heir or the beneficiary. The effective tax rate, after applying all relevant factors (legislation of the autonomous region applicable, the net wealth of the heir or beneficiary of the gift, the kinship with the deceased or the donor and the qualification for tax benefits), may range between 0% and 81.6%.

However, if the deceased, heir or the donee are resident in an EU or European Economic Area member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. Accordingly, prospective shareholders should consult their tax advisers.

Non-Spanish tax resident legal entities that acquire ownership or other rights over the Shares by inheritance, gift or legacy are not subject to IGT. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable treaty for the avoidance of double taxation entered into by Spain.

Spanish transfer tax

The acquisition or subscription of the Shares and any subsequent transfer thereof will be exempt from Transfer Tax and Value Added Tax, under the terms and with the exemptions set out in article 314 of the Consolidated Text of the Spanish Securities Market Act, approved by Royal Legislative Decree 4/2015 of 23 October 2015 (former, article 108 of the Spanish Securities Market Act 24/1988, of 28 July 1988).

Additionally, no stamp duty will be levied on such acquisition, subscription and transfers.

Application to the Company of the special holding company tax regime

It is likely that the Company will opt to apply to be taxed under the "Régimen especial de las Entidades de Tenencia de Valores Extranjeros" (an "ETVE"), the special regime for foreign-securities holding companies (the "FSHC regime"), before it pays out any dividends to its shareholders.

Entities fulfilling the following requirements may qualify for the said regime:

(a) Their corporate purpose must include the management and administration of securities representing the equity of entities not resident in Spain by means of the corresponding organisation of material and human resources;

(b) Their securities must be registered or "nominative";

(c) They may not be constituted as a Spanish or European "Agrupacion de Interés Económico" (economic interest group) or as an "Unión Temporal de Empresas" (temporary business association); and

(d) The Company cannot be considered an asset-holding entity within the meaning of article 5.2 of CIT Act. An asset-holding entity will be any at which more than half of its assets are formed by securities or are not used in an economic activity.

Given the corporate purpose of the Company, the condition in paragraph (a) above should be met. In addition, neither exclusion in paragraphs (c) or (d) above should be applicable to the Company. Regarding the condition in paragraph (b) above, should not be interpreted in a restrictive sense (preventing the application of the special regime in all cases where the shares of the entity are not formally registered) but rather should be considered met whenever it is possible to reliably identify the shareholders or members (whether by furnishing public documents evidencing the identity or by keeping a register of shareholders subject to sufficient safeguards). Beneficial owners identification according to book-entry records is described in Representation and Transfer of Shares section above, to which the reader is referred.

This view has been confirmed by the Directorate-General of Taxes ("**DGT**") in several rulings (e.g. V2631-10, of 3 December 2010 and V3230-14, of 1 December 2014) in which the DGT has established that the fact that the securities of an ETVE are compulsorily represented by book-entry records because they are admitted to trading on an official secondary market does not entail an obstacle to applying the special tax regime.

Therefore, the Company should fulfil the requirements for qualifying for the application of the FSHC regime, in accordance with how these entities are regulated at the date of this document.

The FSHC regime will apply to the tax period ending after the election to apply the FSHC regime has been formally notified to the Spanish tax authority and to subsequent tax periods closing before notification to the Spanish tax authority of any decision to opt out of this regime.

The main tax effects of application of this special regime for Holders in respect of the holding and transferring of Shares are the following:

Resident Individuals

Taxation of dividends

Application of the FSHC regime does not introduce any specific treatment with respect to dividends obtained by PIT taxpayers, to which end the reader is referred to the tax treatment described in PIT section above.

Capital gains and losses

Application of the FSHC regime does not introduce any specific treatment with respect to capital gains or losses obtained by PIT taxpayers, to which end the reader is referred to the tax treatment described in PIT section above.

Corporate income tax (CIT)

Taxation of dividends

Profits distributed by the Company to Holders liable for CIT or which, as NRIT taxpayers, operate in Spain to these effects through a permanent establishment, will be taxed under the general regime described in CIT section above, to which the reader is referred.

Taxation of gains and losses

The gain or loss arising on the transfer of shares for valuable consideration or by way of gift or from any other change in net worth relating to the shares, will be included in the tax base of corporate income taxpayers, or of NRIT taxpayers who operate through a permanent establishment in Spain, in the manner contemplated in articles 10 et seq. of the CIT, generally at a tax rate of 25% from fiscal year 2016.

Notwithstanding the foregoing, the exemption provided for in article 21 of the CIT may apply to the income obtained.

Non-Resident Shareholders

Taxation of dividends

Where a dividend is received by a Holder which is a natural person or legal entity not resident in Spain and which the person does not operate in Spain through a permanent establishment (otherwise its tax treatment would be that corresponding to resident shareholders liable for payment of CIT, as described above), the distributed profit will not be deemed obtained in Spanish territory and the dividend will therefore not be subject to Spanish withholding tax, so long as the profits have been distributed from exempt income (dividends and capital gains from non-resident companies, the shareholdings in which fulfil the requirements of article 21 of the CIT detailed above)

In contrast, dividends paid by the Company out of non-exempt profits are deemed Spanish source income, and are therefore taxed following the treatment described for dividends in the above, to which the reader is referred. However, dividends received by shareholders resident in a country or territory officially classified as a tax haven will be subject to taxation and withholding in Spain, at a rate of 19%.

The rules envisage that the first profits distributed by the Company will be deemed to come from exempt dividends and capital gains, for the purposes of determining and applying the correct tax treatment to any dividends received by a Holder.

To this end, the Company will provide Holders with the information they need to be able to determine the appropriate tax treatment.

It should be noted that, as the treatment described above does not apply to all non-Spanish resident Holders, a Holder will have to establish his foreign tax residence by submitting a certificate of tax residence duly issued by the tax authorities of its country of residence in order to secure the above treatment.

Prospective Holders should consult their own tax advisors to obtain detailed information regarding NRIT filings they may be required to make before the Spanish Tax Authorities.

Distributions of the share premium will be treated in the same way as distributed profits, as detailed in this paragraph.

Taxation of capital gains

Regardless of whether a Holder is a natural person or a legal entity, the income obtained as a consequence of transferring Shares will not be deemed to be obtained in Spain to the extent that it corresponds to profits deriving from exempt dividends and capital gains as described above or to changes in value attributable to shareholdings in non-Spanish resident companies that fulfil the requirements referred to above.

In contrast, capital gains obtained by the Holder out of non-exempt profits are deemed Spanish source income, and are therefore subject to NRIT following the tax treatment described for capital gains in the above, to which the reader is referred.

However, income deriving from share transfers received by Holders resident in a country or territory officially classified as a tax haven will be subject to taxation in Spain, at a rate of 19%.

To this extent, the Company will provide Holders with the information they need to be able to determine the appropriate tax treatment.

It should be noted that, as the treatment described above does not apply to all non-Spanish resident Holders, a Holder will have to establish his foreign tax residence by submitting a certificate of tax residence issued by the tax authorities of its country of residence in order to secure the above treatment.

Certain U.S. Federal Income Tax Considerations

The following is a description of certain U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to acquire the Shares. This discussion applies only to a U.S. Holder that acquires Shares in this Offering and holds them as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences or the Medicare contribution tax on net investment income, and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or certain traders in securities;
- certain expatriates;

- persons holding Shares as part of a "straddle" or integrated transaction or similar transaction, or persons entering into a constructive sale with respect to the Shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities;
- persons that own or are deemed to own 10% or more of the Company's voting stock; or
- persons holding the Shares in connection with a trade or business outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning Shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Shares.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury Regulations and the income tax treaty between the United States and Spain (the "**Treaty**"), all as of the date hereof and changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein (possibly with retroactive effect).

A "**U.S. Holder**" is a beneficial owner of Shares that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local, and foreign tax consequences of owning and disposing of Shares in their particular circumstances.

Taxation of distributions

Subject to the discussion in "—*Passive Foreign Investment Company Rules*" below, distributions paid on Shares, other than certain *pro rata* distributions of ordinary shares to all shareholders, generally will be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends.

Dividends will be treated as foreign-source income for foreign tax credit purposes and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as "qualified dividend income" and therefore may be taxable at rates applicable to long-term capital gains. U.S. Holders should consult their tax advisers regarding the availability of these favourable rates on dividends in their particular circumstances. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's receipt of the dividend. The amount of any dividend paid in euros will be the U.S. dollar amount calculated by reference to the spot rate of exchange in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

The amount of dividend income will include any amounts withheld by the Company in respect of Spanish taxes. Subject to applicable limitations, Spanish income taxes withheld from dividends on Shares at a rate not exceeding any applicable rate under the Treaty generally will be creditable against the U.S. Holder's U.S. federal income tax liability (see section "*Taxation—Spanish Tax Considerations—Non-Resident Shareholders—Non-residents Income Tax (NRIT)—Taxation of dividends*" for a discussion of how to obtain the Treaty rate). Spanish taxes withheld in excess of any applicable rate under the Treaty will not be eligible for credit against a 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 advisers regarding the creditability of foreign taxes in their particular circumstances. In lieu of claiming a credit, a U.S. Holder may elect to deduct such Spanish taxes in computing its taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale or other taxable disposition of offered shares

Subject to the discussion in "*—Passive Foreign Investment Company Rules*" below, U.S. Holders will generally recognize capital gain or loss on a sale or other taxable disposition of Shares equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's tax basis in such Shares, in each case as determined in U.S. dollars. This gain or loss will be long-term capital gain or loss if at the time of sale or disposition the U.S. Holder has owned the Shares for more than one year. Any gain or loss generally will be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company rules

In general, a non-U.S. corporation is a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns directly or indirectly at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and certain royalties and rents derived from related persons). Passive income does not include income attributable to the provision of a service ("**Services Income**").

Based upon the nature of its business, the manner in which the Company currently operates its business lines and Telefónica's expected majority ownership stake in the Company following this Offering, the Company does not expect to be treated as a PFIC for its current taxable year or in the foreseeable future. However, a company's PFIC status is a factual determination that is made on an annual basis and depends on the composition of a company's income and assets and the market value of its assets from time to time. The Company's PFIC status for any year will depend, in large part, upon the extent to which, under applicable rules, (i) the Company's Cable Segment income is considered to be Services Income and (ii) the Company's Tower Segment income is considered to be rents derived from related persons. While the Company believes that most of its Cable Segment and Tower Segment income should currently be so characterized, there is no guarantee that Telefónica will continue to own more than 50% of the Company's share capital and that the income that the Company receives from the Telefónica Group will continue to qualify as related-party rental income. Moreover, due to the lack of authority addressing the characterisation of income from cable operations, the appropriate characterisation of the Company's Cable Segment income is not entirely clear. Accordingly, there can be no assurance that the Company will not be a PFIC for any taxable year.

If the Company were a PFIC, certain subsidiaries and other entities in which the Company has a direct or indirect ownership interest could also be PFICs ("**Lower-tier PFICs**"). Under attribution rules, if the Company were a PFIC, U.S. Holders would be deemed to own their proportionate shares of Lower-tier PFICs and would be subject to U.S. federal income tax according to the rules described in the following paragraphs on (i) certain distributions by a Lower-tier PFIC and (ii) a disposition of shares of a Lower-tier PFIC, in each case as if the U.S. Holder held such shares directly, even if the U.S. Holder does not receive the proceeds of those distributions or dispositions.

In general, if the Company were a PFIC for any taxable year during which a U.S. Holder owned Shares, gain recognised by a U.S. Holder on a sale or other disposition (including certain pledges) of the Shares (or an indirect disposition of a Lower-tier PFIC) would be allocated ratably over the U.S. Holder's holding period for the Shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax on such amounts. Further, to the extent that any distribution received by a U.S. Holder on its Shares exceeds 125% of the average of the annual distributions on the Shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above.

If the Company were a PFIC for any year during which a U.S. Holder owns Shares, the Company will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns Shares, even if the Company ceases to meet the threshold requirements for PFIC status.

Alternatively, if the Company were a PFIC and if the Shares were "regularly traded" on a "qualified exchange", a U.S. Holder could make a mark-to-market election that would result in tax treatment different from the general tax treatment for PFICs described above. The Shares will generally be treated as "regularly traded" in any calendar year in which more than a de minimis quantity of the shares are traded on a qualified exchange on at least 15 days during each calendar quarter. The Internal Revenue Service has not identified non-U.S. exchanges that are "qualified" for this purpose. If a U.S. Holder makes the mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the Shares at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the Shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder's tax basis in the Shares will be adjusted to reflect the income or loss amounts recognised. In addition, if a U.S. Holder makes the election, any gain recognised on the sale or other disposition of Shares in a taxable year during which the Company is a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). U.S. Holders should consult their tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances. In particular, U.S. Holders should consider carefully the impact of a mark-to-market election with respect to their Shares given that the Company could have Lower-tier PFICs for which a mark-to-market election would not be available.

A timely election to treat the Company as a "qualified electing fund" under Section 1295 of the Code would result in another alternative treatment. U.S. Holders should be aware, however, that the Company does not intend to satisfy record-keeping and other requirements that would permit U.S. Holders to make "qualified electing fund" elections.

If the Company were a PFIC for the taxable year in which it paid a dividend or for the prior taxable year, the reduced tax rate discussed above with respect to certain dividends paid to certain non-corporate U.S. Holders would not apply.

If the Company were a PFIC for any taxable year during which a U.S. Holder owned any Shares, the U.S. Holder would generally be required to file an annual reports with the Internal Revenue Service with respect to the Company and any Lower-tier PFIC.

U.S. Holders should consult their tax advisers regarding the PFIC status of the Company and its subsidiaries, and the U.S. federal income tax consequences that apply to an investment in a PFIC.

Information reporting and backup withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally will be subject to information reporting and backup withholding unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (and certain entities closely-held by individuals) may be required to report information relating to their ownership of Shares, unless the Shares are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the Shares.

PLAN OF DISTRIBUTION

The Underwriting Agreement

Upon finalisation of the book-building period and setting of the Offering Price (expected to be on or about 29 September 2016), the Company, the Selling Shareholder and the Managers expect to enter into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Initial Offered Shares and the Additional Shares. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement and the Underwriting Agreement not having terminated in accordance with its terms, each entity listed in the following table (the "**Managers**") will agree, severally but not jointly, to purchase the Initial Offered Shares (therefore excluding the Additional Shares) set forth opposite its name in the following table:

Name	Registered office	Number of Initial Offered Shares[1]	Percentage of total underwriting commitment
Goldman Sachs International	Peterborough Court 133 Fleet St. London EC4A 2BB (U.K.)	Up to 16,363,636	18%
J.P. Morgan Securities plc	25 Bank Street London E14 5JP (U.K.)	Up to 16,363,636	18%
Banco Bilbao Vizcaya Argentaria, S.A.	Plaza San Nicolás, 4 48005 Bilbao (Spain)	Up to 8,181,818	9%
CaixaBank, S.A.	Av. Diagonal, 621 08028 Barcelona (Spain)	Up to 8,181,818	9%
BNP PARIBAS	16, bd des Italiens 75009 Paris (France)	Up to 5,909,091	6.5%
Citigroup Global Markets Limited	33 Canada Square London E14 5LB (U.K.)	Up to 5,909,091	6.5%
HSBC Bank plc	8 Canada Square London E14 5HQ (U.K.)	Up to 5,909,091	6.5%
Mediobanca S.p.A.	Piazzetta Enrico Cuccia, 1 20121 Milano (Italy)	Up to 5,909,091	6.5%
UBS Limited	1 Finsbury Avenue London EC2M 2PP	Up to 5,909,091	6.5%
Banco Santander, S.A.	Plaza de Pereda, 9-12 39004 Santander (Spain)	Up to 5,909,091	6.5%
Banco de Sabadell, S.A.	Plaza Sant Roc, 20 08201 Sabadell (Spain)	Up to 909,091	1%
Fidentiis Equities S.V. S.A.	Calle Velázquez, 140 28006 Madrid (Spain)	Up to 909,091	1%
Banca IMI (Intesa Sanpaolo, S.p.A.)	Largo Mattioli, 3 20121 Milan (Italy)	Up to 909,091	1%
Mizuho International plc	Mizuho House 30 Old Bailey London EC4M 7AU	Up to 909,091	1%
Nmás1 Capital Markets Sociedad de Valores, S.A.	Calle Padilla, 17 28006 Madrid (Spain)	Up to 909,091	1%
RBC Europe Limited	Riverbank House 2 Swan Lane London EC4R 3BF (U.K.)	Up to 909,091	1%
Société Générale	29, Boulevard Haussmann 75009 Paris (France)	Up to 909,091	1%
Total underwriting commitment		**Up to 90,909,091**	**100%**

(1) The amounts in this column refer to the number of Initial Offered Shares only, the Additional Shares, if any, would be distributed among Managers following the same percentages.

The Selling Shareholder will inform the market of any amendment to the number or identity of the Managers, or of any amendment to the percentage of Initial Offered Shares underwritten by any of them through the publication of a relevant fact disclosure (*hecho relevante*).

If one or more of the Managers shall fail on the Transaction Date (expected to be on or about 30 September 2016) or, where applicable, on the relevant date of delivery of Additional Shares, to purchase the Shares which it or they are obliged to purchase under the Underwriting Agreement (the "**Defaulted Shares**"), the Joint Global Coordinators shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Managers, or any other Managers, to purchase all, but not less than all, of the Defaulted Shares in such amounts as may be agreed upon and upon the terms set forth in the Underwriting Agreement. If, however, the Joint Global Coordinators shall not have completed such arrangements within such 24-hour period, then (i) if the number of Defaulted Shares does not exceed 13% of the number of Shares to be purchased on such date, each of the non-defaulting Managers shall be obliged, acting severally and not jointly, to itself purchase the full amount thereof in the proportions that their respective underwriting commitments bear to the underwriting commitments of all non-defaulting Managers; or (ii) if the number of Defaulted Shares exceeds 13% of the number of Shares to be purchased on such date, the Underwriting Agreement, or, with respect to the relevant date of delivery of Additional Shares which occurs after 9:30 a.m. (Madrid time) on the Settlement Date (the "**Closing Time**"), the obligation of the Managers to purchase and the Selling Shareholder to sell the Additional Shares to be purchased and sold on the date of delivery, shall terminate without liability on the part of any non-defaulting Manager, and the Offering will therefore be revoked. See "*—Revocation of the Offering*" below.

No action taken pursuant to the paragraph above shall relieve any defaulting Manager from liability in respect of its default. In the event of any such default which does not result in a termination of the Underwriting Agreement or, in the case of the date of delivery of the Additional Shares which is after the Closing Time, which does not result in a termination of the obligation of the Managers to purchase, and the Selling Shareholder to sell, the relevant Additional Shares, as the case may be, either the Joint Global Coordinators or the Company and the Selling Shareholder shall have the right to postpone the Closing Time or the date of delivery of the Additional Shares, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Prospectus, the pricing information or in any other documents or arrangements.

Under the Underwriting Agreement, the Selling Shareholder will grant the Joint Global Coordinators on behalf of the Managers, acting severally and not jointly, an option, exercisable in whole or in part on one occasion only during 30 days after Admission to purchase up to 9,090,909 Additional Shares (representing 10% of the Initial Offered Shares) at the Offering Price. See section "*Tentative calendar of the Offering—Over-Allotment Option*" below.

The Company will give the Managers customary representations and warranties in the Underwriting Agreement, including in relation to the Company's business, the Shares and the contents of this Prospectus. The Selling Shareholder will also give the Managers customary representations and warranties under the Underwriting Agreement in relation to, among other matters, its title to the Shares.

In consideration of the agreement by the Managers to purchase the Initial Offered Shares and, if and to the extent the Over-Allotment Option is exercised, the Additional Shares, the Selling Shareholder will pay to the Managers a commission to be agreed in the Underwriting Agreement, which will be a percentage of the aggregate Offering Price of the Offered Shares sold in the Offering. The Selling Shareholder, at is sole discretion, may elect to pay to one or more of the Managers an additional fee based on the aggregate Offering Price of the Offered Shares sold in the Offering to be agreed in the Underwriting Agreement. Furthermore, the Company will agree to reimburse the Managers for certain expenses in connection with the Offering.

The Underwriting Agreement will also provide that (i) the Company and the Selling Shareholder will, subject to certain exceptions, indemnify the Managers against certain liabilities, including liabilities under applicable securities laws that may arise in connection with the Offering; (ii) the Managers will, subject to certain exceptions, indemnify the Company and the Selling Shareholder against certain liabilities and (iii) the Underwriting Agreement may be terminated under certain scenarios. See "*—Withdrawal and revocation of the Offering—Revocation of the Offering*" below.

The Offering

The Selling Shareholder and the Company expect that the Offering will take place according to the calendar set out at "*—Tentative calendar of the Offering*" below.

The Offering is of up to 90,909,091 Shares, with a nominal value of €1.00 per share (the Initial Offered Shares), representing 36.36% of the total issued ordinary share capital of the Company, which results in an offer of up to €90,909,091 of nominal value. If the Over-Allotment Option is exercised in full by the Joint Global Coordinators on behalf of the Managers, the Offering would be increased up to 9,090,909 Shares, representing 3.64% of the total issued ordinary share capital of the Company (the Additional Shares representing 10% of the Initial Offered Shares), resulting in an offering for an aggregate nominal value of €100,000,000.The closing date of the Offering or the "**Transaction Date**" (*fecha de operación bursátil*) is expected to be on or about 30 September 2016. The Selling Shareholder will publish the Offering Price through a relevant fact disclosure (*hecho relevante*) as described in "*—Pricing of the Offering—Offering Price*" below. Under Spanish law, on the Transaction Date investors become unconditionally bound to pay for, and entitled to receive, the Initial Offered Shares purchased in the Offering.

Payment by the final investors for the Initial Offered Shares will be made no later than 9:30 a.m. (Madrid time) on the second business day after the Transaction Date against delivery through the facilities of Iberclear of the Initial Offered Shares to final investors, which is expected to take place on or about 4 October 2016 (the "**Settlement Date**"). The Shares are expected to be listed on the Spanish Stock Exchanges and quoted on the SIBE on or about 3 October 2016, under the ticker symbol "TLX".

The Offering will be conducted through a book-building process expected to take place from 20 September 2016 after the registration of this Prospectus with the CNMV and until 8:00 p.m. (Madrid time) on 29 September 2016. During the book-building period, the Managers will market the Initial Offered Shares among investors in accordance with, and subject to, the selling restrictions set forth in this Prospectus. Investors may submit their purchase proposals during this period, indicating the number of Initial Offered Shares and the potential purchase price at which they would be interested in acquiring them.

The book-building period may be reduced or extended by agreement of the Selling Shareholder and the Joint Global Coordinators if, in the first case, the book of demand is sufficiently covered in their view before the end of the book-building period or, in the second case, if they understand that an extension of book-building period is convenient to ensure the success of the Offering. In the event that there is such a reduction or extension of the book-building period, the Selling Shareholder will inform the market through the publication of a relevant fact disclosure (*hecho relevante*) and the subsequent steps in the tentative calendar of the Offering set out in this section may be postponed or advanced.

The purchase proposals made by investors during the book-building period will constitute only an indication of interest of the investors in the Initial Offered Shares and shall accordingly not be binding with respect to the number of Initial Offered Shares and the price either for the investors or the Selling Shareholder. Confirmation of the purchase proposals once the Offering Price has been fixed will be irrevocable. Investors will be expected to confirm their purchase proposals to their custodian entities responsible for their "billing and delivery" including in their settlement instructions the 35 digits corresponding to each of the final investor's settlement account in Iberclear and the 20 digits corresponding to each final investor's securities account in an Iberclear participant (failure to furnish such instructions to their respective "billing and delivery" entities may result in investors not being allocated Initial Offered Shares or custodians not accepting settlement). The Company will bear any expenses payable to the Spanish Stock Exchanges and Iberclear deriving from the registration of the Shares under the name of the relevant investors.

The Company and the Selling Shareholder have discussed with the Joint Global Coordinators their principles for allocation, the factors they believe to be relevant to the allocation and pricing of the Offered Shares and have agreed the objectives and process for the allocation and pricing of the Offered Shares. The Joint Global Coordinators will take into account their prudential responsibilities to manage their risk properly when agreeing the allocation, pricing and timing.

The final decision on the allocation of the Offered Shares shall be made by the Company and the Selling Shareholder after consultation with the Joint Global Coordinators, on the Transaction Date, which is expected to occur on or about 30 September 2016.

The Offering has a single tranche and consists of a placement to institutional investors only, including into the United States, only to QIBs ("qualified institutional buyers" as defined in and in reliance upon Rule 144A) and outside the United States in "offshore transactions" as defined in, and in reliance upon, Regulation S. Outside the United States, the Offering is directed only to investors who, if resident in a member state of the European Economic Area (the "**EEA**"), are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive, and if resident in Spain, to qualified investors with the meaning of Article 39 of Royal Decree 1310/2005 of November 4.

The Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Any offer or sale of Shares in reliance on Rule 144A under the Securities Act will be made by brokers or dealers that are registered as such under the Exchange Act. In addition, neither this Prospectus nor the Shares have been or will be registered under any securities laws of any jurisdiction other than Spain.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Shares within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A are only participating in the Offering outside the United States under Regulation S of the Securities Act. Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A. are not broker-dealers registered with the SEC and will not be offering or selling in the United States or to U.S. nationals or residents.

As of 31 December 2015, Banco Bilbao Vizcaya Argentaria, S.A. held a direct stake in Telefónica amounting to 6.07% of its share capital (302,205,736 shares), based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. In addition, two proprietary directors of Telefónica have been appointed pursuant to the proposal of Banco Bilbao Vizcaya Argentaria, S.A.

As of 31 December 2015, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona held an indirect stake in Telefónica amounting to 5.01% of its share capital (249,501,612 shares), based on the information provided by CaixaBank, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. As of the same date, Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona indirectly owned shares of Telefónica through CaixaBank, S.A., which owned 249,482,489 shares and Vidacaixa, S.A. de Seguros y Reaseguros, which owned 19,123 shares. In addition, two proprietary directors of Telefónica have been appointed pursuant to the proposal of CaixaBank, S.A.

Pricing of the Offering

Prior to the Offering, there has been no public market for the Shares.

Offering Price Range

The indicative non-binding Offering Price Range is €12.00 to €15.00 per Offered Share, but the Offering Price may be outside this range. The Offering Price Range has been determined by negotiations between the Selling Shareholder and the Joint Global Coordinators and no independent experts were consulted in determining the Offering Price Range. The Offering Price Range implies an aggregate Offering Price of between approximately 1,090,909,092 and €1,363,636,365, if the Over-Allotment Option is not exercised, and of between €1,200,000,000 and €1,500,000,000, if the Over-Allotment Option is fully exercised, and a market capitalisation of the Company totalling between €3,000,000,000 and €3,750,000,000 approximately.

Offering Price

The Offering Price will be determined by negotiations between the Selling Shareholder and the Joint Global Coordinators upon the finalisation of the book-building period (expected to be on or about 29 September 2016) and it will be announced through a relevant fact disclosure (*hecho relevante*) reported to the CNMV no later than 3:00 a.m. (Madrid time) (unless the Selling Shareholder and the Joint Global Coordinators agree otherwise) on the date following the setting of the Offering Price (which is expected to be occur on or about 29 September 2016) (or any prior date or subsequent date if it is previously reported to the CNMV).

The underwriting price will be the price per Share to which the Managers will undertake to purchase the Initial Offered Shares that, as the case may be, are not allocated to investors, and will be equal to the Offering Price.

Expenses and taxes charged to the investor

Purchasers of Shares may be required to pay stamp taxes and other charges in compliance with the laws and practices of their country of purchase in addition to the Offering Price.

In addition, purchasers will have to bear the commissions payable to the financial intermediaries through which they will hold the Shares, including those commissions related to administration and security custody which are freely set by the relevant financial intermediaries and notified to CNMV or Banco de España, as the case may be.

As set forth in section "*Taxation—Spanish Tax Considerations—Spanish Transfer Tax*" the acquisition or subscription of the Shares and any subsequent transfer thereof will be exempt from Transfer Tax, Stamp Duty and Value Added Tax.

Payment of the Shares

The payment of the Offering Price by the investors for the Shares purchased in the Offering shall be made between the Transaction Date (expected to be on or about 30 September 2016) and no later than 9:30 a.m. (Madrid time) on the Settlement Date (expected to be on or about 4 October 2016), both inclusive, notwithstanding any advances requested, as the case may be.

The referred amounts shall be paid by the investors through the book-entry facilities of Iberclear and its participating entities in the corresponding account opened by the Selling Shareholder at the Agent Bank. The Selling Shareholder shall not dispose of those funds unless each of the following has occurred: (i) Admission is complete and (ii) settlement of the Offering has taken place on the Settlement Date.

Delivery of the Shares

The final allocation of the Initial Offered Shares will be decided by the Company and the Selling Shareholder after consulting with the Joint Global Coordinators, which shall notify so to the Agent Bank by means of the delivery of the corresponding files to be submitted to Iberclear and to the Spanish Stock Exchanges on or around 9:00 p.m. (Madrid time) on the Transaction Date (expected to be on or about 30 September 2016) and the Agent Bank shall arrange the delivery of the Initial Offered Shares to the assignees on or around 11:00 p.m. (Madrid time) on the Transaction Date.

On the Transaction Date, the Joint Global Coordinators will submit the details of the final allocation of the Initial Offered Shares to the Managers, which will in turn notify such details to the relevant investors.

In addition, on the same date, the Agent Bank shall arrange with the Spanish Stock Exchanges the statement of sale and purchase transaction and the allocation of the corresponding book-entry registries.

Execution of the sale of the Initial Offered Shares will be deemed made on the Transaction Date, although the actual delivery will take place on the Settlement Date.

The outcome of the Offering will be published through a relevant fact disclosure (*hecho relevante*) with the CNMV on the Transaction Date or the next business day.

Agent

CaixaBank, S.A. acts as Agent Bank. In such condition, the Agent Bank will perform the following functions: maintain the Initial Offered Shares deposited in the securities accounts held with it by the Selling Shareholder until settlement of the Offering, instruct the entities participating in the Offering on the procedures applicable to its execution, receiving and processing the corresponding files with the final allocation of the Initial Offered Shares to final investors as per the instructions of the Joint Global Coordinators and the Company, and cooperating with the Company in the Admission process.

Withdrawal and revocation of the Offering

Withdrawal of the Offering

The Selling Shareholder expressly reserves the right to withdraw the Offering, postpone it, defer it, or suspend it temporarily or indefinitely for any reason at any time before the setting of the Offering Price.

In case of withdrawal, the Selling Shareholder will notify such circumstance to the CNMV, the Agent Bank and the Joint Global Coordinators on behalf of the Managers, on the date on which the withdrawal takes place or as soon as practicable.

Revocation of the Offering

The Offering will be revoked:

(a) if the Underwriting Agreement is not signed on or before 3:00 a.m. (Madrid time) on the date following setting of the Offering Price (which is expected to be set on or about 29 September 2016, or any postponement thereof duly notified to the CNMV);

(b) if the Offering is suspended or withdrawn by any judicial or administrative authority;

(c) if the Shares are not admitted to listing on the Spanish Stock Exchanges before 11:59 p.m. (Madrid time) on 31 October 2016; or

(d) if the Underwriting Agreement is terminated upon the occurrence of customary termination provisions set forth in the Underwriting Agreement, including:

   i. If at any time on or prior to the Transaction Date, expected to be on or about 30 September 2016 (or only with regard to the Additional Shares, until and including the relevant date of delivery) (i) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the Spanish Stock Exchanges or the London Stock Exchange, (ii) a material disruption in securities settlement, payment or clearance services in the United States, the United Kingdom or Spain shall have occurred, (iii) any moratorium on commercial banking activities shall have been declared by Federal or New York State, United Kingdom or Spanish authorities, (iv) the CNMV suspends or revokes any necessary approval for the Offering or approves a supplement to the

Prospectus, (v) any of the representations and warranties of the Company or the Selling Shareholder in the Underwriting Agreement is not true and correct, (vi) there has occurred a material breach or violation of the obligations of the Company or the Selling Shareholder under the Underwriting Agreement, (vii) since the time of execution of the Underwriting Agreement, and except as disclosed in this Prospectus (excluding any amendment or supplement to this Prospectus, and any press release or price-sensitive information notice (*hechos relevante*), in each case issued after the date hereof), there has been, in the good faith judgment of the Joint Global Coordinators, any material adverse change, or any development reasonably likely to involve a material adverse change, in the financial condition, results of operations, business or prospects of the Company and its subsidiaries, taken as a whole, (viii) the Company publishes, or does not publish, an amendment or supplement to this Prospectus, and the effect of such amendment or supplement, or decision not to publish, by the Company, in the good faith judgment of the Joint Global Coordinators either materially and adversely affects the Managers' compliance with securities laws or has had or will have a material adverse impact on the price or trading of the Company's equity securities, or (ix) there shall have occurred any outbreak or escalation of hostilities, or acts of terrorism, which has a material adverse impact on the financial markets of Spain, the United Kingdom or the United States, or any material adverse change in the financial markets in Spain, the United Kingdom or the United States, currency exchange rates or controls in Spain, the United Kingdom or the United States, or any calamity or crisis that, in the opinion of the Joint Global Coordinators, is material and adverse, in each case of (i) to (ix) such event, individually or together with any other event described in (i) to (ix), makes it, in the good faith judgment of the Joint Global Coordinators, impracticable or inadvisable to proceed with the Offering or the delivery of the Shares on the terms and in the manner contemplated in the Underwriting Agreement and this Prospectus.

ii. If, as explained under "*—The Underwriting Agreement*" above, the number of Defaulted Shares exceeds 13% of the number of Shares to be purchased on the Transaction Date, or, on Closing Time, with respect to the Additional Shares.

In case of withdrawal or revocation of the Offering, all offers to purchase Shares shall be cancelled and all purchase orders related to the Offering shall be terminated. Additionally, the Selling Shareholder will have no obligation to deliver the Offered Shares and the investors shall have no obligation to purchase the Offered Shares. If any advance payment would have been made by any investor to the Managers, the relevant Managers will refund such amounts free of any charges, commission or expenses on the business day after the announcement of the revocation of the Offering.

In the event that the Offered Shares have already been delivered by the Selling Shareholder and the Offering Price has been paid by the investors on the business day after the announcement of the revocation of the Offering, the investors would be required to return title to the Offered Shares and the Selling Shareholder will repurchase the Offered Shares to the purchasers for the amount paid by them in the Offering, together with interest calculated at the statutory rate (*interés legal*) (currently set at 3.00% per annum) from the date on which the purchasers paid for the Offered Shares until the date on which the Selling Shareholder repays the Offering Price.

The investors purchasing Offered Shares shall be deemed to have consented to the aforementioned repurchase of Offered Shares.

In case of revocation of the Offering, the Selling Shareholder will notify such circumstance to the CNMV, the Agent Bank and the Joint Global Coordinators on behalf of the Managers, on the date on which the revocation takes place or as soon as practicable.

Tentative calendar of the Offering

The Company expects that the Offering will take place according to the tentative calendar set out below:

Action	Estimated Date[1]
Registration of the prospectus with the CNMV	20 September 2016
Commencement of the book-building period in which proposals are made by the Qualified Investors	20 September 2016 after registration of this Prospectus with the CNMV
Finalization of the book-building period	No later than 8:00 p.m. (Madrid time) on 29 September 2016
Setting of the Offering Price	29 September 2016
Execution of the Underwriting Agreement	No later than 3:00 a.m. (Madrid time) on 30 September 2016
Selection of purchase proposals and allocation of the Initial Offered Shares	30 September 2016
Transaction Date	30 September 2016
Arrangement for the delivery of the Initial Offered Shares to the assignees	No later than 11:00 p.m. (Madrid time) on 30 September 2016
Admission to trading on the Spanish Stock Exchanges and commencement of the Stabilization Period	3 October 2016
Payment by final investors	No later than 9:30 a.m. (Madrid time) on 4 October 2016
Settlement Date (delivery of the Initial Offered Shares)	4 October 2016
Finalization of the Stabilization Period	3 November 2016

[1] Each of the times and dates is subject to change without prior notice. Any change, including in particular any shortening of the book-building period, will be published through a relevant fact disclosure (*hecho relevante*) in relation to the Prospectus with the CNMV.

Authorisations of the Offering

On 10 June 2016 and 27 July 2016 (regarding the Selling Shareholder) and on 13 June and 20 June 2016 (regarding the Company), the Selling Shareholder and the Company determined to apply for the Admission, expected to occur on or about 3 October 2016, and the implementation by the Selling Shareholder of an offer for the sale of the Offered Shares, as contemplated in the Offering. For the avoidance of doubt, no application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any exchange other than the Spanish Stock Exchanges and the SIBE.

The Offering shall not be subject to any administrative approval or authorisation besides the regime applicable to the approval by the CNMV of this document as a “prospectus” for the purposes of the Admission in accordance with the Spanish Securities Market Act and related regulation.

In addition, the Company will publish any change in the date expected for the admission to trading on the Spanish Stock Exchanges of the Shares through a relevant fact disclosure (*hecho relevante*) with the CNMV.

The Company is aware of, and undertakes to comply with, all the statutory requirements and conditions for the admission and maintenance of the Shares on the Spanish Stock Exchanges, pursuant to the applicable laws and the requirements of the relevant governing bodies.

There is not any private placement taken place simultaneously, or almost simultaneously, with this Offering in connection with shares of the same class as the Shares, other than any sales of Shares made by the Managers in markets different from the Spanish market, in accordance with Rule 144A and Regulation S under the Securities Act.

Stabilisation

In connection with the Offering, J.P. Morgan Securities plc, as Stabilisation Manager, or any of its agents, on behalf of the itself and the other Managers, may (but will be under no obligation to), to the extent permitted by applicable law, engage over-allot or effect transactions in Shares or effect transactions in any over the counter market or otherwise, with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. Any stabilisation transactions shall be undertaken in accordance with applicable laws and regulations, in particular, Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse as regards exemptions for buy-back programmes and stabilisation of financial instruments.

The stabilisation transactions shall be carried out for a maximum period of 30 calendar days from the date of the commencement of trading of Shares on the Spanish Stock Exchanges, provided that such trading is carried out in compliance with the applicable rules, including any rules concerning public disclosure and trade reporting. The Stabilisation Period is expected to commence on 3 October 2016 and end on 3 November 2016 (the "**Stabilisation Period**").

For this purpose, the Stabilisation Manager may carry out an over-allotment of Shares in the Offering, which may be covered by the Stabilisation Manager pursuant to a security loan granted by the Selling Shareholder. The Stabilisation Manager is not required to enter into such transactions and such transactions may be effected on a regulated market and may be taken at any time during the Stabilisation Period. However, there is no obligation on the Stabilisation Manager or any of its agents to effect stabilisation transactions and there is no assurance that stabilisation transactions will be undertaken. Such stabilisation, if commenced, may be discontinued at any time without prior notice, without prejudice to the duty to give notice to the CNMV of the details of the transactions carried out under Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse. In no event will measures be taken to stabilise the market price of the Shares above the Offering Price. In accordance with Article 5.5 of Commission Regulation (EU) No. 596/2014 of 16 April 2014, the details of all stabilisation transactions will be notified by the Stabilisation Manager to the CNMV no later than closing of the seventh daily market session following the date of execution of such stabilisation transactions.

Additionally, in accordance with Articles 5.4 and 5.5 of Commission Regulation (EU) No. 596/2014 of 16 April 2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and article 6.3 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures, the following information will be disclosed to the CNMV by the Stabilisation Manager within one week of the end of the Stabilisation Period: (i) whether or not stabilisation transactions were undertaken; (ii) the date at which stabilisation transactions started; (iii) the date on which stabilisation transactions last occurred; and (iv) the price range within which the stabilisation transactions were carried out, for each of the dates during which stabilisation transactions were carried out.

Over-Allotment Option

In connection with the Offering, the Selling Shareholder will grant the Joint Global Coordinators, acting on behalf of the Managers, acting severally but not jointly, an option to purchase the Additional Shares (representing up to 9,090,909 Shares, 10% of the Initial Offered Shares) at the Offering Price. The Over-Allotment Option is exercisable by the Joint Global Coordinators, on behalf of the Managers, upon notice to the Selling Shareholder, only for the purpose of covering over-allotments (if any), at any time on or before the 30th calendar day after the commencement of trading of the Shares on the Spanish Stock Exchanges. This period is expected to commence on 3 October 2016 and end on 3 November 2016. Any Additional Shares made available pursuant to the Over-Allotment Option will rank *pari passu* in all respects with the Initial Offered Shares, including for all dividends and other distributions declared, made or paid on the Initial Offered Shares, if any, will be purchased on the same terms and conditions as the Initial Offered Shares being issued or sold in the Offering and will form a single class for all purposes with the other Shares.

Lock-Up Agreements

The Company will agree in the Underwriting Agreement that without the prior written consent of the Joint Global Coordinators on behalf of the Managers, it will not, from the date of execution of the Underwriting Agreement through 180 days after the date of this Prospectus, directly or indirectly, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or any other securities convertible into or exercisable or exchangeable for Shares; (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Shares or such other securities, in cash or otherwise; or (3) file any prospectus relating to the offering of any Shares or any securities convertible into or exercisable or exchangeable for Shares; or (4) publicly announce its intention to carry out an offering of any Shares or any securities convertible into or exercisable or exchangeable for Shares. These restrictions shall not apply to (a) the issuance or transfer by the Company of Shares upon the exercise of an option or warrant or other rights or the conversion of a security outstanding on the date of the Underwriting Agreement, (b) the issuance, transfer or contribution in kind of Shares in connection with any acquisition, merger, equity investment or joint venture where the party receiving the Shares commits, for the benefit of the Joint Global Coordinators, on behalf of the Managers, to a "sale restrictions" undertaking reflecting (1) and (2) above during the remainder of the restricted period (the "**Company's Selling Restrictions**"), (c) the issue, transfer or sale of shares or other securities issued pursuant to any employee share schemes or stock options plans to present (or future) employees of the Company or its subsidiaries, and (d) transactions involving existing Shares with companies affiliated with the Company where the buyer(s) or, as the case may be, the ultimate counterpart(ies) assumes the Company's Selling Restrictions and the exceptions in (a) through (d), to the extent applicable, will be available to such affiliated company.

The Selling Shareholder will agree in the Underwriting Agreement to similar restrictions regarding the Shares for a period starting on the date of execution of the Underwriting

Agreement and through 180 days after the date of this Prospectus; provided however, that these restrictions shall not apply to (a) the sale of Shares to be sold by the Selling Shareholder in the Offering, (b) such Shares held by the Selling Shareholder as may be lent by the Selling Shareholder to the Stabilisation Agent pursuant to the stock lending agreement between the Stabilization Agent and the Selling Shareholder, (c) the transfer or contribution in kind of Shares in connection with any acquisition, merger, equity investment or joint venture where the party receiving the Shares commits, for the benefit of the Joint Global Coordinators on behalf of the Managers to "sale restrictions" undertaking reflecting (1) and (2) above during the remainder of the restricted period, (d) transactions involving existing Shares with companies affiliated with the Selling Shareholder where the buyer(s) or, as the case may be, the ultimate counterpart(ies) assumes similar selling restrictions and the exceptions in (a) through (d), to the extent applicable, will be available to such affiliated company and (e) any transfer of Shares by Fonditel Pensiones E.G.F.P., S.A. and Fonditel Gestión S.G.I.I.C., S.A.U.

Other Relationships

The Managers and their respective affiliates may have engaged in transactions with and may have performed various lending, trading, investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future. Certain of the Managers are lenders (either directly or through their affiliates) under certain of the Telefónica Group's debt facilities and or provide performance and other guarantees to the Telefónica Group. Moreover, in the ordinary course of their business activities, the Managers 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 (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments, including corporate debt facilities, of the Group and the Selling Shareholder.

As of 9 September 2016, the following Managers (or their respective affiliates) have entered into respective lines of credit facilities with the Company in an aggregate amount of €190,000 thousand for potential additional funding needs (see section "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*"), as follows:

	Amount
	(in thousands of €)
Goldman Sachs	25,000
JP Morgan	25,000
CaixaBank	25,000
BBVA	25,000
Citibank	15,000
Mediobanca –Banca di Credito Finanziario	15,000
Santander	15,000
HSBC	15,000
BNP PARIBAS	15,000
UBS	15,000
Total	190,000

No amount has been drawn under the referred lines of credit facilities as of the date hereof.

As of 31 December 2015, Banco Bilbao Vizcaya Argentaria, S.A. held a direct stake in Telefónica amounting to 6.07% of its share capital (302,205,736 shares), based on the information provided by Banco Bilbao Vizcaya Argentaria, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. In addition, two proprietary directors of Telefónica have been appointed pursuant to the proposal of Banco Bilbao Vizcaya Argentaria, S.A.

As of 31 December 2015, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona held an indirect stake in Telefónica amounting to 5.01% of its share capital (249,501,612 shares), based on the information provided by CaixaBank, S.A. for Telefónica's 2015 Annual Report on Corporate Governance. As of the same date, Fundación Bancaria Caixa d'Estalvis I Pensions de Barcelona indirectly owned shares of Telefónica through CaixaBank, S.A., which owned 249,482,489 shares and Vidacaixa, S.A. de Seguros y Reaseguros, which owned 19,123 shares. In addition, two proprietary directors of Telefónica have been appointed pursuant to the proposal of CaixaBank, S.A.

The Company is not aware of any person intending to acquire Shares representing more than 5% of the total issued ordinary share capital of Telxius.

Offering expenses

The following table is for illustrative purposes only and sets forth the estimated expenses payable by Selling Shareholder and the Company in relation to the offer of the Initial Offered Shares, in each case excluding VAT, which shall be added where applicable:

Expenses	**Paid by**	
	The Company	**The Selling Shareholder**
	(in thousands of €)	
Underwriting commissions[1]	–	19,636
Iberclear fee	50	–
Spanish Stock Exchanges fee	350	
CNMV fee	80	–
Legal expenses (notary public, registration with the Commercial Registry) and others (publishing, legal and financial advice, audit, agent bank and others)	1,950	17,183
Total	2,430	36,819

(1) Assuming that (i) the Offering Price is the mid-point of the Offering Price Range, that is €13.50; (ii) all the Initial Offered Shares (excluding the Additional Shares) have been placed or purchased by each of the Managers and (iii) the discretionary fee, as the case may be, is paid in full.

Assuming that the Over-Allotment Option is entirely exercised, the expenses payable by the Selling Shareholder would total €38,783 thousand, which accounts for 2.87% of the total amount of the Offering (including the Additional Shares and under the assumptions set out in the table above). The expenses payable by the Company would amount to €2,430 thousand, which represents 0.18% of the total amount of the Offering (including the Additional Shares and under the assumptions set out in the table above).

TRANSFER AND SELLING RESTRICTIONS

Transfer Restrictions

Because of the following restrictions, purchasers of Shares in the United States are advised to consult legal counsel prior to making any offer for, or resale, pledge or other transfer of, Shares.

The Offered Shares are being offered in accordance with Rule 144A and Regulation S under the Securities Act. Terms used in this section which are defined in Rule 144A or in Regulation S under the Securities Act are used herein as defined therein. The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction within the United States and, accordingly, may not be offered, sold or delivered except within the United States to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and outside the United States in accordance with Regulation S.

In addition, until 40 days after the closing of the Offering, any offer or sale of the Offered Shares made within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A. are only participating in the Offering outside the United States under Regulation S of the Securities Act. Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A. are not broker-dealers registered with the SEC and will not be offering or selling in the United States or to U.S. nationals or residents.

Each purchaser of the Offered Shares hereby in reliance on Rule 144A will be deemed to have represented and agreed as follows:

(a) the purchaser is (i) a QIB, (ii) aware, and each beneficial owner of the Offered Shares has been advised, that such sale of Offered Shares is being made in reliance on Rule 144A and (iii) acquiring Offered Shares for its own account or for the account of a QIB; and

(b) the purchaser understands that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (i) (A) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (ii) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the Offered Shares offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for re-sales of the Offered Shares.

Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offered Shares, or possession or distribution of this document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Offered Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Offered Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the Offering. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, any of the Offered Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. There will be no public offering in the United States.

No Offered Shares have been marketed to, or are available for purchase in whole or in part by, the public in Spain or elsewhere in conjunction with the Offering. This document does not constitute a public offer or the solicitation of a public offer in Spain or elsewhere to subscribe for or to buy any securities in the Company or any other entity.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any Shares may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(A) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(B) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State; or

(C) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company, any Selling Shareholder or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplemental prospectus pursuant to Article 16 of the Prospectus Directive and each person who initially acquires any Offered Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with each of the Managers, the Selling Shareholder and the Company that it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied for that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

In the United Kingdom, this document is only being distributed to and is only directed at Qualified Investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (ii) persons falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The securities described herein are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, Relevant Persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this document or any of its contents.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any Offered Shares will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to the Selling Shareholder or the Company.

Australia

This document (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("**Corporations Act**"); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; (c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission ("**ASIC**"), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (d) may not be provided in Australia other than to select investors ("**Exempt Investors**") who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act; and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Shares may be issued, and no draft or definitive prospectus, advertisement or other offering material relating to any Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offered Shares, each purchaser or subscriber of Offered Shares represents and warrants to the Company, the Selling Shareholder, the Managers and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Offered Shares under this document, any supplement or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Offered Shares for resale in Australia within twelve months may, under the Corporations Act, requires disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Offered Shares each purchaser of Offered Shares undertakes to the Company, the Selling Shareholder and the Managers that such purchaser will not, for a period of twelve months from the date of purchase of the Offered Shares, offer, transfer, assign or otherwise alienate those Offered Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Japan

The Shares have not been, and will not be, registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended, the "**FIEL**") and disclosure under the FIEL has not been, and will not be, made with respect to the Offered Shares. Neither the Shares nor any interest therein may be offered, sold, resold, or otherwise transferred, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, a resident of Japan is any person that is resident in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined under Section 275(2) and under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore ("**SFA**"); (ii) to a relevant person as defined under Section 275(2) and under Section 275(1), or any person under Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise under, and in accordance with the conditions of, any other applicable provision of the SFA.

If Offered Shares purchased under Section 275 of the SFA are acquired 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

(B) 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,

then the shares, debentures and units of shares and debentures 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 Offered Shares under an offer made under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person under an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than US$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets,

and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Hong Kong

The Offered Shares have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the Offered Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offered Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance has been or will be issued, whether in Hong Kong or elsewhere.

Kuwait

The Shares have not been registered, authorised or approved for offering, marketing or sale in the State of Kuwait pursuant to Securities and Investment Funds Act of Kuwait No. 31/1990, as amended, and its executive bylaw, and as such the Offered Shares shall not be offered or sold in the State of Kuwait. Interested investors from the State of Kuwait who approach the Selling Shareholder, the Company, or any of the Managers acknowledge this restriction and that this Offering and any related materials shall be subject to all applicable foreign laws and rules; therefore, such investors must not disclose or distribute such materials to any other person.

Qatar

This document has not been filed with, reviewed or approved by the Qatar Central Bank, any other relevant Qatar governmental body or securities exchange. This document is being issued to a limited number of sophisticated investors and should not be provided to any person other than the original recipient. It is not for general circulation in the State of Qatar and should not be reproduced or used for any other purpose.

UAE (excluding the Dubai International Financial Centre)

The Offering has not been approved or licensed by the UAE Central Bank or any other relevant licensing authority in the United Arab Emirates, and does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Act, Federal Law No. 8 of 1984 (as amended) or otherwise. Accordingly, the Offered Shares may not be offered to the public in the United Arab Emirates.

The Offered Shares may be offered, and this document may be issued, only to a limited number of investors in the United Arab Emirates who qualify as sophisticated investors under the relevant laws of the United Arab Emirates. Each of the Company, the Selling Shareholder and the Managers represents and warrants that the Offered Shares will not be offered, sold, transferred or delivered to the public in the United Arab Emirates.

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

Dubai International Financial Centre

This document relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it.

The Offered Shares to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offered Shares offered should conduct their own due diligence on the Offered Shares. If you do not understand the contents of this document you should consult an authorised financial adviser. The Offered Shares have not been and will not be offered, sold or publicly promoted or advertised in the Dubai International Financial Centre other than in compliance with laws applicable in the Dubai International Financial Centre, governing the issue, offering or the sale of securities.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance of prospectuses under article 652.a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the ordinary shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the Offering, the Company or the Offered Shares has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Offered Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Offered Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Offered Shares.

Canada

The Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in

National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

Buyer's Representation

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Offered Shares pursuant to the Offering will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Offered Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Offered Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offered Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offered Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this section, the expression "Prospectus Directive" means Directive EC/2003/71, as amended, and includes any relevant implementing measure in each Relevant Member State.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a Spanish company and most of its assets are located outside of the United States. In addition, most of the Company's directors and executive officers, as well as the Selling Shareholder, reside or are located outside of the United States. As a result, investors may not be able to effect service of process outside these countries upon the Company or these persons or to enforce judgments obtained against the Company or these persons in foreign courts predicated solely upon the civil liability provisions of U.S. securities laws. Furthermore, there is doubt that a lawsuit based upon U.S. federal or state securities laws, or the laws of any non-Spanish jurisdiction, could be brought in an original action in Spain and that a foreign judgment based upon such laws would be enforceable in Spain.

LEGAL MATTERS

The validity of the Shares and certain matters governed by Spanish law will be passed on for the Company by J&A Garrigues, S.L.P. and CMS Albiñana & Suárez de Lezo, S.L.P. and for the Managers by White & Case LLP.

Certain other matters governed by U.S. federal, New York state and English law will be passed on for the Company by Davis Polk & Wardwell LLP and for the Managers by White & Case LLP.

INFORMATION NOT CONTAINED IN THIS PROSPECTUS

Neither the delivery of this Prospectus nor any subscription or sale made pursuant to this Prospectus shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to the date of this Prospectus.

AVAILABLE INFORMATION

The Company is not currently subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. For as long as this remains the case, the Company will furnish, upon written request, to any shareholder, any owner of any beneficial interest in any of the Shares or any prospective purchaser designated by such a shareholder or such an owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, if at the time of such request any of the Shares remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Copies of the documents referred to below will be available for inspection in physical form at the Company's registered office: Distrito Telefónica, Ronda de la Comunicación, s/n, 28050, Madrid, Spain:

(a) deed of incorporation of the Company;

(b) the Bylaws of the Company (which, following Admission, will also be available on Telxius' website at http://telxius.com/en/shareholders-investors/corporate-bylaws/);

(c) Board of Directors Regulations, General Shareholders' Meeting Regulations, Internal Code of Conduct (which, following Admission, will also be available on the CNMV's website at http://www.cnmv.es/portal/Consultas/DatosEntidad.aspx?nif=A86565926 and on Telxius' website at http://telxius.com/en/shareholders-investors/rules-of-organization/);

(d) this Prospectus (which, following Admission, will also be available on Telxius' website at http://telxius.com/en/shareholders-investors/initial-shares-offering/);

(e) certificate of the resolutions approved by the General Shareholders' Meeting and Board of Directors in connections with the Offering; and

(f) the 2015 Audited Consolidated TIWS América Financial Statements, the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and the Pro Forma Consolidated Financial Information (which, following Admission, will also be available on Telxius' website at http://telxius.com/en/shareholders-investors/quarterly-results/).

The contents of the websites referred to in (a) to (f) above are not incorporated into, and do not form part of, this Prospectus.

The documents referred to in (a) to (f) above will also be available for inspection in physical form at the CNMV's premises at: Edison 4, 28006 Madrid (Spain) and Passeig de Gràcia 19, 08007 Barcelona (Spain).

INDEPENDENT AUDITORS

The 2015 Audited Consolidated TIWS América Financial Statements and the 1H 2016 Audited Consolidated Telxius Interim Financial Statements have been audited by Ernst & Young, S.L., with its address for these purposes at Plaza Pablo Ruiz Picasso 1, Torre Picasso, 28020 Madrid (Spain), registered with the Commercial Registry of Madrid under volume 12,749 and sheet M-23,123 and registered with the Official Registry of Accounting Auditors (ROAC) under number S0530, independent auditors, to the extent set forth in their respective unqualified reports appearing herein.

The Pro Forma Consolidated Financial Information has been subject to review based on the International Standard on Assurance Engagements (ISAE) 3420 also by Ernst & Young, S.L.

Ernst & Young, S.L. has not resigned, been removed or not been re-appointed as auditor of Telxius during the period covered by the historical financial information. Ernst & Young, S.L. will be the auditor of the Company for the year ended 31 December 2016 and PricewaterhouseCoopers Auditores S.L. with its address for these purposes at Torre PWC, Paseo de la Castellana 259 B, Madrid (Spain) has being appointed as auditor of the Company for the years ended 31 December 2017, 2018 and 2019 by virtue of a sole shareholder resolution of the Company of 13 July 2016.

GENERAL INFORMATION

The following table sets out certain information required by the Prospectus Rules in respect of the Group's subsidiaries as at 30 June 2016 according to the 1H 2016 Audited Consolidated Telxius Interim Financial Statements and as at the date of this Prospectus. On the date of this Prospectus, Telxius, as holding entity of the Telxius Group, controls, directly or indirectly through other subsidiaries:

Subsidiary	Country of incorporation	Ownership interest (%)	Direct or indirect interest
Telxius Torres Latam, S.L.U.	Spain	100	Direct
Telxius Torres Brasil Ltda.[1]	Brazil	100	Indirect
Telxius Torres Perú S.A.C.[2]	Peru	100	Indirect
Towerco Latam Chile Holding, S.A.[3]	Chile	99.98	Indirect
Towerco Latam Chile S.A.[4]	Chile	100	Indirect
Telxius Towers Germany GmbH	Germany	100	Direct
Telxius Torres España, S.L.U.	Spain	100	Direct
Telxius Cable España, S.L.U.	Spain	100	Direct
Telxius Cable América, S.A.[5]	Uruguay	100	Direct
Telxius Cable Argentina, S.A.[6]	Argentina	99.94%	Indirect
Telxius Cable USA Inc.[7]	United States	100	Indirect
Telxius Cable Perú, S.A.C.[8]	Peru	99.99%[*]	Indirect
Telxius Cable Puerto Rico Inc.[9]	Puerto Rico	100	Indirect
Telxius Cable Panamá, S.A.[10]	Panama	100	Indirect
Telxius Cable Colombia, S.A.[11]	Colombia	100	Indirect
Telxius Cable Guatemala, S.A.[12]	Guatemala	99.99%[*]	Indirect
Telxius Cable Chile, S.A.[13]	Chile	99.99%[*]	Indirect
Telxius Cable Ecuador, S.A.[14]	Ecuador	100	Indirect
Telxius Cable Brasil Participaçoes Ltda.[15]	Brazil	99.99%[*]	Indirect
Telxius Cable Brasil Ltda.[16]	Brazil	99.99%[*]	Indirect

Telxius is in the process of acquiring, directly or indirectly, those minority stakes (all currently held by companies of the Telefónica Group) in all the subsidiaries that currently does not wholly own (other than Towerco Latam Chile Holding, S.A.).

[*] The stake held by the minority shareholders is less than 0.01% although the indicated percentages are rounded to two decimal places

[1] Formerly, Towerco Latam Brasil Ltda.

[2] Formerly, Towerco Latam Perú S.A.C.

[3] In process of registration of its new legal name to Telxius Torres Chile Holding, S.A.

[4] In process of registration of its new legal name to Telxius Torres Chile S.A.

[5] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services América, S.A.

[6] Formerly, Telefonica International Wholesale Services Argentina S.A.

[7] Formerly, Telefónica International Wholesale Services USA Inc.

[8] Formerly, Telefónica International Wholesale Services Peru, S.A.C.

[9] Formerly Telefónica International Wholesale Services Puerto Rico Inc.

[10] In process of registration of its new legal name. Currently, Teléfonica Global Solutions Panama, S.A.

[11] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services Colombia, S.A.

[12] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services Guatemala, S.A.

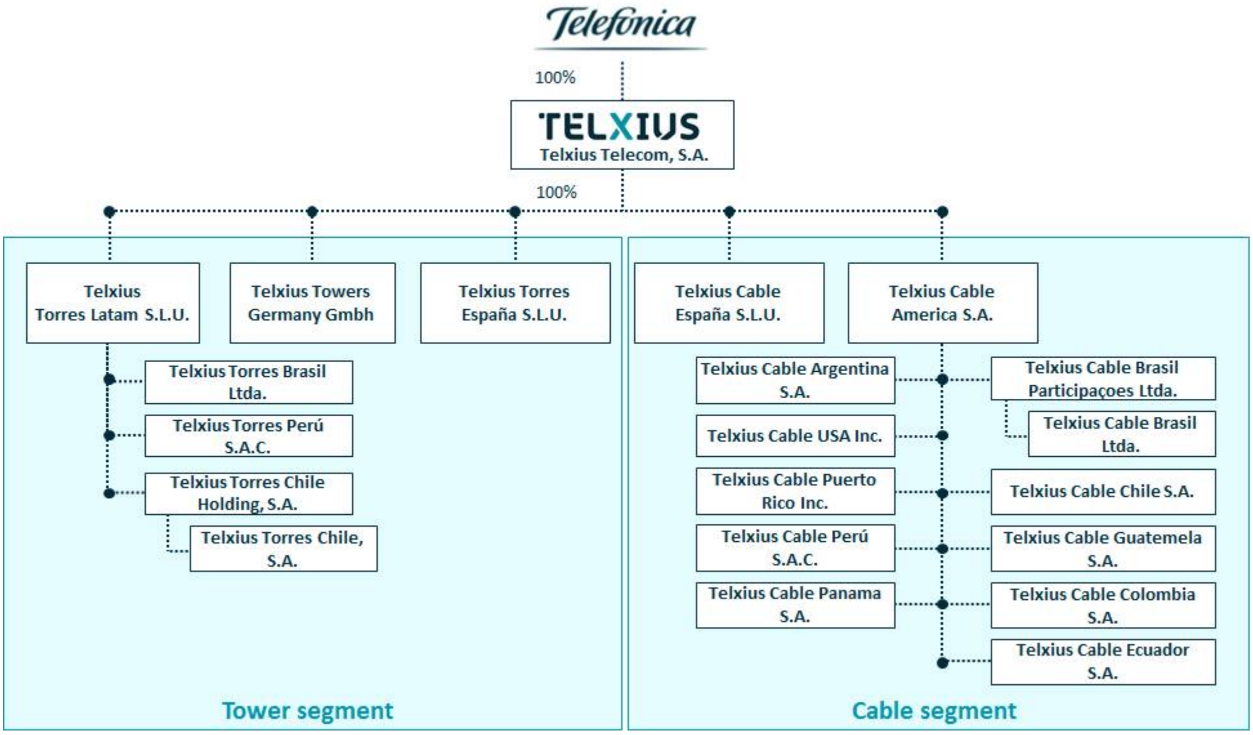
[13] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services Chile, S.A.

[14] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services Ecuador, S.A.

[15] In process of registration of its new legal name. Currently, Telefónica International Wholesale Services Brasil Participaçoes Ltda.

[16] In process of registration of its new legal name. Currently, Telefonica International Wholesale Services Brasil Ltda.

The following table shows the Company and its material subsidiaries:


Telefonica
100%
TELXIUS
Telxius Telecom, S.A.
100%
Telxius Torres Latam S.L.U.
Telxius Towers Germany Gmbh
Telxius Torres España S.L.U.
Telxius Cable España S.L.U.
Telxius Cable America S.A.
Telxius Torres Brasil Ltda.
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Telxius Cable Perú S.A.C.
Telxius Cable Guatemela S.A.
Telxius Cable Panama S.A.
Telxius Cable Colombia S.A.
Telxius Cable Ecuador S.A.
Tower segment
Cable segment

Note: As of the date of this Prospectus some of the companies above are in the process of changing their corporate names. The chart above shows the expected corporate names after such processes have finalised.

EXCHANGE RATES

The Company reports its financial results in its functional currency, the euro. The Company, however, receives a substantial part of its revenue in U.S. dollars. Non-euro currency transactions principally relate to the Cable Segment, which are mainly contracted in U.S. dollars. The following table sets forth, for the periods set forth below, the high, low, average and period-end Bloomberg Composite Rate for the euro as expressed in U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this document. No representation is made that the euro could have been, or could be, converted into U.S. dollars at that rate or any other rate.

The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

Exchange Rates	**Period High**	**Period Low**	**Period Average**	**Period End**
		(U.S. dollars per €1.00)		
Year:				
2013	1.3802	1.2780	1.3285	1.3743
2014	1.3934	1.2098	1.3285	1.2098
2015	1.2104	1.0496	1.1102	1.0862
2016 (through 7 September 2016)	1.1534	1.0748	1.1160	1.1239
Month:				
January 2016	1.0940	1.0748	1.0866	1.0831
February 2016	1.1323	1.0873	1.1104	1.0873
March 2016	1.1381	1.0868	1,1142	1.1380
April 2016	1.1451	1.1222	1.1340	1.1451
May 2016	1.1534	1.1115	1.1298	1.1132
June 2016	1.1395	1.1025	1.1242	1.1106
July 2016	1.1174	1.0977	1.1064	1.1174
August 2016	1.1354	1.1086	1.1205	1.1158
September 2016 (through 7 September 2016)	1.1255	1.1147	1.1199	1.1239

The Bloomberg Composite Rate between the U.S. dollar and the euro on 7 September 2016 was $1.1239 per €1.00.

The Company has provided these exchange rates solely for the convenience of potential investors. The rates should not be construed as a representation that euro amounts could have been, or could be, converted into U.S. dollars at the rates set forth herein or at any other rate.

MARKET AND OTHER DATA

Market data and certain industry forecast data used in this Prospectus have been obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including, among others:

- Various public websites of the governments of Germany, Brazil, Peru, Chile and the Kingdom of Spain;
- The Brazilian telecommunications regulator (*Agência Nacional De Telecomunicações*) (**ANATEL**);
- The Chilean telecommunications regulator (*Subsecretaría de Telecomunicaciones*) (**SUBTEL**);
- The Spanish Statistical Office (*Instituto Nacional de Estadística*) (**INE**);
- The International Monetary Fund (**IMF**);
- The European Commission (**EC**);
- The public industry reports published by:
  - Cisco Systems: Visual Networking Index Mobile Forecast Highlights (2015-2020), Visual Networking Index Mobile Forecast Highlights (2014-2019) and Cisco Visual Networking Index dated 27 May 2015;
  - Bank of America Merrill Lynch: Global Wireless Matrix 1Q2016 dated April 2016;
  - Ericsson: Ericsson Mobility Report dated June 2016;
- Analysys Mason;
- Arthur D. Little;
- Bell Labs Consulting;
- GSMA Intelligence 2016;
- Microsoft and Facebook press release on Marea dated 26 May 2016;
- Pyramid Research;
- Statista;
- TeleGeography (including Submarine Cable Map and Submarine Cable Landing Directory); and
- TowerXchange;

All third-party information, as outlined above, has to the Company's knowledge been accurately reproduced and, as far as the Company is aware and has been able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. Wherever third-party information has been used in this Prospectus, the source of such information has been identified. However, none of the Company, the Selling Shareholder or the Managers has independently verified the information and cannot guarantee its accuracy.

The Company has contracted industry experts to provide some of the third-party data cited in this Prospectus. In particular, it engaged Arthur D. Little to produce an industry report on which certain sections of this Prospectus are based.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, estimates and market research, while believed to be reliable and accurately extracted for the purposes of this Prospectus, have not been independently verified.

This Prospectus also contains estimates of market data and information derived therefrom which cannot be gathered from publications by market research institutions or any other independent sources. Such information is prepared by the Company based on third-party sources and its own internal estimates. While the Company believes that these estimates of its competitive position and market share are helpful in order to give investors a better understanding of its position within the industry in which the Telxius operates, in many cases there is no publicly available information supporting these estimates. Although the Company believes that its internal market observations are reliable, its own estimates are not reviewed or verified by any external sources. Accordingly, investors are cautioned not to place undue reliance on such estimates. Whilst the Company is not aware of any misstatements regarding the industry, market share or similar data presented in this Prospectus, such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "*Risk Factors*" in this Prospectus.

In Madrid, on 20 September 2016

On behalf of Telxius Telecom, S.A. and Telefónica, S.A.
By

____
Alberto Manuel Horcajo Aguirre

ANNEX 1 – CONSOLIDATED FINANCIAL STATEMENTS

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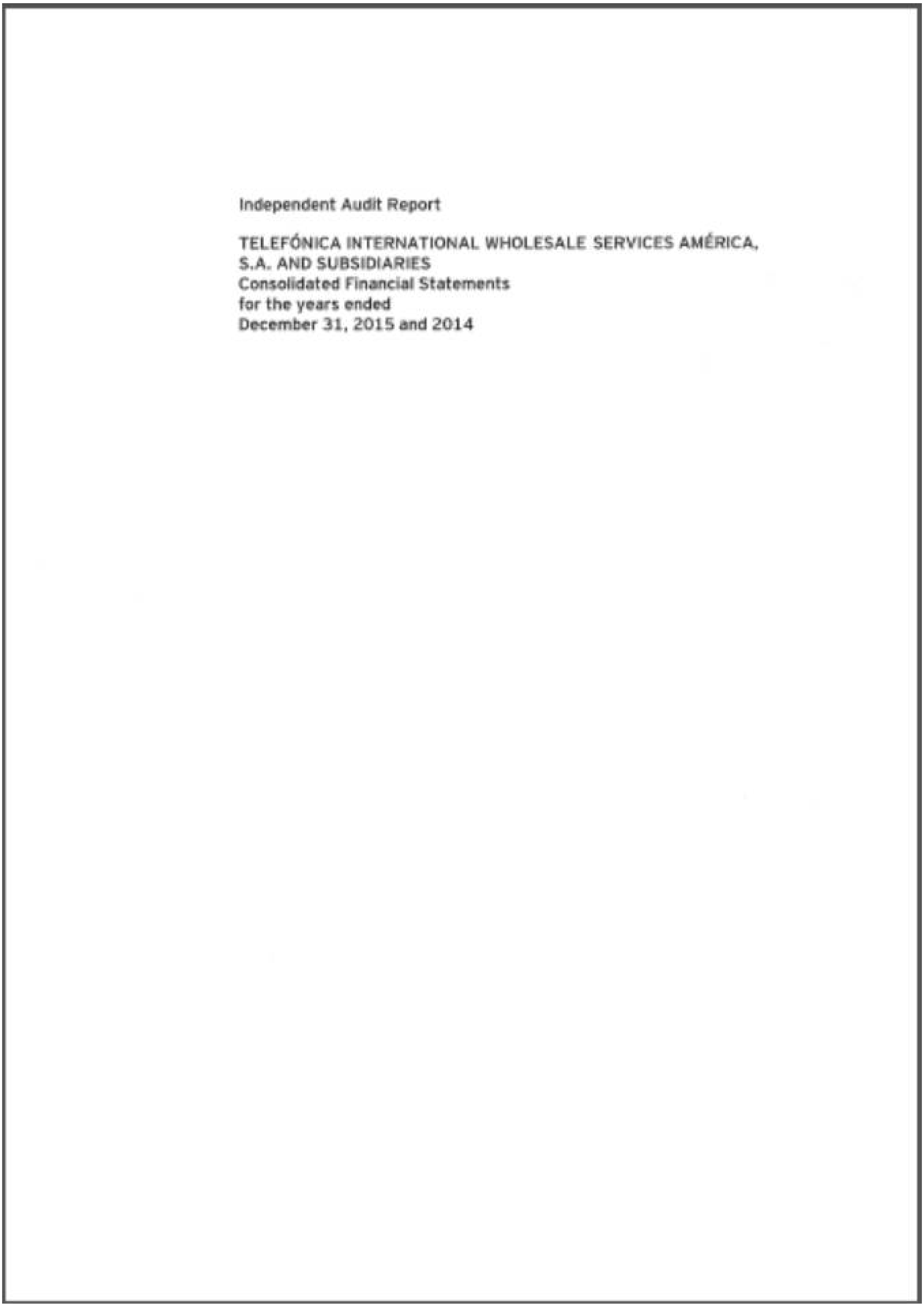
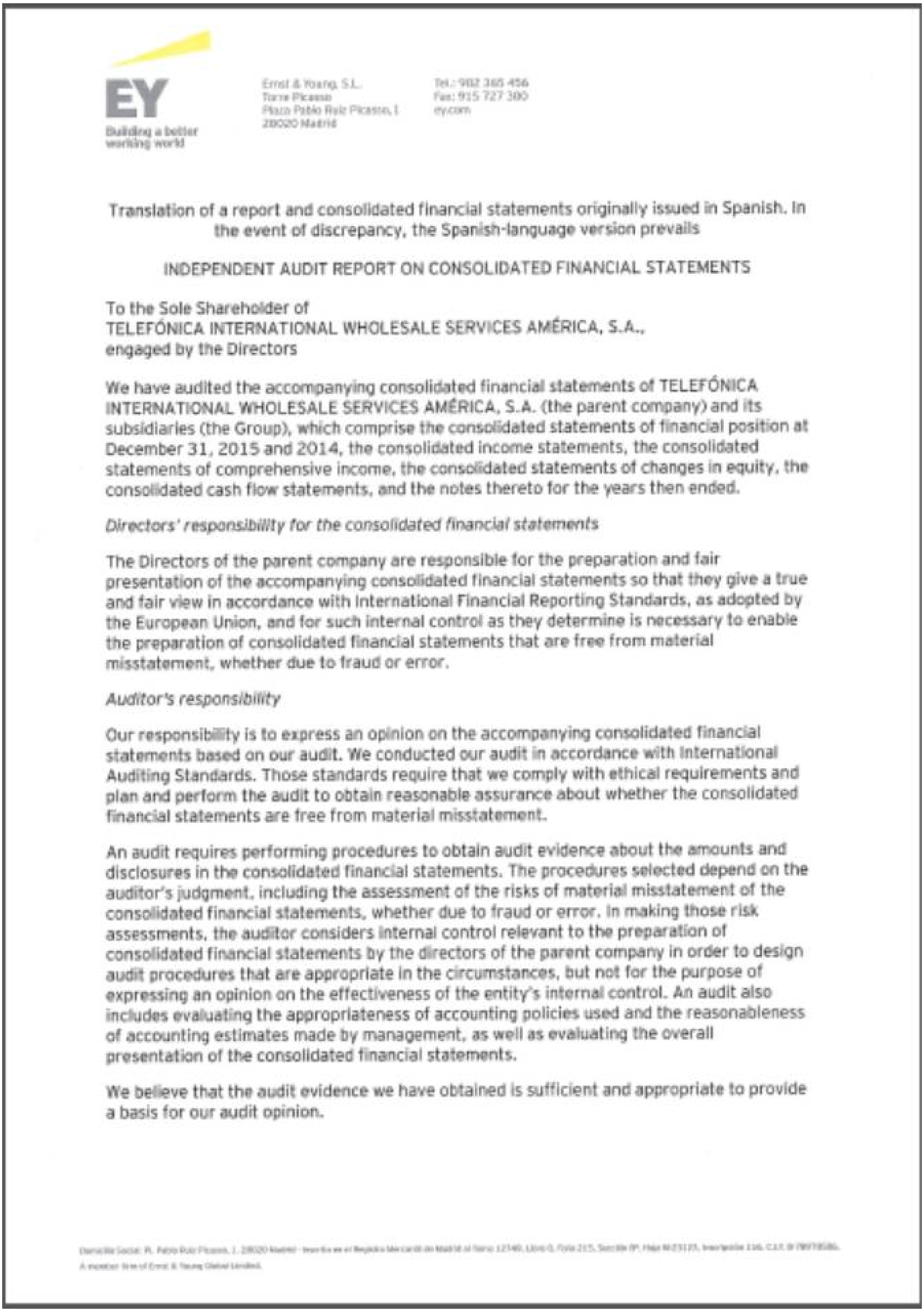


Independent Audit Report

TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES AMÉRICA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements
for the years ended
December 31, 2015 and 2014



Ernst & Young, S.L.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid

Tel.: 902 365 456
Fax: 915 727 300
ey.com

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder of
TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES AMÉRICA, S.A.,
engaged by the Directors

We have audited the accompanying consolidated financial statements of TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES AMÉRICA, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position at December 31, 2015 and 2014, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated cash flow statements, and the notes thereto for the years then ended.

Directors' responsibility for the consolidated financial statements

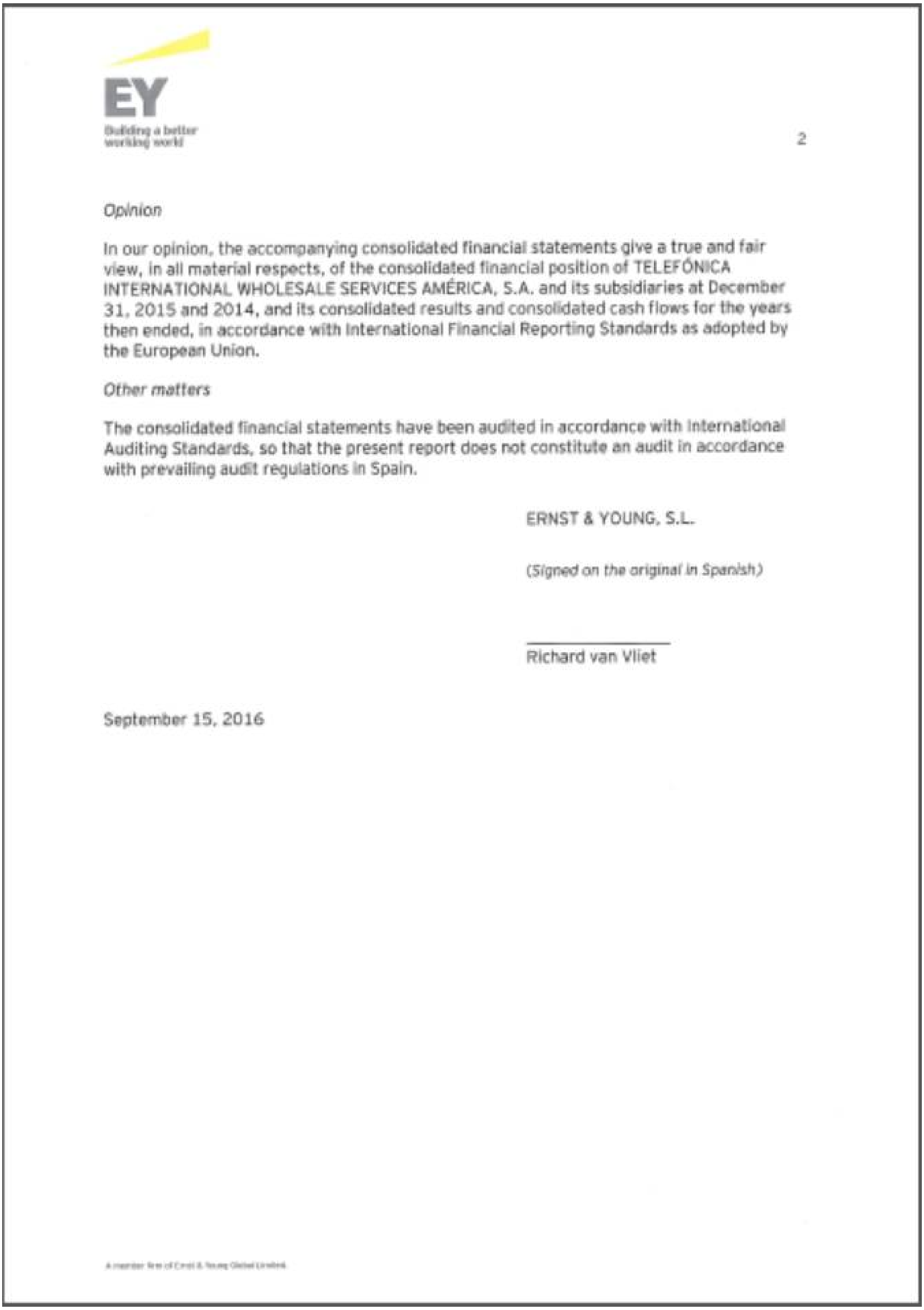
The Directors of the parent company are responsible for the preparation and fair presentation of the accompanying consolidated financial statements so that they give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit requires performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES AMÉRICA, S.A. and its subsidiaries at December 31, 2015 and 2014, and its consolidated results and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

The consolidated financial statements have been audited in accordance with International Auditing Standards, so that the present report does not constitute an audit in accordance with prevailing audit regulations in Spain.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

Richard van Vliet

September 15, 2016

Consolidated financial statements for 2015 and 2014

Telefónica International Wholesale Services América, S.A. and subsidiaries

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Consolidated statements of financial position

Thousands of euros	REFERENCE	12/31/2015	12/31/2014	01/01/14 (*)
ASSETS				
A) NON-CURRENT ASSETS		**511,039**	**478,887**	**418,614**
Intangible assets	(Note 4)	1,378	1,955	2,478
Property, plant and equipment	(Note 5)	427,674	403,259	350,099
Non-current tax receivables	(Note 14)	6,889	5,522	4,956
Non-current financial assets		41	137	105
Non-current prepayments	(Note 10)	61,949	56,274	50,315
Deferred tax assets	(Note 14)	13,108	11,740	10,661
B) CURRENT ASSETS		**375,659**	**298,243**	**246,583**
Trade and other receivables	(Note 7)	271,058	229,666	178,106
Current prepayments	(Note 10)	20,831	18,996	13,514
Current tax receivables	(Note 14)	23,247	12,532	8,535
Current financial assets	(Note 13)	444	342	45
Cash and cash equivalents	(Note 8)	39,530	36,707	46,383
Non-current assets held for sale	(Notes 2, 5 and 17)	20,549	-	-
TOTAL ASSETS (A + B)		**886,698**	**777,130**	**665,197**

	REFERENCE	12/31/2015	12/31/2014	01/01/14 (*)
EQUITY AND LIABILITIES				
A) EQUITY		**240,032**	**239,443**	**231,315**
B) NON-CURRENT LIABILITIES		**169,310**	**156,146**	**126,790**
Non-current deferred revenue	(Note 11)	162,359	149,469	119,491
Deferred tax liabilities	(Note 14)	5,508	5,354	5,718
Non-current provisions		1,443	1,323	1,581
C) CURRENT LIABILITIES		**477,356**	**381,541**	**307,092**
Current interest-bearing debt	(Note 13)	1,494	97	418
Current trade and other payables	(Note 12)	407,224	319,850	228,456
Current deferred revenue	(Note 11)	41,524	46,129	52,346
Current tax payables	(Note 14)	26,065	14,538	20,666
Current provisions		1,049	927	5,206
TOTAL EQUITY AND LIABILITIES (A+B+C)		**886,698**	**777,130**	**665,197**

The accompanying Notes 1 to 19 and the Appendices I and II are an integral part of these consolidated statements of financial position.
(*) Non audited data.

Consolidated income statements for the years ended December 31

Thousands of euros	REFERENCE	2015	2014
INCOME STATEMENTS			
Revenues	(Note 15)	334,935	269,155
Other operative income	(Note 15)	996	1,439
Supplies		(95,294)	(85,017)
Personnel expenses		(13,018)	(12,251)
Other expenses	(Note 15)	(43,540)	(39,694)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**184,079**	**133,632**
Depreciation and amortization	(Note 15)	(67,378)	(52,739)
OPERATING INCOME		**116,701**	**80,893**
Finance income		2,413	1,809
Exchange gains	(Note 15)	1,965	1,389
Finance costs		(3,391)	(2,636)
Exchange losses	(Note 15)	(12,070)	(3,711)
Net financial result	(Note 13)	**(11,083)**	**(3,149)**
PROFIT BEFORE TAX		**105,618**	**77,744**
Corporate income tax	(Note 14)	(13,686)	(10,429)
Profit after tax from continuing operations		91,932	67,315
Loss after tax from discontinued operations	(Note 17)	(118,352)	(88,850)
RESULT FOR THE YEAR		**(26,420)**	**(21,535)**
RESULT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**(26,420)**	**(21,535)**

The accompanying Notes 1 to 19 and the Appendices I and II are an integral part of these consolidated income statements.

Consolidated statements of comprehensive income for the years ended December 31

Thousands of euros	2015	2014
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME		
Result for the year	**(26,420)**	**(21,535)**
Other comprehensive income	**28,743**	**29,580**
Translation differences	28,743	29,580
Total comprehensive income recognized in the year	**2,323**	**8,045**
Attributable to:		
Equity holders of the parent company:	**2,323**	**8,045**
Continuing operations	132,136	103,944
Discontinued operations	(129,813)	(95,899)

The accompanying Notes 1 to 19 and the Appendices I and II are an integral part of these consolidated statements of comprehensive income.

Consolidated statement of changes in equity for the year ended December 31

Thousands of euros	Share Capital (Note 9)	Reserves	Result for the year	Translation differences (Note 9)	Total Equity
Financial position at January 1, 2014 (*)	**440,756**	**(209,441)**	**-**	**-**	**231,315**
Result for the year	-	-	(21,535)	-	**(21,535)**
Other movements	-	83	-	29,580	**29,663**
Financial position at December 31, 2014	**440,756**	**(209,358)**	**(21,535)**	**29,580**	**239,443**
Financial position at December 31, 2014	**440,756**	**(209,358)**	**(21,535)**	**29,580**	**239,443**
Result for the year	-	-	(26,420)	-	**(26,420)**
Result distribution	-	(21,535)	21,535	-	**-**
Other movements	-	(1,734)	-	28,743	**27,009**
Financial position at December 31, 2015	**440,756**	**(232,627)**	**(26,420)**	**58,323**	**240,032**

The accompanying Notes 1 to 19 and the Appendices I and II are an integral part of these consolidated statements of changes in equity.

(*) Non audited data.

Consolidated statements of cash flows for the years ended December 31

Thousands of euros	2015	2014
Cash flow provided by operating activities		
Cash received from customers	310,229	248,305
Cash paid to suppliers and employees	(141,131)	(138,467)
Taxes paid	(8,094)	(6,006)
Net interest received/(paid)	1,470	(1,417)
Net cash flow provided by operating activities from continuing operations	**162,474**	**102,415**
Net cash flow provided by operating activities from discontinued operations (Note 17)	(112,191)	(85,821)
Net cash flow provided by operating activities	**50,283**	**16,594**
Cash flow used in investing activities		
Proceeds on disposals of property, plant and equipment and intangible assets	-	8
Payments on investments in property, plant and equipment and intangible assets	(44,442)	(24,297)
Net cash flow used in investing activities from continuing operations	**(44,442)**	**(24,289)**
Net cash flow used in investing activities from discontinued operations (Note 17)	(6,816)	(6,154)
Net cash flow used in investing activities	**(51,258)**	**(30,443)**
Cash flow provided by/(used in) financing activities		
Proceeds on issue of debentures and bonds, and other debts	437	-
Cancellation of debentures and bonds, and other debts	(437)	-
Net cash flow provided by/(used in) financing activities from continuing operations	-	-
Net cash flow provided by/(used in) financing activities	**-**	**-**
Effect of changes in exchange rates	**3,798**	**4,173**
Net increase (decrease) in cash and cash equivalents during the year	**2,823**	**(9,676)**
CASH AND CASH EQUIVALENTS AT JANUARY 1	**36,707**	**46,383**
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**39,530**	**36,707**

The accompanying Notes 1 to 19 and the Appendices I and II are an integral part of these consolidated statements of cash flows.

Note 1. Background and general information

Telefónica International Wholesale Services América, S.A. and subsidiaries (hereinafter either TIWS América or the Group) make up a consolidated group of companies chiefly operating in the telecommunications sector, whose main business is the sale of usage of data transmission capacity via a SAM-1 underwater and land optic fiber network (the "Cable") and the sale of capacity on third-party networks.

The parent company of the Group is Telefónica International Wholesale Services América, S.A., a closely-held public limited company, incorporated on April 22, 1999, with registered office in Montevideo (Uruguay), street Luis Alberto de Herrera, number 1248.

Appendix II lists the main companies composing the TIWS América Group, their corporate purpose, country, functional currency, share capital, the Group´s effective shareholding and their method of consolidation.

As a multinational telecommunications which operates in regulated markets, the TIWS América Group is subject to different laws and regulations in each of the jurisdictions of the countries in which it operates, pursuant to which permits, concessions or licenses must be obtained in certain circumstances to provide the various services. The TIWS América Group holds all the permits, concessions and licenses required to carry on its business in all countries in which it operates.

The company Telefónica International Wholesale Services América, S.A. forms part of the Telefónica Group, and the latter's Board approved consolidated financial statements. The Telefónica Group's consolidated financial statements are filed with the Madrid Mercantile Registry, and are prepared pursuant to the legal deadline established, i.e. before March 31 each year. The Telefónica Group's consolidated financial statements for 2015 were approved by the Board of Directors meeting on February 24, 2016. Nonetheless, whereby Telefónica International Wholesale Services América, S.A. is exempted from preparing consolidated financial statements pursuant to the laws of Uruguay, these consolidated financial statements were prepared in the context of an IPO by the Telxius Group, in which the TIWS América Group will constitute a significant part (Note 2).

Note 2. Basis of presentation of the consolidated financial statements

The accompanying consolidated financial statements were prepared from the accounting records of Telefónica International Wholesale Services América, S.A. and of its subsidiaries, whose separate financial statements were prepared in accordance with the generally accepted accounting principles prevailing in the various countries in which they are located, and for purposes of these consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, which are not different from those issued by the International Accounting Standards Board (IASB), to give a true and fair view of the consolidated equity and financial position at December 31, 2015 and 2014, and of the consolidated results of operations, changes in consolidated equity and the consolidated cash flows obtained and used during the year 2015 and 2014. The euro is the Group´s presentation currency. The figures in these consolidated financial statements are expressed in thousands of euros, unless otherwise indicated, and therefore may be rounded.

The accompanying consolidated financial statements for the year ended December 31, 2015 were prepared by the Management on September 6, 2016.

Note 3 contains a detailed description of the most significant accounting policies used to prepare these consolidated financial statements.

The shares of the Company are not listed on any stock markets.

Functional currency

The functional currency must provide information concerning the company that may be useful and reflects the economic substance of events and circumstances that are relevant to the company. A currency may be considered functional when:

- Purchases are financed with the currency
- Sales credits are received in the currency
- Prices of the goods and services sold are quoted in the currency

Pursuant to the above, the functional currency of the TIWS América Group is the US dollar. As previously mentioned, the Group uses the euro as a presentation currency in its consolidated financial statements.

First-time adoption of IFRS

These consolidated financial statements for the years ended December 31, 2015 and 2014 are the first statements the Group has prepared, and therefore these are the first consolidated financial statements prepared pursuant to IFRS-EU. The first statement of the financial position of the Group prepared in this regard is dated on January 1, 2014, the date of transition to IFRS.

As mentioned in Note 1, Telefónica International Wholesale Services América, S.A. was exempted from prepared consolidated financial statements pursuant to the laws of Uruguay, therefore no consolidated accounting records prepared pursuant to previous accounting standards exist, and therefore reconciliation against these consolidated financial statements pursuant to IFRS does not apply.

Pursuant to IFRS 1, the company decided to apply the exemption to consider as zero all the cumulative translation differences up to the date of transition.

Likewise, as IFRSs were adopted for the first time after the parent company (the Telefónica Group), the company elected to measure assets and liabilities in its consolidated financial statements at the carrying amounts included in the consolidated financial statements of the parent, based on the date of transition to IFRS of the parent entity.

In preparing these consolidated financial statements the company has applied all effective standards as of December 31, 2015, throughout all periods presented, except for the exemptions mentioned above.

Materiality criteria

These consolidated financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the IFRS conceptual framework, insofar as the Telefónica International Wholesale Services América, S.A. consolidated financial statements, taken as whole, are concerned.

Comparative information and main changes in the consolidation scope

For comparative purposes, the accompanying consolidated financial statements for 2015 include the figures for 2014 and the figures at January 1, 2014 in the consolidated statement of financial position.

In December 2015, Telefónica Group management decided to bring together in a company, certain infrastructure assets of the Group. On February 10, 2016, Telefónica announced the creation of Telxius Telecom, S.A. (hereinafter "Telxius") which will enable the management of the Telefónica Group´s infrastructure on a global scale, with a more specialised and focused approach, with the aim of increasing the services provided to other operators, improving the return on capital invested and to participate more actively in the growth opportunities that exist in the industry, including the possibility of incorporating third party assets.

As part of this operation, only the assets related to the TIWS América Group´s cable business (IP and Capacity), will be part of the mentioned Telxius, and the remaining business lines (VPN, voice, IPX and satellite) transferred to other Telefónica Group companies. In accordance with IFRS 5 the related assets of these businesses have been considered as held for sale at that date and the related transactions, as discontinued operations (see note 17). As a result:

- The assets subject to the transaction have been reclassified under "Non-current assets held for sale" in the consolidated statement of financial position at December 31, 2015. At December 31, 2015 there were no liabilities associated with these assets.

- The non-current assets ceased to be amortized and depreciated for accounting purposes once they were reclassified as assets held for sale.

- The results associated with the operations included in this transaction are reported under "Loss after tax from discontinued operations" in the consolidated income statement for 2015 and comparative periods.

- Cash flows related to the operations included in this transaction are reported separately from continued operations in the statement of consolidated cash flows for 2015 and comparative periods. Calculation of the cash flows of discontinued operations required estimates to be used by the Management, which are considered reasonable with respect to the information available at this date.

The changes in the consolidation scope are explained in Appendix I.

Principle of a going concern

As shown on the consolidated statement of financial position, the Group has negative working capital, which is common in this sector due to the time lag between collection and payment dates in commercial transactions. In the opinion of the Management, the Group is expected to continue generating a positive operating cash flow in the future, and no difficulties are anticipated in meeting the payment of debts at their due dates. Consequently, the principle of a going concern was applied when these consolidated financial statements were prepared.

Financial information by Segments

TIWS América Group presents a single reportable segment. This is because the main services provided by the Group, traffic over IP and capacity usage services, are not independent. The nature of both services, type of customers to which they are provided, production processes, assets over which the service is provided and methods of distribution, as well as regulatory environment, are the same in both services.

In addition, for internal management purposes, individual results of both services are not relevant to decision-making, due to the convergence of resources for both businesses.

Nor is there a separate management for each of both services.

Segment information by geographical criteria is not broken down because is a global business and this segmentation would not be representative.

Note 3. Accounting policies

As stated in Note 2, the Group's consolidated financial statements have been prepared in accordance with IFRSs and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for use in the European Union (IFRSs – EU).

Accordingly, only the most significant accounting policies used in preparing the accompanying consolidated financial statements, in light of the nature of the Group's activities, are set out below, as well as the accounting policies applied where IFRSs permit a policy choice, and those that are specific to the sector in which the Group operates:

a) Translation methodology

The income statements and statements of cash flows of the Group's foreign subsidiaries have been translated into euros at the average exchange rates for the period.

b) Intangible assets

Intangible assets are carried at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Software is amortized on a straight – line basis over its useful life, generally estimated to be between two and five years.

c) Property, plant and equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. In addition, cost includes, among others direct labor used in installation and the allocable portion of the indirect costs required for the related asset. The latter two items are recorded as income under the concept "Own work capitalized" of the "Other operative income" caption.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets for the TWIS América Group are those assets that require a period of at least 18 months to bring the assets to the condition necessary for their intended use or sale.

The Group's subsidiaries depreciate their property, plant and equipment, from the time they can be placed in service, amortizing the cost of the assets on a straight-line basis over the assets' estimated useful lives with the residual value deducted, which are calculated in accordance with technical studies that are revised periodically in light of technological advances, the nature and function conditions of the assets, their estimated use, the rate of dismantling, as well as the foreseen replacement of the main components, as follows:

	Years of estimated useful life
Buildings	25 – 40
Technical installations	10 – 15
Submarine cable	20 – 25
Furniture, tools and other items	2 – 10

The residual value of the elements that make up the property, plant and equipment are estimated to be not significant.

d) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Whenever such indicators exist, or in the case of assets which are subject to an annual impairment test, the recoverable amount is estimated. An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Examples of indications of possible impairment include unexpected cancellations of contracts, and the difficulty to sign new agreements to replace them, the external development of new technologies involving the early obsolescence of non-current assets of the Group, economic and/or political significant changes, especially in Latin América, significant devaluations of the functional currencies of the countries where the Group provides its services and that are other than the euro, and possible natural disasters, affecting the infrastructure.

For the calculation of impairment, the Group uses the projected cash flows, based on strategic business plans that cover a period of five years. Starting with the sixth year, an expected constant growth rate is applied.

e) Financial assets and liabilities

Trade and other receivables

This caption includes credits arising from commercial and non-commercial transactions, including financial assets with fixed or determinable payments that are not traded in an active market and for which the Company expects to recover all of its initial investment, except, as appropriate, for insolvency of the debtor.

They are measured initially at fair value in the statement of financial position, which, unless otherwise demonstrated, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs.

After initial recognition, these financial assets are measured at amortised cost.

However, trade receivables with maturity not exceeding one year with no contractual interest, as well as advanced payments and labour credits, whose payment is expected to be received in the short term, are measured at inception and subsequently at their nominal amount provided the effect of discounting is not material.

Current trade and other payables

They include financial liabilities resulting from the purchase of goods and services by the Company and payables arising from non-commercial transactions, which are not derivatives.

They are measured initially at fair value in the statement of financial position, which, unless otherwise demonstrated, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs.

After initial recognition, these financial liabilities are measured at amortised cost. Accrued interest is recorded in the income statement, by applying the effective interest rate method.

However, the amounts owed by commercial operations with maturity not exceeding one year and do not have a contractual interest rate, as well as disbursements required by third-party expected to be paid in the short term, are measured at their nominal amount provided the effect of discounting is not material.

f) Revenues and expenses

Revenues are mainly derived from the following activities: IP traffic, capacity services over the fiber network (land and submarine) and the provision of operation and maintenance services to third parties.

(i) Revenues from data transmission over the IP network: the Group provides customers direct connectivity to the internet through its backbone, with tailored solutions to meet the diverse bandwidth needs of users. It is normally billed under a flat fee or, in a lower extent, pay-as-you-go agreements. Related revenue is recognized as services are performed.

(ii) Revenues from the use of capacity on the submarine cable or third-party networks are recognized over the life of the related contracts. These service revenues derive from two kinds of agreements:

a. Indefeasible rights of use (IRU) of capacity: under these arrangements the Group grants certain network capacity services, measured in terms of volume, generally between 10 and 15 years. In such cases, the total amount is normally received up-front at inception of the agreement. Such amount is initially deferred and subsequently recognized as revenue on a straight-line basis over the term of the applicable agreement. Deferred revenues are classified as current if they are related to the ordinary course of business (generally, one year). Deferred revenue that does not meet such criteria is recorded as non-current. As a result of this business model, cash flows from operating activities defer from accrued revenue.

b. Capacity lease services: Under these agreements the Group conveys the right to use a certain amount of capacity to third parties for short and medium terms. Under this contractual model, as opposed to the previous one, the customer generally pays an annual fee for the usage rights and there is no need to receive the total amount upfront. Revenues derived from these contracts are recognized on a straight-line basis over the life of the agreement. Although the name of these agreements, from an accounting perspective, they are not leases under IAS 17 nor under IFRS 16, as they do not relate to a specific asset. Instead, they are considered as services.

(iii) Operation and maintenance: revenues arising from these services, which are less relevant than the previous ones, are recognized in the income statement on an accrual basis as services are performed.

Concerning expenses, the Group requires the use of capacity in third-party networks, so it enters into agreements with other network companies to obtain the right to use capacity in their networks. These agreements are normally paid initially and in full, so the amounts paid are recognized as advanced payments. In subsequent periods, an expense is recognized on a straight-line basis over the life of the contract. These concepts are included in "Supplies" in the consolidated income statement. Additionally, the Group incurs in other kind of expenses such as the circuit acquisitions, subcontractors of raw materials and housing costs.

g) Use of estimates

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the consolidated financial statements within the next financial year are discussed below.

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

The decision to recognize an impairment loss involves developing estimates that include, among others, an analysis of the causes of the potential impairment, as well as its timing and expected amount. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes, which highlight the need to evaluate a possible impairment, are taken into account.

Provisions

The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the statement of financial position date, including the opinions of independent experts such as legal or financial counsel.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Deferred income taxes

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. Such recoverability ultimately depends on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections that are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

h) New IFRS and interpretations of the IFRS Interpretations Committee (IFRIC)

The accounting policies applied in the preparation of the consolidated financial statements for the year ended December 31, 2015 are consistent with those used in the preparation of the Group's consolidated annual financial statements for the year ended December 31, 2014 (described above), except for the adoption, on January 1, 2015, of new amendments to standards published by the International Accounting Standards Board (IASB) and adopted by the European Union for application in Europe, noted below:

- Improvements to IFRS 2011-2013

The annual improvements projects provide a vehicle for making non-urgent but necessary amendments to IFRSs, with the aim of removing inconsistencies and clarifying wording. These improvements do not have a significant impact on the results or financial position of the Group.

New standards and amendments to standards issued but not effective as of December 31, 2015

At the date of preparation of the consolidated financial statements, the following IFRSs and amendments had been published, but their application was not mandatory:

Standards and amendments		Mandatory application: annual periods beginning on or after
Improvements to IFRS 2012-2014		January 1, 2016
IFRS 14	*Regulatory Deferral Accounts*	January 1, 2016
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*	January 1, 2016
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortization*	January 1, 2016
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*	January 1, 2016
Amendments to IAS 1	*Disclosure Initiative*	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*	January 1, 2016
Amendments to IAS 7	*Disclosure Initiative*	January 1, 2017
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*	January 1, 2017
IFRS 9	*Financial instruments*	January 1, 2018
IFRS 15	*Revenues from Contracts with Customers*	January 1, 2018
Clarifications to IFRS 15	*Revenue from Contracts with Customers (issued on 12 April 2016)*	January 1, 2018
IFRS 16	*Leases*	January 1, 2019
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred Indefinitely

Based on the analyses made to date, the Group estimates that the adoption of most of these standards, amendments and improvements will not have a significant impact on the consolidated financial statements in the period of initial application. However, the changes introduced by IFRS 9 will affect financial instruments and transactions with financial instruments carried out on or after January 1, 2018. In addition to this, IFRS 16 requires a company that acts as a lessee in a lease to report on the statement of financial position lease assets and lease liabilities for all leases (other than short-term leases and leases of low-value assets). As the Group holds a small amount of lease arrangements, the Group does not expect a material impact in the consolidated financial statement in the period of initial application.

Note 4. Intangible assets

The composition of and the movements in net intangible assets in 2015 and 2014 are as follows:

Thousands of euros	Balance at 12/31/2014	Additions	Amortization	Transfers	Translation differences	Other movements	Balance at 12/31/2015
Software	1,621	-	(1,034)	78	171	(2)	834
Other intangible assets	334	-	(34)	-	70	(32)	338
Intangible assets in process	-	202	-	-	4	-	206
Total intangible assets	**1,955**	**202**	**(1,068)**	**78**	**245**	**(34)**	**1,378**

Thousands of euros	Balance at 01/01/14 (*)	Additions	Amortization	Transfers	Translation differences	Other movements	Balance at 12/31/14
Software	2,009	211	(1,070)	254	217	-	1,621
Other intangible assets	469	-	(26)	(78)	(31)	-	334
Total intangible assets	**2,478**	**211**	**(1,096)**	**176**	**186**	**-**	**1,955**

(*) Non audited data.

The gross cost, accumulated amortization and impairment losses of intangible assets at December 31, 2015 and 2014 are as follows:

Balance at December 31, 2015

Thousands of euros	Gross cost	Accumulated amortization	Impairment losses	Intangible assets
Software	7,796	(6,962)	-	834
Other intangible assets	511	(173)	-	338
Intangible assets in process	206	-	-	206
Total intangible assets	**8,513**	**(7,135)**	**-**	**1,378**

Balance at December 31, 2014

Thousands of euros	Gross cost	Accumulated amortization	Impairment losses	Intangible assets
Software	6,911	(5,290)	-	1,621
Other intangible assets	458	(124)	-	334
Total intangible assets	**7,369**	**(5,414)**	**-**	**1,955**

Note 5. Property, plant and equipment

The composition of and movement in the items comprising “Property, plant and equipment” in 2015 and 2014 were the following:

Thousands of euros	Balance at 12/31/14	Additions	Depreciation (*)	Disposals	Tranfers	Translation differrences	Transfer to "Non-current assets held for sale”	Inclusion of companies	Balance at 12/31/15
Land and buildings	9,620	45	(1,015)	-	(1)	1,090	-	-	9,739
Cable, technical installations and others	307,085	14,825	(68,529)	(92)	103,555	36,263	(20,549)	-	372,558
PP&E in progress	86,554	52,496	-	(405)	(103,632)	9,041	-	1,323	45,377
Total PP&E	**403,259**	**67,366**	**(69,544)**	**(497)**	**(78)**	**46,394**	**(20,549)**	**1,323**	**427,674**

(*) Includes depreciations presented on the consolidated income statement under “Loss after tax from discontinued operations” in the amount of 3,234 thousand euros.

Thousands of euros	Balance at 01/01/14 (*)	Additions	Depreciation (**)	Disposals	Tranfers	Translation differences	Balance at 12/31/14
Land and buildings	8,872	-	(818)	-	400	1,166	9,620
Cable, technical installations and others	292,816	1,414	(52,203)	(478)	27,827	37,709	307,085
PP&E in progress	48,411	57,293	-	-	(28,400)	9,250	86,554
Total PP&E	**350,099**	**58,707**	**(53,021)**	**(478)**	**(173)**	**48,125**	**403,259**

(*) Non audited data.
(**) Includes depreciations presented on the consolidated income statement under “Loss after tax on discontinued operations” in the amount of 1,378 thousand euros.

The gross cost, accumulated amortization and impairment losses of property, plant and equipment assets at December 31, 2015 and 2014 are as follows:

Balance at December 31, 2015

Thousand of euros	Gross cost	Accumulated depreciation	Impairment losses	PP&E
Land and buildings	30,252	(20,513)	-	9,739
Cable, technical installations and others	1,583,784	(1,211,024)	(202)	372,558
PP&E in progress	45,377	-	-	45,377
Total PP&E	**1,659,413**	**(1,231,537)**	**(202)**	**427,674**

Balance at December 31, 2014

Thousand of euros	Gross cost	Accumulated depreciation	Impairment losses	PP&E
Land and buildings	27,086	(17,466)	-	9,620
Cable, technical installations and others	1,341,457	(1,034,189)	(183)	307,085
PP&E in progress	86,554	-	-	86,554
Total PP&E	**1,455,097**	**(1,051,655)**	**(183)**	**403,259**

The "Cable, technical installations and others" caption is mainly composed by the submarine cable facilities owned by the Group companies. The main asset is the submarine and land optic fiber network called SAM-1, which connects the United States, Puerto Rico, Brazil, Argentine, Chile, Peru, Guatemala, Ecuador and Colombia.

Additions in 2015 and 2014 are mainly related to the investments in transmission equipment to increase the capacity of submarine cable system and the IP network.

Transfers to "Cable, technical installations and others" in 2015, include 62,744 thousand euros corresponding to construction of the "PCCS" Pacific-Caribbean underwater cable system, which started in 2012 and was put in service in August 2015.

Pursuant to the provisions of IFRS 5, assets pertaining to discontinued operations (see Note 2) were reclassified under "Non-current assets held for sale" on the consolidated statement of financial position at December 31, 2015, and depreciation ceased from thereon.

The TIWS América Group companies, have taken out insurance policies to provide a reasonable safeguard against the potential risks to operating assets, with appropriate limits and cover. The Group also holds several asset purchase commitments in its commercial business and deployment of its network. The intended schedule of disbursements is set out in Note 15.

Tangible assets are tested for impairment whenever there is any indication of a potential loss. During the years 2015 and 2014, the Group has not identified any indications of impairment on these assets, therefore no impairment tests have been performed.

Note 6. Related parties

Major operations by the TIWS América Group with companies in the Telefónica Group, of which the TIWS América Group forms part and of which Telefónica, S.A. is the parent, are listed below.

All these operations were conducted at fair value.

Related parties operations

The breakdown of items related to Telefónica Group companies and associates, recognized in the consolidated financial statements for December 31, 2015 and 2014 is as follow:

Thousands of euros	12/31/2015	12/31/2014
Current prepayments (Note 10)	2,829	3,501
Non-current prepayments (Note 10)	17,059	16,950
Trade receivables (Note 7)	227,359	206,055
Cash (Note 8)	12,980	11,249
Trade payables (Note 12)	319,103	248,045
Current deferred revenue (Note 11)	10,618	21,989
Non-current deferred revenue (Note 11)	30,790	35,252

The breakdown of figures for the Telefónica Group companies and associates for continuing and discontinued operations recognized on the 2015 and 2014 consolidated income statements is as follows:

Thousands of euros	12/31/2015	12/31/2014
Revenues	237,540	220,467
Other operative income	135	1,365
Supplies	115,788	111,092
External services	4,273	6,577
Other expenses	93	27
Finance income (Note 13)	339	271
Finance expense (Note 13)	2	-

The period results mainly correspond to TIWS América business which manages IP traffic and capacity services of the Telefónica Group.

The operations disclosed above include operations carried out with related companies in connection with discontinued business.

Note 7. Trade and other receivables

The breakdown of this consolidated statement of financial position heading at December 31, 2015 and 2014 is as follow:

Thousands of euros	12/31/2015	12/31/2014
Trade receivables billed	40,016	22,568
Trade receivables unbilled	1,587	1,997
Trade receivables, Telefónica Group companies (Note 6)	227,359	206,055
Other receivables	3,936	198
Impairment of trade receivables	(2,045)	(1,333)
Personnel	205	181
Total	**271,058**	**229,666**

The movement in impairment of trade receivables in 2015 and 2014 is as follows:

Thousands of euros	
Impairment provision at January 1, 2014 (*)	**(603)**
Allowances	(789)
Amounts applied	132
Transfers	(2)
Exchange differences	(71)
Impairment provision at December 31, 2014	**(1,333)**
Allowances	(849)
Amounts applied	69
Transfers	265
Exchange differences	(197)
Impairment provision at December 31, 2015	**(2,045)**

(*) Non audited data.

The balance of trade receivables billed net of impairment losses at December 31, 2015 amounting to 37,971 thousand euros (21,235 thousand euros at December 31, 2014), of which 32,644 thousand euros were not yet due (9,567 thousand euros at December 31, 2014). The carrying amount of these assets is in proximity to their fair value.

Net balance of trade receivables billed of 532 and 544 thousand euros are over 360 days due at December 31, 2015 and 2014 respectively.

Note 8. Cash and cash equivalents

The breakdown of cash and cash equivalents at December 31, 2015 and 2014, is as follows:

Thousands of euros	12/31/2015	12/31/2014
Telefónica Group companies (Note 6)	12,980	11,249
Others	26,550	25,458
Total	**39,530**	**36,707**

At December 31, 2015 and 2014 there are not restriction on the use of the amounts registered in cash and cash equivalents.

Note 9. Equity

Share capital

At December 31, 2015 the integrated capital of Telefónica International Wholesale Services América, S.A. stood at 14,304,010,762 Uruguayan pesos (approximately 440,756 thousand euros at historical exchange rates), represented by 1,430,401 shares, each worth 10,000 Uruguayan pesos.

Telefónica, S.A. holds 73.14% of the equity, and Telefónica International Wholesale Services, S.L. holds 26.86%.

Translation differences

Translation differences have been generated as a result of the conversion of financial statements from different Group subsidiaries, from US dollar (functional currency) into euros (presentation currency) as detailed in Note 2.

The variation of the period is due to the 11.5% appreciation that the dollar has had compared to the euro, considering the exchange rate at December 31, 2015 in regard to December 31, 2014.

Note 10. Prepayments

The breakdown of prepayments at December 31, 2015 and 2014 current and non-current is as follows:

Thousands of euros	12/31/2015		12/31/2014	
	Non-current	Current	Non-current	Current
Prepayments Telefónica Group companies (Note 6)	17,059	2,829	16,950	3,501
Prepayments third parties	44,890	18,002	39,324	15,495
Total	**61,949**	**20,831**	**56,274**	**18,996**

The payments heading includes usage rights to the networks of other companies, in order to make up the infrastructure required to conduct sales.

Note 11. Deferred revenue

The breakdown of deferred revenue at December 31, 2015 and 2014 current and non-current is as follows:

Thousands of euros	12/31/2015		12/31/2014	
	Non-current	Current	Non-current	Current
Deferred revenue Telefónica Group companies (Note 6)	30,790	10,618	35,252	21,989
Deferred revenue third parties	131,570	30,905	114,217	24,140
Total	**162,359**	**41,524**	**149,469**	**46,129**

The breakdown by concept is as follows:

Thousands of euros	12/31/2015		12/31/2014	
	Non-current	Current	Non-current	Current
Indefeasible rights of use	145,780	26,169	126,744	36,905
Others	16,580	15,355	22,725	9,224
Total	**162,359**	**41,524**	**149,469**	**46,129**

"Deferred revenue third parties" and "Deferred revenue Telefónica Group companies" chiefly account for sales of indefeasible rights of use.

The movement of “Deferred revenue third parties” in 2015 were as follows:

Thousands of euros	Balance at 12/31/14	Additions	Disposals	Translations differences	Balance at 12/31/15
Indefeasible rights of use	163,649	31,778	(42,135)	18,657	171,948

Note 12. Trade and other payables

The composition of “Trade and other payables” is as follows:

Thousands of euros	12/31/2015	12/31/2014
Trade payables	48,877	33,451
Trade payables, Telefónica Group companies (Note 6)	319,103	248,045
Other payables	39,244	38,354
Total	**407,224**	**319,850**

The detail of current “Other payables” at December 31, 2015 and 2014 is as follows:

Thousands of euros	12/31/2015	12/31/2014
Payables to suppliers of property, plant and equipment	33,623	30,306
Accrued employee benefits	5,560	7,652
Other non-financial non-trade payables	61	396
Total	**39,244**	**38,354**

The carrying amount of these liabilities is in proximity to their fair value.

Note 13. Derivative financial instruments and risk management policy

The TIWS América Group is exposed to a number of financial risks. Risk management policies are established by the Risk Committee. On the basis of these policies, the Group's finance department has established a number of procedures and controls to identify, measure and manage the risks arising from business conducted with financial instruments.

Business conducted with financial instruments exposes the Group to exchange rate risk, liquidity risk and credit risk.

Exchange rate risk

Exchange rate risk arises from the possible losses incurred by changes to the fair value or future cash flows of a financial instrument caused by exchange rate fluctuations.

This risk is a limited risk because most of the Group’s revenues are referenced to its functional currency, the US dollar.

In some countries, although revenues are indexed to the US dollar, billing is done in local currency, so the Group assumes the risk of fluctuation in the exchange rate between the billing and the payment date. The evolution of certain currencies in 2015, mainly the Brazilian Real and the Chilean Peso, have generated negative net exchange differences amounting to 10,105 thousand euros (see note 15).

At the date of preparation of these consolidated financial statements, the Group has signed new contracts with certain operators for which they assume most of the risk of exchange rate between the billing and payment date. Concretely the new agreement referring to the IP services with Telefonica Group operators set that, in the case that the payment has to be done in local currency, the exchange rate to be applied will be the corresponding to two days before the payment requirement. As a result, Group exchange rate risk will be mitigated in the future.

Liquidity risk

Liquidity risk arises from possible imbalances between funding requirements and sources of funds. Although the Group's working capital was negative at December 31, 2015 and 2014, this was mainly due to balances with related companies in the Telefónica Group. Plans have been made to continue the positive generation of earning from the Group's operations in 2016, and continued access to funding by the Telefónica Group.

Credit risk

The commercial credit risk management model is based on constant tracking of balances held by customers and former customers, and proactive management to collect the amounts receivable. To this end, the Group has established policies, procedures, authorization circuits and management practices to maximize and anticipate cash inflows, with due consideration at all times of the needs of customers and the market's best practices in this regard.

In connection with these considerations, the management of balances payable was positive throughout the year.

Policy concerning derivatives

The TIWS América Group actively manages these risks through the use of derivative financial instruments. All operations arranged with derivative financial instruments by the subsidiary Telefónica International Wholesale Services Brasil Participacoes Ltda. aim to safeguard against the exchange rate risk of assets and liabilities in Brazilian reais, pursuant to the corporate risk management policy. This means that any change to risk factors generates the inverse effect in the counterparty to be protected.

These are not, therefore, derivative instruments used for speculative purposes.

The subsidiary exercises internal control of its derivative instruments, which Management considers appropriate for the purposes of controlling the risks entailed by each market operation strategy. The results obtained in connection with derivative instruments demonstrate that Management has handled risks properly.

At December 31, 2015 the subsidiary held derivative financial assets with a market value of 442 thousand euros (340 thousand euros at December 31, 2014) and derivative financial liabilities with a market value of 1,464 thousand euros (97 thousand euros at December 31, 2014). The measurement method employed to calculate the market value of derivative instruments (currency swap) was cash discount, in due consideration of expectations of settlement or realization of assets and liabilities at the market rates applicable on the balance sheet date.

Fair value is calculated as a projection of the future flows arising from operations, using the São Paulo Stock Exchange curves, discounted to present value at market interbank deposit rates for swaps, as disclosed by the São Paulo Stock Exchange.

The market worth of currency derivatives was obtained using the market exchange rates prevailing at the balance sheet date and the projected market rates obtained from Currency Coupon curves. The linear convention of 360 calendar days was used to calculate the coupon for positions indexed in foreign currency, and the exponential convention of 252 working days was used to calculate the coupon for positions indexed to the interbank deposit certificate (CDI).

The breakdown of the financial results recognized in 2015 and 2014 is as follows:

Thousands euros	2015	2014
Interest income	2,074	1,384
Interest income Telefónica Group companies (Note 6)	339	271
Profit on disposal of financial investment	-	154
Subtotal	**2,413**	**1,809**
Interest expenses	(3,326)	(2,519)
Interest expenses Telefónica Group companies (Note 6)	(2)	-
Losses on disposal of financial assets	-	(117)
Accretion of provisions and other liabilities	(63)	-
Subtotal	**(3,391)**	**(2,636)**
Net finance costs excluding foreign exchange differences	**(978)**	**(827)**
Exchange rate	(10,105)	(2,322)
Net financial result	**(11,083)**	**(3,149)**

Note 14. Income tax matters

Non-current tax receivables

Non-current tax receivables on the consolidated statement of financial position were mostly accounted for by indirect taxes in Guatemala.

Deferred taxes movement

The movements in deferred taxes in 2015 and 2014 are as follows:

Thousands euros	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2014	**11,740**	**5,354**
Additions	806	-
Disposals	-	(1,348)
Transfers	186	20
Translation differences	376	1,482
Balance at December 31, 2015	**13,108**	**5,508**

Thousands euros	Deferred tax assets	Deferred tax liabilities
Balance at January 1, 2014 (*)	**10,661**	**5,718**
Additions	2,233	49
Disposals	(2,721)	(1,094)
Transfers	44	-
Translation differences	1,523	681
Balance at December 31, 2014	**11,740**	**5,354**

(*) Non audited data.

The amounts booked in "Deferred tax assets" mainly correspond to TIWS Chile and TIWS Peru, as consequence of a higher fiscal value of the fixed assets than its book value, mainly due to the effects of the inflation and the differences in the assets amortization periods.

The amounts booked in "Deferred tax liabilities" correspond mainly to TIWS Argentina, and are due the fiscal amortization of the fixed assets is faster than the book value amortization.

Expected realization of deferred tax assets and liabilities

Realization of the Group's deferred tax assets and liabilities is conditioned in most cases by future developments in the business carried on by its companies, tax regulations in the countries in which it operates, and any strategic decisions that may apply to them. Under the assumptions used, the estimated realization of deferred tax assets and liabilities recognized on the consolidated statement of financial position at December 31, 2015 and 2014 is as follows:

12/31/2015	Total	Less than 1 year	More than 1 year
Deferred tax assets	13,108	35	13,073
Deferred tax liabilities	5,508	603	4,905

12/31/2014	Total	Less than 1 year	More than 1 year
Deferred tax assets	11,740	3,105	8,635
Deferred tax liabilities	5,354	2,459	2,895

Deferred tax assets

Deferred tax assets in the attached statements of financial position include credits on tax loss carryforwards and temporary asset differences recognized at year-end.

Thousands of euros	12/31/2015	12/31/2014
Tax credits for loss carryforwards	372	243
Deferred tax assets for temporary differences	12,736	11,497
Total deferred tax assets	**13,108**	**11,740**

Tax credits for loss carryfowards

Tax credits for carryforwards pending application stood at 3,183 thousand euros, of which 2,811 thousand euros have yet to be recognized. The estimated schedule is as follows:

	Total	Less than 1 year	More than 1 year
Tax credits for loss carryforwards	3,183	-	3,183

Temporary differences

The sources of deferred tax assets and liabilities from temporary differences recognized at December 31, 2015 and 2014 are detail in the table following table:

Thousands of euros	12/31/2015	12/31/2014
Intangibles assets	-	396
Property, plant and equipment	7,138	3,707
Personnel commitments	-	164
Provisions	35	828
Inventories and receivables	2,394	17
Others	3,741	6,385
Total deferred tax assets for temporary differences	**13,308**	**11,497**
Deferred tax assets and liabilities offset	(572)	-
Total deferred tax assets for temporary differences registered in the statement of financial position	**12,736**	**11,497**

Thousands of euros	12/31/2015	12/31/2014
Property, plant and equipment	2,391	3,379
Personnel commitments	-	62
Provisions	732	1,335
Inventories and receivables	1,489	572
Others	1,468	6
Total deferred tax liabilities for temporary differences	**6,080**	**5,354**
Deferred tax assets and liabilities offset	(572)	-
Total deferred tax liabilities for temporary differences registered in the statement of financial position	**5,508**	**5,354**

"Others" mainly comprise deferred taxes related with deferred income from indefeasible rights of use contracts (see Note 3).

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

Tax payables and receivables

Current tax payables and receivables at December 31, 2015 and 2014 are as follows:

Thousands of euros	12/31/2015	12/31/2014
Tax payable		
Indirect taxes	1,994	1,526
Current income taxes payable	8,790	1,605
Tax payable other current tax	**15,281**	**11,407**
Social security	18	8
Tax withholdings	4,747	769
Other	10,516	10,630
Total	**26,065**	**14,538**

Thousands of euros	12/31/2015	12/31/2014
Tax receivables		
Indirect taxes	1,680	275
Current income taxes receivable	15,668	5,920
Other	5,899	6,337
Total	**23,247**	**12,532**

The caption "Other" corresponding to tax payable includes mainly local taxes from Brazil related to the importation of telecommunication services.

Reconciliation of book profit before taxes to taxable income

The reconciliation between book profit before tax and the income tax expense from continuing operations for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Accounting profit before tax from continuing operations	**105,618**	**77,744**
Accounting loss before tax from discontinued operations (Note 17)	**(113,774)**	**(87,199)**
Accounting loss before tax	**(8,156)**	**(9,455)**
Tax expense at prevailing statutory rate	1,394	1,168
Permanent differences	15,600	13,163
Changes in deferred tax charge due to changes in tax rates	(178)	(1,050)
Increase/ (Decrease) in tax expenses arising from temporary differences	75	(53)
Other	1,373	(1,148)
Income tax expense	**18,264**	**12,080**
Income tax expense from continuing operations	13,686	10,429
Income tax expense from discontinued operations (Note 17)	4,578	1,651
Breakdown of current/deferred tax expense		
Current tax expense	18,688	11,632
Deferred tax expense	(424)	448
Total income tax expense	**18,264**	**12,080**

The permanent differences in the years 2015 and 2014, are mainly related to losses that have no tax recognition, because the applicable tax law does not allow offset against future profits.

Tax audits and litigation

The Telxius Group has three significant tax appeals ongoing in Brazil in connection with the "ICMS" (indirect tax levied on telecommunications services) in 2008 through 2013. The tax authorities from the Brazilian State of Rio de Janeiro are demanding payment of ICMS on income associated with the assignment of network facilities to a number of companies. The Company argues that its actions are in accordance with current tax regulations in this matter, which attributes the responsibility for payment of the tax to the assignee, i.e., to the party receiving the network facilities, and not to the Company.

With respect to the first issue, an application for administrative expert evidence was approved, which was partially favorable to the interests of the Company in relation to invoices concerning GVT and Sercomtel. In connection with SPRINT and IMPROVAC, the authorities chose not to admit the expert evidence on the grounds that this procedure was outside their area of expertise. A ruling is pending on the appeals submitted. The amount associated with this matter at December 31, 2015 (including interest and fines) was 8,120 thousand euros.

With respect to the second issue, accounting for 5,071 thousand euros at December 31, 2015 (including interest and fines), the administrative expert evidence was denied. Currently, the Company is awaiting the official announcement of the ruling, at which point it will be submit an administrative appeal in the second instance and issue another request for administrative expert evidence.

With respect to the third issue, accounting for 3,433 thousand euros at December 31, 2015 (including interest and fines), the administrative expert evidence was denied. Currently, the Company is awaiting the official announcement of the ruling, at which point it will be submit an administrative appeal in the second instance and issue another request for administrative expert evidence.

Finally there is another case open related to ICMS in the Brazilian State of Bahia amounting to 1,784 thousand euros at December 31, 2015, relative to a tax credit taken by the Company as a result of the acquisition of fixed assets between June and December, 2000. The Company presented its defense in the first instance and is awaiting a ruling.

Provisions have not been set aside for these proceedings, because they have been classified as non-probable. Additionally, the Company has external opinions that support its legal interpretation.

Years open for inspection

The years open for inspection in connection with the main taxes applicable vary among the consolidated companies depending on tax legislation in each country, in consideration of their individual time-barring criteria. In general, the years open for inspection by the authorities are as follows:

- The last six years in Ecuador.
- The last five years in Brazil and Argentine.
- The last four years in Peru.
- The last two years in Colombia.

No further major Group liabilities are expected as a result of reviews in relation to the years open for inspection.

Note 15. Revenue and expenses

Revenues and other operative income

The breakdown of revenues and other operative income is as follows:

Thousands of euros	2015	2014
Revenues	334,935	269,155
Other operative income	996	1,439
Total	**335,931**	**270,594**

The breakdown of revenues and other operative income by Telefónica Group companies and others is as follows:

Thousands of euros	2015	2014
Telefónica Group companies	227,647	193,304
Other	108,284	77,290
Total	**335,931**	**270,594**

Other expenses

The breakdown of "Other expenses" is as follows:

Thousands of euros	2015	2014
External services	26,319	23,972
Taxes other than income tax	16,372	14,933
Change in trade provisions (Note 7)	849	789
Total from continuing operations	**43,540**	**39,694**
Other expenses from discontinued operations (Note 17)	12,664	12,474
Total	**56,204**	**52,168**

Estimated payment schedule

The expected schedule of payments in thousands of euros in the coming years in relation to operating leases and purchase commitments (which cannot be canceled without incurring penalties) corresponding to continuing operations is as follows:

12/31/2015	Total	Less than one year	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligations					
Third parties	**2,689**	**769**	**1,568**	**352**	**-**
Leases	2,689	769	1,568	352	-
Purchase and other contractual obligations					
Telefónica Group companies	**15,729**	**5,120**	**6,055**	**3,037**	**1,517**
Services	15,729	5,120	6,055	3,037	1,517
Third parties	**245,482**	**52,732**	**191,113**	**1,634**	**3**
Services	12,176	6,202	4,337	1,634	3
Fixed assets	233,306	46,530	186,776	-	-
Total	**261,211**	**57,852**	**197,168**	**4,671**	**1,520**

The main payment commitments at December 31, 2015 were in relation to future investment in the BRUSA underwater cable the Company intends to deploy to link the United States and Brazil. The cable will be almost 11,000 kilometers long, and will link the Brazilian cities of Río de Janeiro and Fortaleza to San Juan de Puerto Rico and Virginia Beach in the United States.

Headcount

The table below shows the average number of TIWS América Group employees in 2015 and 2014, and the final headcount at December 31 each year, excluding employees working on discontinued operations:

	2015		2014	
	Average	Year-end	Average	Year-end
Men	103	102	99	103
Women	23	26	20	20
Total	**126**	**128**	**119**	**123**

In 2015 and 2014 the average number of employees associated with discontinued operations was 113 and 94, respectively.

Of the final headcount at December 31, 2015, excluding employees working on discontinued operations, approximately 20.3% were women (16.3% at December 31, 2014).

Exchange gains and losses

The exchange gains and losses registered in 2015 are mainly related to the variation from the local currency compared to the US dollar (functional currency), mainly in TIWS Brasil and TIWS Chile (see Note 13).

Depreciation and amortization

The breakdown of "Depreciation and amortization" on the consolidated statement is as follows:

Thousands of euros	2015	2014
Depreciation of property, plant and equipment	66,310	51,643
Amortization of intangible assets	1,068	1,096
Total from continuing operations	**67,378**	**52,739**
Depreciation of property, plant and equipment from discontinued operations (Note 17)	3,234	1,378
Total	**70,612**	**54,117**

Earnings per share

Basic earnings per share attributable to equity holders of the parent are calculated based on the following data:

	2015	2014
Profit after taxes attributable to ordinary equity holders of the parent from continuing operations (thousands of euros)	91,932	67,315
Loss after taxes attributable to ordinary equity holders of the parent from discontinued operations (thousands of euros)	(118,352)	(88,850)
Weighted average number of ordinary shares	1,430,401	1,430,401
Basic earnings per share from continuing operations (euros per share)	64.27	47.06
Basic earnings per share from discontinued operations (euros per share)	(82.74)	(62.12)

Note 16. Litigation and arbitration

TIWS America and the companies of its Group are party to various lawsuits or proceedings that are currently in process before various jurisdictional, administrative and arbitration bodies in several countries in which the Telxius Group has a presence. Those proceedings are provisioned in the present financial statements if the Group legal advisors have rated the probability of the loss as likely, and explicated, if they are relevant, if the loss probability is possible. The most significant proceedings are fiscal matter and are described in the Note 14.

Taking into consideration the reports issued by the Group's legal advisers in these proceedings, it is reasonable to assume that such lawsuits or legal proceedings will not significantly affect the economic-financial position or the solvency of the Telxius Group.

Note 17. Discontinued operations

As mentioned in Note 2, the different businesses of TIWS América Group's from IP and Capacity, that will be integrated in Telxius, have been considered as discontinued businesses (VPN, voice, IPX and satellite) and the assets associate have been classified as non-current assets held for sale.

TIWS América business comprises several business lines with different levels of maturity, being the main, IP and Capacity lines in which the company is leader by market share in the region, mainly due to the demand of Telefónica Group´s operators.

IP services are aimed to provide Internet access to users of the operator customers, enabling communication with other users and access to Internet content. Capacity services provide data transport point-to-point to telecom operators, content providers, as well as multinational and large companies. Both lines have a market with high growth rates in volumes managed, resulted in increasing telecommunications services broadband (fixed and mobile) as well as the increase in consumption of multimedia content over the Internet. The aim of TIWS América is to strengthen its leading position in the international wholesale telecom business in the region, concentrating its activity in business IP and Capacity. Having that aim in view, Telefónica Group decided to concentrate these lines in the unit infrastructure "Telxius".

Satellite services for both, backhaul and mobile networks for data transmission and Internet, VPN data services, messaging services (SMS) and voice management and transport (LDI) completed the service catalog. These businesses, with the assets and resources that support them, have been transferred to other companies in Telefónica Group in the first quarter of 2016 (see Note 18). These businesses are in deficit at the date for various reasons, mainly for not reaching yet the necessary volumes to cover fixed costs in some businesses with large customers, and for the need to use third party networks in countries where Telefónica Group has no presence or their presence is not capillary. It is expected that the profitability of discontinued operations can improve in a reasonable period of time.

Additionally, compensatory billing charged from Telefónica International Wholesale Services, S.L. (company which manage the business in Spain) to TIWS América, referring exclusively to discontinued operations, have to be considered, because the profit or residual loss after offsetting all entities corresponds to TIWS América as main contractor. Considering these businesses as a whole including de Telefónica International Wholesale Services, S.L. the resulting losses would be lower.

The following table provides additional information on our discontinued operations:

Thousands of euros	2015	2014
INCOME STATEMENTS		
Revenues	15,163	25,391
Supplies	(99,814)	(87,856)
Personnel expenses	(13,225)	(10,882)
Other expenses (Note 15)	(12,664)	(12,474)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(110,540)**	**(85,821)**
Depreciation and amortization (Note 15)	(3,234)	(1,378)
OPERATING INCOME	**(113,774)**	**(87,199)**
Net financial result	**-**	**-**
LOSS BEFORE TAXES	**(113,774)**	**(87,199)**
Income tax (Note 14)	(4,578)	(1,651)
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	**(118,352)**	**(88,850)**

The detail of the cash flow from discontinued operations is as follows:

Thousands of euros	2015	2014
Net cash flow provided by operating activities from discontinued operations	(112,191)	(85,821)
Net cash flow provided by operating investing from discontinued operations	(6,816)	(6,154)

The total non-current assets held for sale on the consolidated statement of financial position correspond to property, plant and equipment assigned to the VPN, voice, IPX and satellite business lines, which will not become of the Telxius Group (see Note 5). No liabilities associated with these assets had been identified at December 31, 2015.

The table below shows the cumulative amounts (net of tax) included in other global results:

Thousands of euros	12/31/2015	12/31/2014
Translation differences	(11,461)	(7,049)

Note 18. Events after the reporting period

Between December 31, 2015 and the date on which these consolidated financial statements were prepared, events in relation to the TIWS América Group past the reporting date were as follows:

- On March 9, 2016 Telefónica announced the deployment of BRUSA, a new underwater cable almost 11,000 kilometers long to link the Brazilian cities of Río de Janeiro and Fortaleza to San Juan de Puerto Rico and Virginia Beach in the United States. It is expected to be up and running by early 2018.

Related to discontinuing businesses (see Note 17), the following disposals have taken place:

- On March 31, 2016 Telefónica International Wholesale Services América, S.A. sold the shares of Telefónica International Wholesale Services México, S.A. de C.V. to Telefónica International Wholesale Services, S.L. The agreed selling price was 2.4 million euros.
- On March 31, 2016 Telefónica International Wholesale Services Brasil Ltda. disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to MediaNetworks Soluçoes Digitais. The agreed selling price was 6.3 million euros.
- On March 31, 2016 Telefónica International Wholesale Services USA, disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite,

including the transfer of ongoing contracts for these activities and employees associated with the activities to Telefónica USA, Inc. The agreed selling price was 7.7 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Chile, SPA disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to TIWS Chile II S.P.A. The agreed selling price was 0.3 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Colombia, SAS disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to TIWS Colombia II SAS. The agreed selling price was 0.1 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Ecuador SA, disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to TIWS Ecuador II SA. The agreed selling price was 2 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Puerto Rico, disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to TLD Puerto Rico. The agreed selling price was 0.6 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Peru S.A.C., disposed of its shares in Telefónica Servicios TIWS S.A.C. to Telefónica International Wholesale Services, S.L. The agreed selling price was 1.9 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Guatemala disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the ongoing contracts for these activities to the company Telefónica Móviles Guatemala. The agreed selling price was 0.1 million euros.

- On March 31, 2016 Telefónica International Wholesale Services Argentina, S.A. disposed of assets and liabilities associated with operation of local business relating to VPN, voice, IPX and satellite, including the transfer of ongoing contracts for these activities and employees associated with the activities to the company TIWS Argentina II S.A. The agreed selling price was 0.4 million euros.

Related to the integration of TIWS América business cable in Telxius (see Note 2) the following operations have taken place:

- On March 31, 2016 Telefónica, S.A., the owner at December 31, 2015 of 73.14% of the shares of the Group parent, Telefónica International Wholesale América, S.A., transferred full ownership of all these shares by nonmonetary contribution to Telxius Telecom S.A.U.

- On March 31, 2016 Telefónica International Wholesale Services, S.L., the owner at December 31, 2015 of 26.86% of the shares of the Group parent, Telefónica International Wholesale América, S.A., sold full ownership of all these shares to Telxius Telecom, S.A.U.

The overall result of the sale amounts to 993 thousand Euro, included in the results of discontinued operationsin the Interim Consolidated Financial Statements of Telxius.

In connection with the share capital of Telefónica International Wholesale Services América, S.A:

- At 2015 year-end, negative retained earnings from Telefónica International Wholesale Services América, S.A. exceeded the 50% of share capital, being affected by the concerned at the article 293 of the law 16,060 in Uruguay. Due to this, on January 1, 2016 the Extraordinary General Meeting of Shareholders agreed an equity reduction to compensate losses, amounting to 10,450,000 thousand Uruguayan pesos, (equivalent to 265,087 thousand of historical euros).

- Subsequently, on March 28, 2016, the Extraordinary General Meeting of Shareholders agreed a share capital increase which was attended by the two shareholders of the Company, Telefónica International Wholesale Services, S.L and Telefónica, S.A. for an amount of 7,233,841 thousand of Uruguayan pesos (equivalent to 167,156 thousand of historical euros), being estimated the share capital after the increase to 13,241,029 thousand of Uruguayan pesos (equivalent to 342,825 thousand of historical euros). The amount of this capital increase has been used to cancel the payable balances with Telefónica Group previous to the incorporation of TIWS Group to Telxius Group.
- After the equity operations mentioned previously, on March 31, 2016 TIWS América´s equity is 381 million euros higher than the share capital, which is 383 million euros, being its equity balanced at this date.

Note 19. Additional note for English translation

These consolidated financial statements were originally prepared in Spanish. In the event of a discrepancy, the Spanish language version prevails.

Appendix I: Changes to the scope of consolidation

Telefónica International Wholesale Services México, S.A.

On August 14, 2015 Telefónica International Wholesale Services América, S.A. purchased 100% of the shares of Media Networks México Soluciones Digitales, S.A. from Media Networks Latin América S.A.C. (Telefónica Group company). The purchase price was in line with the Company equity.

In December, the company known as Media Networks México Soluciones Digitales, S.A. changed its corporate name to Telefónica International Wholesale Services México, S.A.

This company's transactions appear in the consolidated income statement for the year ended December 31, 2015 under "Loss after tax on discontinued operations".

The main figures at the date of addition to the scope of consolidation were as follows:

Thousands of euros	08/14/2015
ASSETS	
A) NON-CURRENT ASSETS	**1,323**
Property, plant and equipment	1,323
B) CURRENT ASSETS	**325**
Trade and other receivables	105
Other assets	220
TOTAL ASSETS (A+B)	**1,648**
EQUITY AND LIABILITIES	
A) EQUITY	**20**
B) CURRENT LIABILITIES	**1,628**
Current interest-bearing debt	436
Current trade and other payables	1,103
Other liabilities	89
TOTAL EQUITY AND LIABILITIES (A+B)	**1,648**

Telefónica Servicios TIWS, S.A.C.

On December 28, 2015 Telefónica Servicios TIWS, S.A.C. was constituted, 100% owned by Telefónica International Wholesale Services Perú S.A.C., integrated by the global integration method.

Appendix II: Companies in the TIWS América Group

The table below lists the main companies comprising the TIWS América Group at December 31, 2015, incorporated in the consolidation perimeter by the global integration method.

The following information is provided for each company: company name, chief business purpose, country, functional currency, share capital (expressed in thousands of units of the functional currency), the effective Group TIWS América percentage share and the company or companies producing the Group stake.

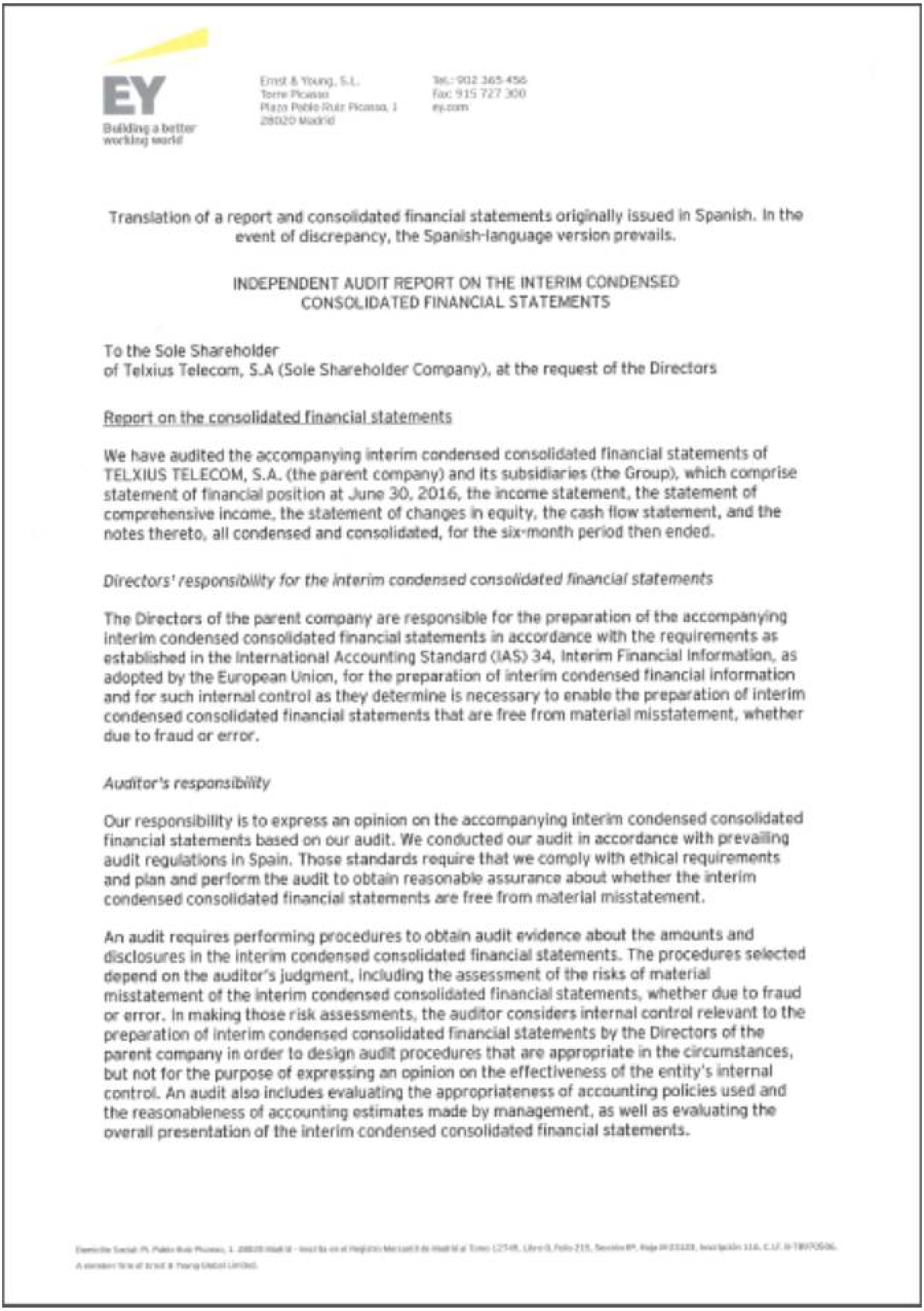
Parent company:

Telefónica International Wholesale Services América, S.A.

Name and business purpose	Country	Functional currency	Share capital	% TIWS América Group	Holding company
Telefónica International Wholesale Services Puerto Rico, Inc. High-capacity optic fiber network communications services	Puerto Rico	USD	23,681	100%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services USA, Inc. Large bandwidth communication services	United States	USD	58,387	100%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Chile S.P.A. Involvement in businesses concerning public or private telecommunications services	Chile	USD	37,354	99.99% (*)	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Guatemala S.A. Installation and operation of telecommunications services for wholesalers	Guatemala	USD	15,938	99.99% (*)	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Peru S.A.C. Involvement in the operation and deployment of international telecommunications services via underwater cables and other means	Peru	USD	19,920	99.99% (*)	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Argentina S.A. Operation and deployment of telecommunications infrastructures	Argentine	USD	78,051	99.94%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Brasil Participacoes Ltda. Operation and deployment of telecommunications infrastructure	Brazil	USD	62,474	99.99% (*)	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Brasil Ltda.	Brasil	USD	73.738	99,99% (*)	Telefónica International Wholesale Services Brasil Participacoes Ltda.
Telefónica International Wholesale Services Colombia S.A.S. Supply of data transmission capacity via the SAM1 underwater cable system	Colombia	USD	4,443	100%	Telefónica International Wholesale Services América, S.A. 94.99% Telefónica International Wholesale Services Perú, S.A.C 1.67% Telefónica International Wholesale Services Chile, S.A. 1.67% Telefónica International Wholesale Services Guatemala, S.A 1.67% Telefónica International Wholesale Services Argentina, S.A. 0.00(*)%
Telefónica International Wholesale Services Ecuador S.A. Sale of usage of data transmission capacity via an underwater optic fiber network	Ecuador	USD	5,345	100%	Telefónica International Wholesale Services América, S.A. 99.99% Telefónica International Wholesale Services Peru, S.A.C. 0.01%
Telefónica Global Solutions Panamá S.A. Installation and operation of telecommunications networks for wholesalers	Panama	USD	10	100%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services México, S.A. Research activity and projects in the field of telecommunications	Mexico	MXN	31,223	100%	Telefónica International Wholesale Services América, S.A.
Telefónica Services TIWS, S.A.C. Telecommunications Services	Peru	USD	-	100%	Telefónica International Wholesale Services Peru, S.A.C.

(*) In these companies the minority shareholders participate in a percentage lower than 0.01% as rounding consequence.

Independent Audit Report
TELXIUS TELECOM, S.A. (Sole Shareholder Company)
AND SUBSIDIARIES
Interim Condensed Consolidated Financial Statements and Interim Consolidated Management Report for the six-month period ended June 30, 2016



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Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDIT REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder
of Telxius Telecom, S.A (Sole Shareholder Company), at the request of the Directors

Report on the consolidated financial statements

We have audited the accompanying interim condensed consolidated financial statements of TELXIUS TELECOM, S.A. (the parent company) and its subsidiaries (the Group), which comprise statement of financial position at June 30, 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, and the notes thereto, all condensed and consolidated, for the six-month period then ended.

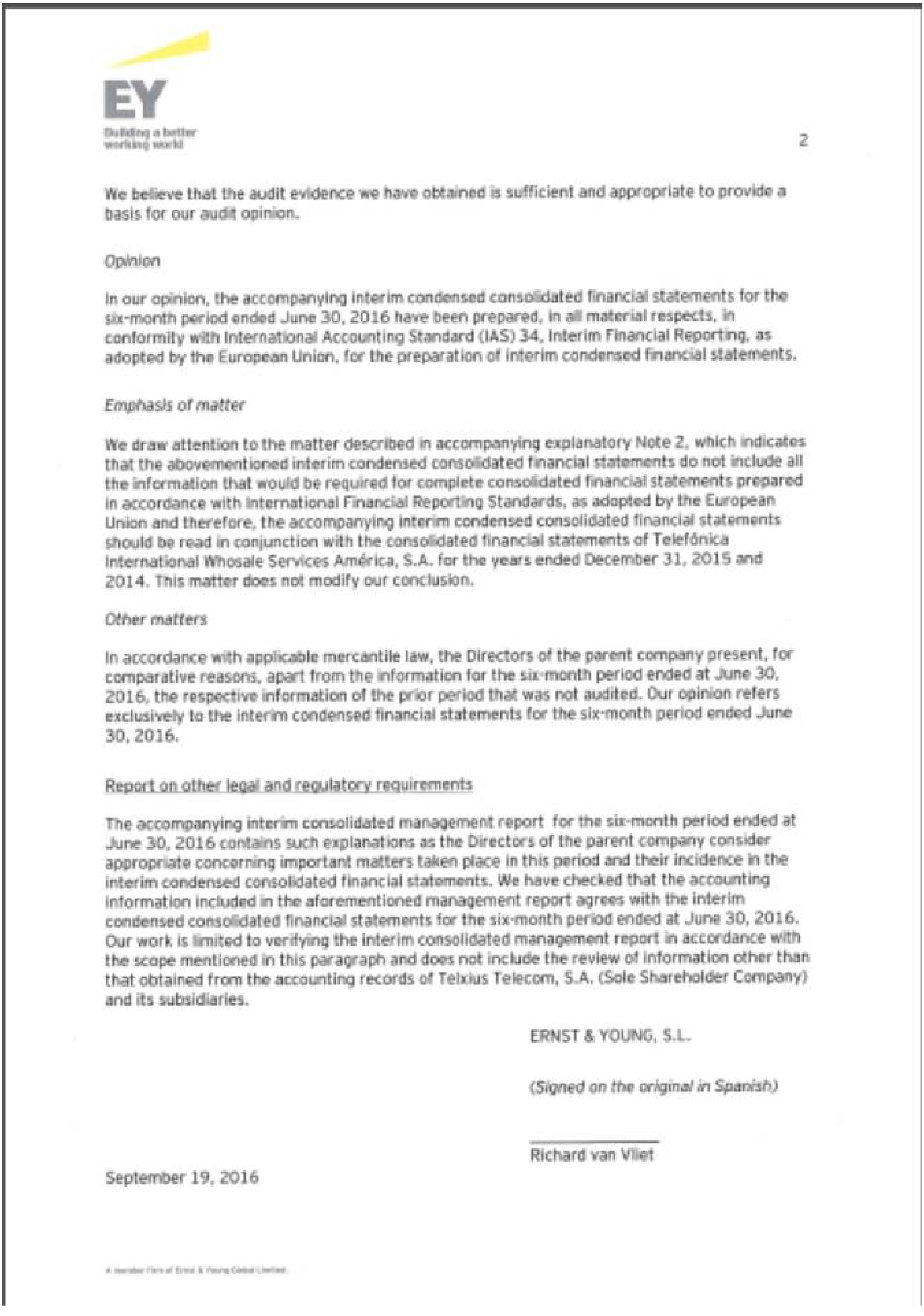
Directors' responsibility for the interim condensed consolidated financial statements

The Directors of the parent company are responsible for the preparation of the accompanying interim condensed consolidated financial statements in accordance with the requirements as established in the International Accounting Standard (IAS) 34, Interim Financial Information, as adopted by the European Union, for the preparation of interim condensed financial information and for such internal control as they determine is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying interim condensed consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim condensed consolidated financial statements are free from material misstatement.

An audit requires performing procedures to obtain audit evidence about the amounts and disclosures in the interim condensed consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim condensed consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of interim condensed consolidated financial statements by the Directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim condensed consolidated financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying interim condensed consolidated financial statements for the six-month period ended June 30, 2016 have been prepared, in all material respects, in conformity with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial statements.

Emphasis of matter

We draw attention to the matter described in accompanying explanatory Note 2, which indicates that the abovementioned interim condensed consolidated financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union and therefore, the accompanying interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Telefónica International Whosale Services América, S.A. for the years ended December 31, 2015 and 2014. This matter does not modify our conclusion.

Other matters

In accordance with applicable mercantile law, the Directors of the parent company present, for comparative reasons, apart from the information for the six-month period ended at June 30, 2016, the respective information of the prior period that was not audited. Our opinion refers exclusively to the interim condensed financial statements for the six-month period ended June 30, 2016.

Report on other legal and regulatory requirements

The accompanying interim consolidated management report for the six-month period ended at June 30, 2016 contains such explanations as the Directors of the parent company consider appropriate concerning important matters taken place in this period and their incidence in the interim condensed consolidated financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the interim condensed consolidated financial statements for the six-month period ended at June 30, 2016. Our work is limited to verifying the interim consolidated management report in accordance with the scope mentioned in this paragraph and does not include the review of information other than that obtained from the accounting records of Telxius Telecom, S.A. (Sole Shareholder Company) and its subsidiaries.

ERNST & YOUNG, S.L.

(Signed on the original in Spanish)

Richard van Vliet

September 19, 2016

FIRST HALF OF 2016

Condensed consolidated interim financial statements and consolidated interim management report for the six-months period ended June 30, 2016

Telxius Telecom, S.A.U. and subsidiaries

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Management Report ERROR! BOOKMA

Consolidated statements of financial position

Thousands of euros	Reference	06/30/2016	12/31/2015
ASSETS			
A) NON-CURRENT ASSETS		**3,177,066**	**511,039**
Intangible assets	(Note 5)	1,536,098	1,378
Goodwill	(Note 6)	276,285	-
Property, plant and equipment	(Note 7)	1,269,214	427,674
Non-current tax receivables		5,140	6,889
Non-current financial assets		1,732	41
Non-current prepayments	(Note 11)	68,808	61,949
Deferred tax assets	(Note 15)	19,789	13,108
B) CURRENT ASSETS		**370,430**	**375,659**
Inventories		3,998	-
Trade and other receivables		208,113	271,058
Current prepayments	(Note 11)	32,154	20,831
Current tax receivables		25,546	23,247
Current financial assets		3	444
Cash and cash equivalents	(Note 9)	100,616	39,530
Non-current assets held for sale	(Note 18)	-	20,549
TOTAL ASSETS (A+B)		**3,547,496**	**886,698**

	Reference	06/30/2016	12/31/2015
EQUITY AND LIABILITIES			
A) EQUITY	**(Note 10)**	**1,958,237**	**240,032**
B) NON-CURRENT LIABILITIES		**1,343,117**	**169,310**
Non-current interest-bearing debt	(Note 12)	700,000	-
Non-current non-financial debt with Group		263	-
Non-current deferred revenue	(Note 13)	196,156	162,359
Deferred tax liabilities	(Note 15)	293,894	5,508
Non-current provisions	(Note 14)	152,804	1,443
C) CURRENT LIABILITIES		**246,142**	**477,356**
Current interest-bearing debt	(Note 12)	3,539	1,494
Current trade and other payables		161,997	407,224
Current deferred revenue	(Note 13)	49,473	41,524
Current tax payables		29,412	26,065
Current provisions	(Note 14)	1,721	1,049
TOTAL EQUITY AND LIABILITIES (A+B+C)		**3,547,496**	**886,698**

The accompanying Notes 1 to 21 and Appendices I and II are an integral part of these consolidated statements of financial position.

Consolidated income statements

		January-June	January-June
Thousands of euros	**Reference**	**2016**	**2015**
CONSOLIDATED INCOME STATEMENTS			
Revenue	(Note 16)	243,041	177,199
Other operative income	(Note 16)	3,332	129
Other income	(Note 4)	11,942	-
Supplies	(Note 16)	(49,154)	(47,619)
Personnel expenses		(8,626)	(6,746)
Other expenses		(66,041)	(18,618)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**134,494**	**104,345**
Depreciation and amortization	(Notes 5 and 7)	(66,496)	(29,692)
OPERATING INCOME		**67,998**	**74,653**
Finance income		1,193	717
Exchange gains		5,363	-
Finance expense		(3,293)	(978)
Exchange losses		-	(1,819)
Net financial result		**3,263**	**(2,080)**
PROFIT BEFORE TAX		**71,261**	**72,573**
Corporate income tax	(Note 15)	(13,938)	(9,435)
Profit for the period from continuing operations		57,323	63,138
Loss after tax for the period from discontinued operations	(Note 18)	(45,170)	(50,793)
RESULT FOR THE PERIOD		**12,153**	**12,345**

The accompanying Notes 1 to 21 and Appendices I and II are an integral part of these consolidated income statements.

Telxius Telecom, S.A.U. and subsidiaries

Consolidated statements of comprehensive income

	January-June	January-June
Thousands of euros	**2016**	**2015**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME		
Result for the period	**12,153**	**12,345**
Other comprehensive income (loss)	**40,181**	**22,066**
Translation differences (Note 10)	31,681	22,066
Reclassification of translation differences included in the income statement (Note 18)	8,500	**-**
Total comprehensive income recognized in the period attributable to:	**52,334**	**34,411**
Shareholder of the holding company:	**52,334**	**34,411**
Continuing operations	78,994	91,172
Discontinued operations	(26,660)	(56,761)

The accompanying Notes 1 to 21 and Appendices I and II are an integral part of these consolidated statements of comprehensive income.

Consolidated statements of changes in equity

Thousands of euros	Share Capital (Note 10)	Share premium	Reserves	Result for the year	Translation differences (Note 10)	Total equity
Balance at December 31, 2015	**440,756**	**-**	**(232,627)**	**(26,420)**	**58,323**	**240,032**
Adjustment to restate equity due to the reverse acquisition	(440,696)	-	440,696	-	-	-
Balance at January 1, 2016 (restated)	**60**	**-**	**208,069**	**(26,420)**	**58,323**	**240,032**
Distribution of profit (loss)	-	-	(26,420)	26,420	-	-
Purchase of treasury shares by the economic acquirer (Note 4)	-	-	(452,834)	-	-	(452,834)
Capital increase at March 31, 2016	87,500	1,362,500	-	-	-	1,450,000
Capital increase at May 27, 2016	162,440	339,109				501,549
Profit for the year from continuing operations	-	-	-	57,323	-	57,323
Contributions from shareholders (Note 10)	-	-	167,156	-		167,156
Other movements	-	-	-	-	31,681	31,681
Sale of discontinued operations	-	-	-	(45,170)	8,500	(36,670)
Balance at June 30, 2016	**250,000**	**1,701,609**	**(104,029)**	**12,153**	**98,504**	**1,958,237**
Balance at December 31, 2014	**440,756**	**-**	**(209,358)**	**(21,535)**	**29,580**	**239,443**
Result for the year	-	-	-	12,345	-	**12,345**
Distribution of profit (loss)	-	-	(21,535)	21,535	-	**-**
Other movements	-	-	(1,734)	-	22,066	**20,332**
Balance at June 30, 2015	**440,756**	**-**	**(232,627)**	**12,345**	**51,646**	**272,120**

The accompanying Notes 1 to 21 and Appendices I and II are an integral part of these consolidated statements of changes in equity.

Consolidated statements of cash flows

	Reference	January-June	January-June
Thousands of euros		**2016**	**2015**
Cash flow provided by operating activities			
Cash received from customers		259,081	144,384
Cash paid to suppliers and employees		(99,339)	(64,574)
Taxes paid		(6,148)	(5,361)
Net interest (paid)/received		(4,123)	1,478
Net cash flow provided by operating activities from continuing operations		**149,471**	**75,927**
Net cash flow provided by operating activities from discontinued operations	(Note 18)	(37,663)	(48,683)
Net cash flow provided by operating activities		**111,808**	**27,244**
Cash flow used in investing activities			
Payments on investments in property, plant and equipment and intangible assets		(75,072)	(28,231)
Payments on investments in companies, net of cash and cash equivalent acquired		(2,652,750)	-
Cash received from disinvestments in property, plant and equipment and intangible assets		84	-
Cash received from financial investments not included in cash equivalents		2,762	-
Government grants received		7	-
Net cash flow used in investing activities from continuing operations		**(2,724,969)**	**(28,231)**
Net cash flow used in investing activities from discontinued operations	(Note 18)	19,258	-
Net cash flow used in investing activities		**(2,705,711)**	**(28,231)**
Cash flow provided by/(used in) financing activities			
Proceeds of treasury and other operation with stakeholder		1,951,549	-
Proceeds on issue of debentures and bonds, and other debts		1,903,433	-
Loans, credits and promissory notes repayments		(1,201,774)	-
Net cash flow provided by/(used in) financing activities from continuing operations		**2,653,208**	**-**
Net cash flow provided by/(used in) financing activities		**2,653,208**	**-**
Effect of changes in exchange rates		**1,781**	**3,275**
Net increase (decrease) in cash and cash equivalents during the period		**61,086**	**2,288**
CASH AND CASH EQUIVALENTS AT JANUARY 1		**39,530**	**36,707**
CASH AND CASH EQUIVALENTS AT JUNE 30		**100,616**	**38,995**

The accompanying Notes 1 to 21 and Appendices I and II are an integral part of these consolidated statements of cash flows.

Note 1. Introduction and general information

Telxius Telecom, S.A. (formerly, Telefónica América, S.A.) Sociedad Unipersonal and subsidiaries (Telxius or the Group, without distinction) make up a consolidated group of companies operating primarily in the telecommunications sector.

In December 2015, Telefónica Group's Management decided to create the Telxius Group, which comprises, among others, the IP and Capacity businesses from the Telefónica International Wholesale Services América, S.A. (TIWS América) subgroup.

On March 31, 2016, Telefónica, S.A., the owner of 73.14% of the shares of TIWS América at December 31, 2015, transferred full ownership of all these shares to Telxius Telecom, S.A.U. through a nonmonetary contribution.

On the same date, Telefónica International Wholesale Services, S.L. (TIWS España), the owner of 26.86% of the shares of TIWS América at December 31, 2015, sold full ownership of all the aforementioned shares to Telxius.

TIWS América is the holding company of the group of companies previously existing in Latin America, whose main business is the sale of the usage of data transmission capacity over a network of underwater and terrestrial optic fiber denominated SMA-1 and the sale of capacity on third-party networks.

Also on March 31, 2016, Telxius, through the previously incorporated subsidiary Telxius Cable España, S.L.U., signed a purchase and sale agreement with TIWS España to acquire the cable business in Spain.

On the same date, Telxius entered into certain sale and purchase agreements to acquire all the shares of Telxius Torres España, S.L.U. from Telefónica, S.A., and of Towerco Latam Perú, S.A.C. from Telefónica del Perú, S.A.A. Also on the same date, Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil Ltda.) signed an infrastructure sale and purchase agreement with Telefônica Brasil, S.A. Subsequently, on April 21, 2016, Telxius acquired all of the shares of Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) and on May 1, 2016, Telxius acquired all of the shares of Towerco Latam Chile Holding, S.A.

The main activity of these companies is the establishment and operation of telecommunications infrastructure and networks, as well as the provision and management of services related to this infrastructure.

The aforementioned transactions are detailed in Note 4.

The parent of the Group is Telxius Telecom, S.A.U., a corporation that was established on October 10, 2012, with a registered office in Madrid (Spain), at Ronda de la Comunicación s/n, Distrito Telefónica.

On March 7, 2016, the sole shareholder of Telefónica América, S.A., decided to change the corporate name to Telxius Telecom, S.A.

As a telecommunications multinational that operates in regulated markets, the Telxius Group is subject to different laws and regulations in each of the jurisdictions of the countries in which it operates, for that reason it must obtain permits, concessions or licenses in in order to provide the various services.

Note 2. Basis of presentation

The condensed consolidated interim financial statements for the six-month period ended June 30, 2016 (the “interim financial statements”) have been prepared in accordance with International Accounting Standard (IAS) 34 on Interim Financial Reporting and Article 12 of Royal Decree 1362/2007, of October 19. Therefore, they do not contain all the additional disclosures and information required for complete consolidated annual financial statements. Consequently, for proper interpretation they should be read in conjunction with the consolidated annual financial statements of Telefónica International Wholesale Services América, S.A. for the year ended December 31, 2015.

The accompanying interim financial statements were authorized for issue by Telxius Telecom, S.A.U.’s Board of Directors at its meeting of September 7, 2016.

These interim financial statements were prepared in the context of an initial public offering (IPO) by the Telxius Group. At the date of the authorization for issue of these interim financial statements, the shares of the Company are not listed on any stock market.

The figures included in these interim financial statements are expressed in thousands of euros, unless otherwise indicated, and therefore may have been rounded off.

Comparative information and main changes in the scope of consolidation

As detailed in Note 4, for the purposes of these interim financial statements TIWS América is considered the acquirer of all the combined businesses referred to in Note 1. The acquirer for accounting purposes maintains the pre-existing carrying amounts whereas the acquisition method will be applied to the other combined businesses.

These interim financial statements are a continuation of the financial statements of the business considered the acquirer for accounting purposes, and the comparative information presented relates to said acquirer for accounting purposes, except for the restatement of the share capital (see Notes 4 and 10).

For this reason, Telxius Group’s consolidated figures for the first six-month period ended June 30, 2016 are compared with those of the TIWS América Group for the first six-month period of 2015, except for the consolidated statement of financial position, which compares the Telxius Group at June 30, 2016, with the TIWS América Group at December 31, 2015 (except for the aforementioned restatement of the share capital).

The changes in the scope of consolidation are explained in Appendix I.

With respect to seasonality, the time series of consolidated results does not indicate that the operations of the Group, taken as a whole, are subject to significant variations between the two six-month periods.

From the date of the agreement on the creation of the Telxius Group by the Telefónica Group’s management (see Note 1), the businesses of TIWS América other than IP and Capacity, that is, VPN, voice, IPX and satellite, have been recognized as discontinued businesses, and the assets associated with these businesses have been treated as non-current assets held for sale as of that date, in accordance with IFRS 5 (see Note 18).

Segment reporting

Segment information is structured according to the Group's different business lines.

The business lines described below were established according to the Group's organizational structure in force at June 30, 2016, taking into account the nature of the services offered. Management analyzes the operating income of the Group in these two segments, which are listed below, in order to decide what resources to allocate to each segment and assess each segment’s performance.

The Group has focused its activities in the following business lines:

- Cable: the main business of which is the sale of the usage of data transmission capacity through an underwater and terrestrial optic fiber network, called SAM- 1 mainly, as well as the sale of capacity on third-party networks.
- Towers: the main activity of which is the establishment and operation of telecommunications infrastructure, as well as the rendering of services related to said infrastructure.

Segment information is not broken down according to geographic criteria because, especially in the cable business, this is a global business and such segmentation would not be representative.

As detailed in Note 4, Telxius acquired the tower business in Spain, Brazil and Peru, and the cable business in Spain, on March 31, 2016. In addition, Telxius acquired the tower business in Germany and Chile on April 21, 2016, and May 1, 2016, respectively. Therefore, the consolidated income statement for the first half of the year includes only the operations starting on those dates.

The detail of the income, expenses and results assigned to the cable and tower segments as of June 30, 2016, is as follows:

Thousands of euros	Cable	Towers	Other and eliminations	Total
INCOME STATEMENT				
Revenue	178,060	64,981	-	243,041
Sales to internal customers	115,812	57,323	-	173,135
Sales to external customers	62,248	7,658	-	69,906
Other operating income and expenses	(86,001)	(19,141)	(3,405)	(108,547)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**92,059**	**45,840**	**(3,405)**	**134,494**
Depreciation and amortization	(40,480)	(26,016)	-	(66,496)
OPERATING INCOME	**51,579**	**19,824**	**(3,405)**	**67,998**
Capital expenditures	**39,231**	**4,269**	**352**	**43,851**

The following table presents the assets and liabilities allocated to the cable and towers segments as of June 30, 2016:

Thousands of euros	Cable	Towers	Other and eliminations	Total
Fixed assets	548,796	2,256,165	351	2,805,312
Goodwill	50,865	225,420	-	276,285
Other non-current assets	83,843	11,625	-	95,468
Current assets	251,701	117,633	1,097	370,431
Non-current liabilities	205,724	437,130	700,263	1,343,117
Current liabilities	181,314	60,082	4,746	246,142

Financial debt has not been allocated to the Cable and Towers segments. “Other and eliminations” in current liabilities includes primarily the loan granted by Telefónica S.A. amounting to 700 million euros (see Note 12). Consequently, it is only detailed the income and expenses allocated to segments no further than the Operative result, given that the remaining concepts include, mainly, interests associated to the financial debt hold by the holding company Telxius Telecom.

Segment reporting takes into account the impact of the allocation of the purchase price to the assets acquired and the liabilities assumed for the companies for which the acquisition method was applied (see Note 4).

Note 3. Accounting policies

As stated in Note 2, the Group has applied accounting policies in accordance with IFRSs and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for use in the European Union (IFRSs – EU).

Accordingly, only the most significant accounting policies in light of the nature of the Group's activities, as well as those used in preparing these consolidated financial statements where the IFRSs permit a policy choice, or, where applicable, those that are specific to the sector in which the Group operates, are set out below:

i) Translation of interim financial statements

The income statements and statements of cash flows of the Group's subsidiaries have been translated to euros at the average exchange rates for the period.

j) Intangible assets

Intangible assets are carried at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Software is amortized on a straight-line basis over its useful life, generally estimated to be between two and five years.

Also, this caption includes the amounts related to the intangible assets arising from the purchase price allocation of the payment made in the business combinations, and that relate to the fair value of the net assets acquired, which mainly comprise:

i. *Customer relations:*

The main intangible assets referring to "Customer relations" are generated in the business combinations corresponding to the tower business. This heading primarily consists of tower-leasing agreements entered into with companies of the Telefónica Group and third parties co-located at the date of the acquisition of the businesses. These assets are measured based on estimated cash flows derived from such agreements over their contractual term, taking into consideration the renewal clauses. In the case of the lease agreements with Telefonica Group companies, which imply a significant portion of revenue from the Towers segment, these clauses include an initial mandatory term of 10 years, and three additional extensions of 5 years each. After the 25-year period, the lease agreement will have an indefinite duration, and both parties may terminate the agreement with a prior notice period between 6 and 12 months. The useful life of these assets is between 25 and 35 years, based on the estimated period over which the customer base is expected to generate economic benefits that will flow to the Company. Customer relations of the cable business in Spain are also included, the useful life of which has been estimated at between 14 and 15 years (see Note 4).

These assets are depreciated on a straight-line basis.

ii. *Network Location:*

This heading includes potential incremental growth of revenue and cash flows from leasing surplus capacity of the existing towers at the date of the purchase of the businesses. The network location is considered an intangible asset given that the surplus capacity is separable from the "Customer relations" intangible asset, and it may be sold, transferred or rented to, or exchanged with, third parties. Network location is estimated to have an economic useful life of between 30 and 48 years, based on the estimated period over which the economic benefits associated with this excess capacity are to accrue to the company. It is amortized on a straight-line basis.

k) Goodwill

After initial recognition, goodwill is not amortized. It is carried at cost, less any accumulated impairment losses. Goodwill is recognized as an asset denominated in the currency of the company acquired and is tested for impairment annually or more frequently if there are certain events or changes indicating that the carrying amount may not be fully recoverable. A potential impairment loss is determined by assessing the recoverable amount, based on business plans approved by the Board of Directors.

l) Property, plant and equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. The value of property plant and equipment also includes the present value of the future estimated decommissioning costs of the sites where the towers are located whenever there is an obligation to incur such costs. Cost includes, among others, direct labor used in installation and the allocable portion of the indirect costs required for the investment. The latter two items are recorded as income under “Own work capitalized” of the “Other operative income” caption.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets for the Telxius Group are those assets that require a period of at least 18 months to be brought to the condition necessary for their intended use or sale.

The Group’s subsidiaries depreciate their property, plant and equipment from the time they can be placed in service, depreciating the cost of the assets, net of their residual values, on a straight-line basis over the assets’ estimated useful lives, which are calculated in accordance with technical studies that are revised periodically in light of technological advances, the nature and conditions of use of the assets, their estimated use, the rate of decommissioning, as well as the foreseen replacement of the main components, as follows:

	Years of estimated useful life
Buildings and structures	25 – 40
Technical installations	10 – 15
Towers	25
Underwater cable	20 - 25
Furniture, tools and other items	2 – 10

The lease agreements of the properties where the Group’s towers are located have very low churn rates.

m) Impairment of non-current assets

The Group assesses at each reporting date whether there are indications that non-current fixed assets may be impaired. If such indications exist, or in the case of assets which are subject to an annual impairment test, the recoverable amount is estimated. An asset’s recoverable amount is the higher of fair value less costs to sell and value in use. For the assessment of value in use, the estimated future cash flows deriving from the use of the asset are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset.

Examples of indications of possible impairment include unexpected cancellations of lease contracts and the difficulty of finding new leases to replace them, the external development of new technologies giving rise to the early obsolescence of the Group’s non-current assets, significant economic and/or political changes, especially in Latin America, significant devaluations of the functional currencies, other than the euro, of the countries where the Group provides its services, and possible natural disasters affecting infrastructure.

To calculate impairment, the Group uses the projected cash flows, based on strategic business plans that cover a period of five years. Starting in the sixth year, an expected constant growth rate is applied.

n) Lease agreements

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement and requires an assessment of whether the fulfilment of the arrangement depends on the use of a specific asset and whether the agreement grants a right to use the asset.

Leases in which the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the lessee.

o) Financial assets and liabilities

Trade and other receivables

This caption includes credits arising from commercial and non-commercial transactions, including financial assets with fixed or determinable payments that are not traded in an active market and for which the Group expects to recover all of its initial investment, except, as applicable, for insolvency of the debtor.

These items are measured initially at fair value in the balance sheet, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs.

After initial recognition, these financial assets are measured at amortized cost.

However, trade receivables with a maturity not exceeding one year with no contractual interest, as well as advances and loans to employees whose payment is expected to be received in the short term are measured at inception and subsequently at their nominal amount provided that the effect of discounting is not material.

Trade and other payables

Trade and other payables include financial liabilities resulting from the purchase of goods and services by the Group and payables arising from non-commercial transactions that are not derivatives.

They are measured initially at fair value in the balance sheet, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration transferred plus directly attributable transaction costs.

After initial recognition, these financial liabilities are measured at amortized cost. Accrued interest is recorded in the income statement, by applying the effective interest rate method.

Trade payables that mature within one year for which there is no contractual interest rate, and called-up holdings expected to be settled in the short term, are measured at their nominal amount, provided that the effect of discounting is not material.

p) Provisions

Provision for asset retirement obligation

The main provision within the Group relates to the asset retirement obligation. It represents the best estimate of the costs associated with the legal obligation to decommission fixed assets in the future, such as the obligation of mobile telecommunications operators in connection with their operating infrastructure (towers). It is measured on the basis of the present value of the estimated expenditures associated with decommissioning these assets in the future and all information available at the end of the reporting period.

The assumptions used in estimating the provisions for decommissioning, concerning the costs, discount rates and expected timing of the expenses, are reassessed on a yearly basis, or whenever facts and circumstances occur that may affect the amount required to settle the obligation. Changes in these assumptions are recognized as an increase or decrease in the cost of the assets. If there is a decrease in the provision for asset decommissioning, the amount deducted from the cost of the asset shall not exceed its carrying amount. Any excess is recognized immediately in profit or loss, under the “Depreciation and amortization” line item.

q) Revenues and expenses

Revenues are derived from the main activities of the Group, which include passive-infrastructure leases, the provision of IP traffic services, the assignment of the usage of capacity over the optic fiber network (terrestrial and underwater) and the provision of operation and maintenance services to third parties.

(i) Leasing of infrastructure to mobile-telecommunications operators: revenues are derived from granting access to the Group’s tower infrastructure for the co-location of telecommunications equipment. The Group provides access to its infrastructure under medium- and long-term agreements in exchange for a fee that is generally payable on a tower-by-tower basis in accordance with the terms of the lease agreement. Revenues are recognized on a straight-line basis over the term of the lease arrangements.

(ii) Revenues from the service consisting of data transmission over the IP network: the Company provides customers direct connectivity to the Internet through its backbone, with tailored solutions to meet the diverse bandwidth needs of users. The service is normally billed on a flat-fee basis or, less frequently, according to pay-as-you-go agreements. The related revenue is recognized as services are performed.

(iii) Revenues for the use of capacity in the underwater cable or on third-party networks are recognized over the life of the related contracts. These service revenues mainly derive from two kinds of agreements:

a. Indefeasible rights of use (IRU): under these arrangements the Group grants certain network capacity services, measured in terms of volume, generally for between 10 and 15 years. The total amount is normally received up-front at the inception of the agreement. This amount is initially deferred and subsequently recognized as revenue on a straight-line basis over the term of the agreement. Deferred revenues are classified as current if they are related to the ordinary cycle of business (generally, one year). Deferred revenue that does not meet such criteria is recorded as non-current. As a result of this business model, the Company's cash flows from operating activities could differ from revenue recorded under this type of contracts.

b. Capacity lease services: under these agreements, the Group conveys the right to use a certain amount of capacity to third parties for short and medium terms. Under this contractual model, unlike the previous one, the customer generally pays an annual fee for the usage rights and is not required to pay the total amount upfront. Revenues derived from these contracts are recognized on a straight-line basis over the life of the agreement. Despite the name of these agreements, from an accounting perspective they are not leases under IAS 17 or IFRS 16, as they do not relate to a specific asset. Instead, they are considered services agreements.

(iv) Operation and maintenance: revenues arising from these services, which are less relevant than the previous ones, are recognized in the income statement on an accrual basis as services are performed.

Concerning expenses, the Group requires the use of capacity in third-party networks, for which it enters into agreements with other network companies to obtain the right to use capacity on their networks. Under these agreements, payment is normally made up front and in full, so the amounts are recognized as advanced payments. In subsequent periods, an expense is recognized on a straight-line basis over the life of the contract.

The main expenses related to tower leases relate to leases of the properties where the towers are located. These expenses are passed on to the customers.

In Spain, the cost of electricity is also significant as Telxius supplies the electricity and passes the cost on to customers.

These items are included in "Supplies" in the consolidated income statement.

The related expenses passed on to customers are included under "Revenue".

Other operating expenses include maintenance, security, personnel and general and administrative expenses.

r) Use of estimates

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the consolidated financial statements within the next financial year are discussed below.

Property, plant and equipment

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation purposes and to assess fair value at the date of acquisition in the case of assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses of the assets. There is a significant element of judgment involved in making assumptions on technological development, since the timing and scope of future technological advances are difficult to predict.

The decision to recognize an impairment loss involves carrying out estimates that include, *inter alia*, an analysis of the causes of the potential impairment, as well as its timing and expected amount. Additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes, which point to the need to evaluate a possible impairment, are also taken into account.

Provisions

The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the balance sheet date, including the opinions of independent experts such as legal or financial counsel.

Given the uncertainties inherent in the estimates used to determine the amount of the provisions, actual outflows of resources may differ from the amounts recognized originally based on the estimates.

Deferred income taxes

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. Such recoverability ultimately depends on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections that are continuously updated to reflect the latest trends.

The recognition of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

s) New IFRS and interpretations of the IFRS Interpretations Committee (IFRIC)

The accounting policies applied in the preparation of the interim consolidated financial information for the six-month period ended June 30, 2016, are consistent with those used in the preparation of the Group's consolidated annual financial statements for the year ended December 31, 2015 (described above), except for the adoption, on January 1, 2016, of the following amendments published by the International Accounting Standards Board (IASB) and adopted by the European Union for application in Europe.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the interim consolidated financial information of the Group.

- Improvements to IFRS, 2012-2014 Cycle

  A series of improvements were made to the current IFRSs with the aim of removing inconsistencies and clarifying wording to some standards. These improvements do not have a significant impact on the results or financial position of the Group.

- Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations.

  The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations. These amendments do not have any impact on the Group as it has acquired no interest in a joint operation during the period.

- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization

  The amendments clarify the principle in IAS 16 Property, Plant and Equipment and in IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may be used only in very limited circumstances to amortize intangible assets. These amendments do not have any impact on the Group given that the Group has not used the revenue-based depreciation method.

- Amendments to IAS 1, Disclosure Initiative

  The amendments to IAS 1 clarify, rather than significantly change, IAS 1 requirements on the following issues:

  - The materiality requirements.
  - That specific line items in the income statement and in other comprehensive income and in the statement of financial position may be disaggregated.
  - That entities have flexibility as to the order in which they present the notes to financial statements.
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and in the income statement and in other comprehensive income. The Group has considered these amendments in preparing this interim consolidated financial information.

- Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

  The amendments address issues that have arisen in applying the exception under IFRS 10 Consolidated Financial Statements to investment entities. These amendments do not have any impact on the Group as it does not apply the consolidation exception.

New IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) issued but not effective as of June 30, 2016

At the date of preparation of these interim financial statements, the following IFRSs, amendments and interpretations of the IFRIC had been published by the IASB, but their application was not mandatory:

Standards and amendments		Mandatory application: annual periods beginning on or after
Amendments to IAS 7	*Disclosure Initiative*	January 1, 2017
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*	January 1, 2017
Amendments to IFRS 12	*Clarifications and measurement of share-based payments*	January 1, 2018
IFRS 9	*Financial instruments*	January 1, 2018
IFRS 15	*Revenues from Contracts with Customers*	January 1, 2018
Clarifications to IFRS 15	*Revenue from Contracts with Customers (issued on April 12, 2016)*	January 1, 2018
IFRS 16	*Leases*	January 1, 2019
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred Indefinitely

Based on the analyses made to date, the Group estimates that the adoption of most of these standards, amendments and improvements will not have a significant impact on the interim financial statements in the period of initial application. However, the changes introduced by IFRS 9 will affect financial instruments and transactions with financial instruments carried out on or after January 1, 2018. In addition, IFRS 16 requires a company that acts as a lessee in a lease to report on the statement of financial position lease assets and lease liabilities for all leases (other than short-term leases and leases of low-value assets).

The Group's business in the tower segment is mainly driven by the lease of its tower infrastructure to its customers on a lessor position; therefore, the Group expects an impact on disclosures in this regard.

However, the Group also holds a lessee position, primarily in the sites where the towers are located; therefore, the Group is currently working on the estimation of the impact of this new standard on these lease contracts. This analysis includes the estimate of the term of the lease, which will depend on the non-cancellable period and periods covered if the option to extend the lease is exercised in those cases in which there is a reasonable assurance. This, in turn, will depend mainly on the expected use of the assets owned by the Group installed on the underlying leased assets. In addition to the term of the lease, assumptions will be used to calculate the discount rate, which will depend mainly on the incremental financial rate for the estimated terms. Due to the volume of the contracts affected, the Company expects the modifications introduced by IFRS 16 to have a significant impact on its financial statements in the year of initial application. As of now, the Company is unable to reasonably estimate the impact.

Note 4. Business combinations

Legal acquisition of the cable businesses

On March 31, 2016, Telefónica S.A., made a non-monetary contribution of 73.14% of the Uruguayan company Telefónica International Wholesale Services América, S.A. (TIWS América) to Telxius Telecom, S.A.U. with a fair value that amounted to 1,233,073 thousands euros. However, for the purposes of its contribution to Telxius Telecom, S.A.U., and in accordance with rule 21, paragraph 2.1, of the recognition and measurement standards according to Spanish GAAP, the shares were valued at their carrying amount in the individual accounts of the contributing company on the date the contribution was made, that is, 447,940 thousand euros. Consequently, the reserves of the receiving society of the contribution, Telxius Telecom, S.A.U., will increase by that amount. In this transaction no new shares of Telxius Telecom, S.A.U., were issued. Given that this contribution entails the reverse acquisition explained below, and Telxius did not issue any shares, this movement is not reflected in the consolidated statement of changes in equity.

On the same date, Telxius Telecom, S.A.U. purchased the remaining 26.86% of the Spanish company Telefónica International Wholesale Services, S.L. (TIWS España) for 452,834 thousand euros, equivalent to the fair value of this stake. This movement is included under the heading "Purchase of treasury shares by the economic acquirer" in the consolidated statement of changes in equity.

As indicated in Note 1, TIWS América is the holding company of a previously existing group in Latin America, whose main business is the sale of the usage of data transmission capacity through a SAM-1 underwater and terrestrial optical fiber network, as well as the sale of capacity on third-party networks.

On March 31, 2016, Telxius entered into a sale and purchase agreement with TIWS España, through the previously incorporated subsidiary Telxius Cable España, S.L.U., to acquire the cable business in Spain for 139,333 thousand euros. The Company has a Fairness Opinion from an independent advisor on the financial reasonability of this transaction.

Legal acquisition of the tower business

On March 31, 2016, Telxius Telecom, S.A.U. entered into a sale and purchase agreement for the acquisition of all the shares of Telxius Torres España, S.L.U. (beneficiary company, newly created from the spin-off of Telefónica Móviles España, S.A.) from Telefónica, S.A.

On the same date, the subsidiary Telxius Torres Latam, S.L.U. (wholly owned by Telxius Telecom, S.A.U.) entered into a sale and purchase agreement for the acquisition of all of the shares of Towerco Latam Perú, S.A.C. from Telefónica del Perú, S.A.A.

On March 31, 2016, Telxius Torres Brazil Ltda. (formerly, Towerco Latam Brasil, Ltda.), wholly owned by Telxius Torres Latam, S.L.U. and Telefônica Brasil, S.A., entered into an agreement for the acquisition of infrastructure and the assignment of the contracts related to that infrastructure.

The agreed considerations for these transactions amounted to 1,210,000 thousand euros, 269,811 thousand Peruvian soles (70,897 thousand euros) and 760,000 thousand Brazilian reais (187,571 thousand euros), respectively, all of them representative of their fair value. The Company has a Fairness Opinion from an independent advisor on the financial reasonability of this transaction.

Previously, the Telefónica Group had included in Telxius Torres España, S.L.U. and Towerco Latam Perú, S.A.C. the tower-management businesses in Spain and Peru through spin-offs. These businesses, along with the tower-management business in Brazil, did not previously constitute a separate entity, but were included in entities whose business covered other activities in addition to the holding and operation of towers.

On April 21, Telxius Torres Latam S.A.U. acquired from E-Plus Mobilfunk GmbH 100% of the share capital of Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH), for 587,000 thousand euros, after having included, through spin-offs, the tower-management businesses in Germany. The Company also has a Fairness Opinion on the financial reasonability of this transaction from an independent advisor.

Lastly, on May 1, 2016, its subsidiary Telxius Torres Latam, S.L.U. (wholly owned by Telxius Telecom, S.A.U.) acquired 99.98% of the share capital of Towerco Latam Chile, S.A. (which in turn holds 100% of the share capital of Towerco Latam Chile, S.A., which was created as a consequence of the spinoff of Telefónica Móviles Chile, S.A.) through the offset of credits between the two entities. The remaining shareholders waived their preferential subscription rights. The agreed consideration in this transaction amounted to 8,132 thousand euros.

The changes in the scope of consolidation are detailed in Appendix I.

Effects for accounting purposes

The aforementioned transactions are acquisitions and contributions of businesses among companies of the Telefónica Group and, therefore, considered business combinations under common control.

The scope of IFRS 3 “Business combinations” does not include business combinations under common control, and these types of transactions are not specifically regulated under any other IFRS or IFRIC. However, IAS 8 “Accounting policies, changes in accounting estimates and errors” stipulates that, if no standard or interpretation specifically applies to a transaction, management must use its judgment in implementing and applying an accounting policy in order to provide relevant and reliable information. Hence, in order to comply with the requirements of IAS 8, the Company has chosen IFRS 3 as the accounting policy to be followed, as it considers that the economic basis of the transaction has commercial substance.

Commercial substance is based on operating terms and on the structure of the transactions, which were carried out at fair value, as determined by independent experts, and required the approval of certain management bodies in the companies affected, mainly those with minority shareholders. This new corporate form is expected to generate synergies through the specialized and focused management and operation of telecommunication infrastructure in a separate and independent manner. All of this is with a view, once the reorganization is complete, to carry out a public offering for the admission to listing of the Company's shares, thus allowing the entry of third parties with interests in the businesses.

In a business combination, it is necessary to identify the acquirer in order to apply the method of acquisition. Accordingly, the group headed by TIWS América is the business with the largest relative size, in terms of value and financial aggregates, of the combined groups. TIWS América was also the only group of companies with its own governing body and structure at the date of the business combination, as well as the only company that was a separate reporting entity. TIWS América was therefore considered the acquirer of all the combined businesses. This means that it will maintain the pre-existing carrying amount of its assets and liabilities, whereas the acquisition method will be applied to the other combined businesses.

These interim financial statements are a continuation of the financial statements of the business considered the acquirer for accounting purposes, and the comparative information presented relates to said acquirer for accounting purposes, except for the restatement of figure for share capital (see Note 10). This figure has been restated because the legal entity that heads this Group, Telxius Telecom, S.A.U., is not considered the acquirer for accounting purposes, and the transaction is therefore treated as a reverse acquisition.

Acquisition of Telxius Cable España, S.L.U.

On December 21, 2015, Submarine Telecommunications, S.L., wholly owned by Telefónica América, S.A., was incorporated.

On March 10, 2016, Submarine Telecommunications, S.L. changed its corporate name to Telxius Cable España, S.L.U.

On March 31, 2016, Telxius Cable España, S.L.U. entered into a sale and purchase agreement with TIWS España, to acquire the cable business in Spain.

The table below sets out the total consideration, the fair values of the assets and liabilities identified at acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Consideration			**139,333**
Intangible assets			
Customer relations	-	112,900	112,900
Other intangible assets	1,354	-	1,354
Property, plant and equipment	11,575	5,180	16,755
Prepayments	11,659	-	11,659
Deferred revenue	(58,393)	4,193	(54,200)
Total	**(33,805)**	**122,273**	**88,468**
Goodwill (Note 6)			**50,865**

Acquisition of Telxius Torres España, S.L.U.

On February 16, 2016, a partial spin-off of Telefónica Móviles España, S.A. (partially spun-off company) and Wireless Towers, S.L.U. (beneficiary and newly created company, subsequently named Telxius Torres España, S.L.U.) was carried out. The purpose of this partial spinoff was the contribution by Telefónica Móviles España, S.A. of the economic unit consisting of holding and operating telephone-tower infrastructure. The company holding the shares of Telxius Torres España, S.L.U. was Telefónica, S.A.

On March 31, 2016, Telxius Telecom, S.A.U. acquired 100% of Telxius Torres España, S.L.U. from Telefónica, S.A.

The table below summarizes the total consideration transferred, the fair values of the assets and liabilities identified at the acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Consideration			**1,210,000**
Intangible assets			
Customer relations	736	685,764	686,500
Network location	-	114,000	114,000
Property, plant and equipment	263,227	252,935	516,162
Non-current financial assets	1,684	-	1,684
Deferred tax assets	8,162	-	8,162
Trade and other receivables	26,060	-	26,060
Prepayments	5,051	-	5,051
Provisions	(59,754)	-	(59,754)
Deferred tax liabilities	(8,925)	(263,200)	(272,125)
Trade and other payables	(11,218)	-	(11,218)
Tax payables	(1,835)	-	(1,835)
Total	**223,188**	**789,499**	**1,012,687**
Goodwill (Note 6)			**197,313**

Acquisition of Towerco Latam Perú, S.A.C.

On February 18, 2016, Towerco Latam Perú, S.A.C. wholly owned by Telefónica del Perú, S.A.A., was created.

On March 29, 2016, the General Shareholders Meeting of Telefónica del Perú, S.A.A. approved the plan for simple reorganization, transferring telephone tower infrastructures to Towerco Latam Perú, S.A.C.

On March 31, 2016, Telxius Torres Latam, S.L.U. acquired 100% of Towerco Latam Perú, S.A.C. from Telefónica del Perú, S.A.A.

The table below summarizes the total consideration, the fair values of the assets and liabilities identified at the acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Agreed consideration			**70,897**
Intangible assets			
Customer relations	-	26,440	26,440
Network location	-	16,226	16,226
Property, plant and equipment	26,672	6,042	32,714
Deferred tax assets	1,172	-	1,172
Trade and other receivables	48	-	48
Prepayments	2,143	-	2,143
Provisions	(2,310)	-	(2,310)
Deferred tax liabilities	-	(12,664)	(12,664)
Trade and other payables	(405)	-	(405)
Tax payables	(88)	-	(88)
Total	**27,232**	**36,044**	**63,276**
Goodwill (Note 6)			**7,621**

Acquisition of Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil, Ltda.)

On February 25, 2016, Towerco Latam Brasil, Ltda., wholly owned by Telxius Torres Latam, S.L.U. (formerly, Towerco Américas, S.L.), was created.

On March 31, 2016, Towerco Latam Brasil, Ltda. entered into a sale and purchase agreement with Telefônica Brasil, S.A. to acquire infrastructure. On April 8, 2016, Towerco Latam Brasil, Ltda. changed its corporate name to Telxius Torres Brasil Ltda.

The table below summarizes the total consideration, the fair values of the assets and liabilities identified at the acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Consideration			**187,571**
Intangible assets			
Customer relations	-	76,750	76,750
Network location	-	20,984	20,984
Property, plant and equipment	24,485	47,404	71,889
Total	**24,485**	**145,138**	**169,623**
Goodwill (Note 6)			**17,948**

Acquisition of Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH)

On February 25, 2016, Telefónica Germany Vermögensverwaltungsgesellschaft mbH, wholly owned by E-Plus Mobilfunk GmbH, was created. On June 29, 2016, Telefónica Germany Vermögensverwaltungsgesellschaft mbH changed its corporate name to Telxius Towers Germany, GmbH.

On April 5, 2016, the contribution of the economic unit consisting of the holding and operating of certain telephone-tower infrastructure was carried out, from Telefónica Germany GmbH&Co. OHG and E-plus Mobilfunk GmbH, to Telefónica Germany Vermögensverwaltungsgesellschaft mbH.

On April 21, 2016, Telxius Telecom, S.A.U. acquired from E-plus Mobilfunk GmbH 100% of the share capital of Telefónica Germany Vermögensverwaltungsgesellschaft mbH for 587,000 thousand euros. The

Company has a Fairness Opinion from an independent advisor on the financial reasonability of this transaction. The new company is fully consolidated.

The table below summarizes the total consideration, the fair values of the assets and liabilities identified at the acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Consideration			**587,000**
Intangible assets			
Customer relations		392,426	392,426
Network location		71,853	71,853
Goodwill	23,324	(23,324)	-
Property, plant and equipment	277,272	(82,110)	195,162
Trade and other receivables	21,134		21,134
Cash	25		25
Provisions	(82,720)	765	(81,955)
Deferred revenue	(8,238)	(3,396)	(11,634)
Trade and other payables	(11)		(11)
Total	**230,786**	**356,214**	**587,000**
Goodwill (Note 6)			**-**

Acquisition of Towerco Latam Chile Holding, S.A.

Towerco Latam Chile Holding S.A. was incorporated by Inversiones Telefónica Móviles Holding, S.A. on April 8, 2016, through the spin-off of the latter. On April 27, 2016, a capital increase of Towerco Latam Chile Holding S.A. was agreed on. On May 1, 2016, this capital increase was carried out, in the amount of 8,132,027 euros, through the issue of 426,430,362 new shares fully subscribed by Telxius Torres Latam S.L.U. and paid through the contribution of the loan for the same amount that this company had with Towerco Torres Latam Chile Holding S.A. This loan was therefore discharged through its offset with the capital increase. The remaining shareholders of Towerco Latam Chile Holding, S.A. waived their preferential right to subscribe the new shares; therefore, Telxius Torres Latam S.L.U. gained control of 99.98% of the share capital. This company is fully consolidated.

For its part, Towerco Latam Chile, S.A. was created as a result of the spin-off of Telefónica Móviles Chile, S.A. The company is wholly owned by Towerco Latam Chile Holding, and is fully consolidated in the scope of consolidation of Telxius from May 1, 2016.

The table below summarizes the total consideration, the fair values of the assets and liabilities identified at the acquisition date, and the goodwill generated:

Thousands of euros	Carrying amount	Fair value adjustment	Fair value
Consideration			**8,132**
Intangible assets			
Customer relations	-	8,690	8,690
Network location	-	2,257	2,257
Property, plant and equipment	10,324	7,463	17,787
Deferred tax assets	193	-	193
Provisions	(2,825)	-	(2,825)
Deferred tax liabilities	-	(4,971)	(4,971)
Total	**7,691**	**13,440**	**21,131**
Overage of net assets fair value over the consideration			**(12,999)**

In accordance with IFRS 3 "Business Combinations", the fair value of the net assets in excess of the consideration paid was recorded as income in the income statement under "other income", and amounted to 11,942 thousand euros, as a result of applying the average exchange rate of the year, as it is described in the Note 3. The difference between the valuation using the exchange rate of the acquisition date or using the average exchange rate of the period, is included in the translation differences in the equity, and is compensated largely with other consolidated effects. The fair value of the business amounts to 18.5 billion Chilean pesos (24.5 million euros at the acquisition date), with Telxius maintaining majority control of the business due to the waiver by its previous shareholders of their subscriptions rights relative to the new shares, as noted above. The valuation method used is the discounted cash flow.

The aforementioned acquisitions were carried out on different dates and, therefore, will have an impact on the income statement only starting since their inclusion in the Group's perimeter.

As previously commented, the different businesses have been acquired and have an impact in the result, mainly in the second quarter of the year. An estimate of the contribution that these business combinations would have made to the Group's revenue and results for the year if the acquisition date had taken place at the beginning of the year is given in the proforma information that is attached to the supporting documentation of the IPO project (see document FINANCIAL INFORMATION INCLUDING THE PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST, 2015 AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016 OF TELXIUS TELECOM S.A.U. AND RELATED EXPLANATORY NOTES).

At the date of authorization for issue of the accompanying interim financial statements, the process of allocating the purchase price is provisional. This analysis is expected to conclude in coming months, and not after the maximum term of twelve months since the acquisition date set forth in the standard.

More details on the purchase price allocation are given below:

The main differences between the carrying amount and the fair value of the assets relate to:

Intangible Assets (see Note 3b):

The main assets identified in the business combinations previously detailed are "customer relationships" and "network location", which are described below:

- Customer relations: refers to the customer base existing at the acquisition date due to the contracts of the Group's companies with their customers and to the future returns expected to be generated because of the relationships with customers beyond the periods covered by the contracts. Therefore, contracts with customers and the relations with them are considered closely tied, and the "customer relations" asset consists of both concepts in the aggregate.

  Customer relations with the Telefónica Group and with other operators have been examined separately.

  Relations with the Telefónica Group are governed by the conditions set forth in the framework contract that considers an initial term plus explicit renewals, although there are expectations of subsequent renewals, given that the contract includes an automatic annual indefinite renewal. By contrast, third-party contracts, which are extendible, have shown a historical recurrence with an extremely low non-renewal ("churn") rate of about 1%. Likewise, the cost of contract renewal is not significant for the Company compared with the economic benefits, and for the client it implies a series of benefits stemming from the logistic and operational simplification of continuance. Therefore, in the valuation of customer relations, renewals after the contractual horizon have been assumed, and low non-renewal rates, of between 1% and 1.5%, have been used.

- Network location (tower business): this asset represents the potential additional cash flow arising from excess capacity that is available at any given time for the towers existing at the acquisition date and that can be sold to third parties. Network location is considered an intangible asset, valued independently from the remaining intangible assets, because it meets the requirement of separability, given that the excess available capacity can be rented, sold or transferred to a third party. Its performance is inversely related to that of the "customer relations" intangible asset, given that as the "customer relations" intangible asset decreases as consequence of the churn rates applied, capacity is freed up with respect to the maximum capacity available to be marketed to third parties.

For the valuation of these intangible assets, the Company has used the Multi-Period Excess Earnings methodology, according to the financial projections of the different businesses affected. This method considers the use of other assets in the generation of the projected cash flows of a specific asset in order to isolate the economic benefit generated by the intangible asset. The contribution of the other assets, such us fixed assets, working capital, labor and other intangible assets, to total cash flows is estimated through charges for contributing assets. This adjustment is made to separate the value of the specific intangible asset from the portion of the purchase price that has already been allocated to net tangible assets and other intangible assets used. Therefore, the value of intangible assets is the present value of cash flows after potentially attributable taxes, net of the return on the fair value attributable to the tangible and intangible assets.

Regarding the estimation of the fair value of these intangible assets, the cash flows that are estimated to be generated by these assets in a 65 year period (until the year 2080) have been considered.

To determine the useful life of the assets, it has been considered that the useful life does not depend on the useful life of other assets of the Company. In this regard, the following possible dependencies have been considered:

- Land rent contracts: the historical evidence shows that the ground leases are very stable. There are almost no cases in which an agreement has not been reached with the landowner to maintain similar conditions. Therefore, it is considered that land rent contracts are not a limitation on the service and should not affect to the life of the customer relationship or the network location.
- Useful life of the related towers: the existing towers have a normal technical life of 25 years. However, this life can be extended with proper maintenance, as is consider in the Business Plan. Likewise, the replacement of the elements of the fixed assets is constant over time, and there is no particular event when this 25-year horizon concludes that will change the Company's pattern of flows, investment needs, etc. The proof of this is the existence of operating towers more than 25 years old.

In order to estimate useful life, the pattern of long-term value generation of the asset has been considered, considering the cash flows until the moment when their economic contribution is minimal, and on this basis, a curve of its potential amortization has been constructed, considering its economic contribution. The life considered on a straight-line basis has been adjusted to this economic curve so that the carrying amount of the asset never exceeds its economic value. The results are as follows:

Asset	Useful life
Cable-business customer relations	Between 14 and 15 years
Tower-business customer relations	Between 25 and 35 years, depending on the country
Network location	Between 30 and 48 years, depending on the country

Fixed Assets

The fixed assets of the cable business include IP equipment (routers, switches and network security) and those of the tower business include the types of towers (antenna supports) and enclosures. In the case of Spain, besides these types of assets, the conditioning of access paths, structures (booths and improvements to prepared spaces), power installations (electrical hookups), power supply equipment (rectifiers, batteries, switchboards and UPS) and other equipment (air conditioning and security) have also been taken into account.

The valuation was made by applying a cost approach. This approach recognizes that a prudent investor would not pay more for an asset than the cost of reproducing or replacing it. The use of the cost approach results in a concept called new depreciated replacement cost, in which *depreciated* refers to a value reduction resulting from the age and the condition of the asset.

The main source of information for estimating replacement cost is the investments of this nature and the contracts in force for future installations.

Depreciation is calculated by applying a normal technical life by type of asset. The normal technical life is the amount of time that elapses between the installation of the asset and the when it ceases to be technologically efficient, including the concept of technical obsolescence, or physically usable in the case of structures and infrastructure. To determine the age of each asset the installation date indicated in Telefonica's technical records is used. New depreciated replacement cost is an indicator of fair value given that it takes into account all elements of depreciations and obsolescence.

Deferred revenue

As described in note 3i), the IRUs sold are recorded as cash initially, and are subsequently taken to income over the life of the rights. Likewise, this cash prepayment for a service to be provided in the future generates deferred revenue. This deferred revenue has been measured by estimating the consideration that would have to be paid to a market participant for assuming the obligation of providing a service on which payment has been already collected.

This deferred revenue has been measured taking into account the costs that a market participant would have in assuming this obligation, with a margin added to reflect the profitability that the market participant would expect to obtain.

Deferred tax liabilities

Deferred tax liabilities arising from the transactions come from temporary differences stemming from the revaluations of the different assets identified. For the business combination of the tower business in Brazil and Germany, and for the cable business in Spain, temporary differences are not generated from the revaluation of assets, and therefore a deferred tax liability does not arise in these cases.

In accordance with IFRS 13 "Fair Value Measurement," the hierarchy and quantitative information of the most representative variables used in these business combinations are as follows:

CABLE

Asset	**Churn**	**Discount rate**	**Hierarchical level**
Intangible assets			
Customer relations (Telefónica)	1%	7.25%	Level 3. Multi-Period Excess Earnings methodology (*)
Customer relations (Others)	1%	7.25%	Level 3. Multi-Period Excess Earnings methodology (*)
Fixed assets			Level 2

(*) Intangible assets often require the use of Level 3 criteria given that their unique nature in many cases prevents the use of information from other transactions.

TOWERS

Asset	**Churn**	**Incremental Tenancy Ratio (**)**	**Discount rate**	**Hierarchical level**
Intangible assets				
Customer relations (Telefónica)	1%-1.5%		Spain: 6.1% Brazil: 13.0% Chile: 8.75% Peru: 10.25% Germany: 5.65%	Level 3. Multi-Period Excess Earnings methodology (*)
Customer relations (Others)	1%-1.5% 3%		Spain: 6.1% Brazil: 13.0% Chile: 8.75% Germany: 5.65%	Level 3. Multi-Period Excess Earnings methodology (*)
Network Location	N.A.	From 1.3 to 2% 3.3% 1.7% 4.1% 1.0%	Spain: 6.7% Brazil: 13.5% Chile: 10.25% Peru: 11.25% Germany: 6.06%	Level 3. Multi-Period Excess Earnings methodology (*)
Fixed Assets				Level 2

(*) Intangible assets often require the use of Level 3 criteria given that their unique nature in many cases prevents the use of information from other transactions.

(**) In CAGR % Period 2016-2025

- The CAGR (Compound annual growth rate) is a specific term used in a Business and investment context to measure the annualized growth of an investment over a given period.
- The CAGR is a term widely used and particularly in growing industries or to compare the growth rates of two investments, because the CAGR moderates the effect of volatility of periodic returns that can make irrelevant the arithmetic averages. The CAGR is often used to describe the growth over a period of some elements of the business, for example, revenue, units shipped, registered users, etc.
- The CAGR is calculated by taking the Nth root of the total growth rate where N is the number of years in the period under consideration. Its formula is as follows: CAGR=((ending value/beginning value)(1/N))-1.

Note 5. Intangible assets

The movements in intangible assets in the first half of 2016 are as follows:

Thousands of euros	Software	Customer relations	Network location	Other intangibles	Intangible assets in process	Total
Ending balance at 12/31/2015	**834**	**-**	**-**	**338**	**206**	**1,378**
Additions	-	-	-	34	645	679
Amortizations	(515)	(9,014)	(1,153)	(86)	-	(10,768)
Business combinations (Note 4)	1,354	1,303,706	225,320	-	-	1,530,380
Translation differences	(19)	10,978	3,436	(7)	18	14,406
Transfers and other	-	-	-	23	-	23
Ending balance at 06/30/2016	**1,654**	**1,305,670**	**227,603**	**302**	**869**	**1,536,098**

Business combinations relate to the acquisitions of Telxius Torres España, S.L.U., Towerco Latam Perú, S.A.C., Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil Ltda.), Towerco Latam Chile Holding, S.A. and Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) and the acquisition of the cable business in Spain by Telxius Cable España, S.L.U. from TIWS España (see Note 4).

Note 6. Goodwill

The changes in the carrying amount of goodwill at June 30, 2016 are as follows:

Thousands of euros	Balance at 12/31/2015	Additions (Nota 4)	Translation differences	Balance at 06/30/2016
Telxius Cable España, S.L.U.	-	50,865	-	50,865
Telxius Torres España, S.L.U.	-	197,313	-	197,313
Towerco Latam Perú, S.A.C.	-	7,621	79	7,700
Telxius Torres Brasil Ltda. (previously, Towerco Latam Brasil Ltda.)	-	17,948	2,459	20,407
Total	**-**	**273,747**	**2,538**	**276,285**

The strategic plans approved by the Board of Directors are used to perform the impairment test at year-end, or earlier if there are indications of impairment. The strategic plans cover, at a minimum, the four-year period, including the closing year. If necessary to complete the five years of cash flows after the closing year—that is, if they are not considered in the strategic plans approved—a normalization period on top of the strategic plan is added on the basis of the main operating variables until the terminal parameters are reached. The strategic plans are prepared taking into consideration the current situation in the market, the constraints on and the performance of the macroeconomic, competitive, regulatory and technological environment and the Group's competitive positioning and growth opportunities in light of market projections.

Note 7. Property, plant and equipment

The movements in property, plant and equipment in the first half of 2016 are as follows:

Thousands of euros	Land and buildings	Cable, technical installations and others	PP&E in progress	Total
Balance at 12/31/2015	**9,739**	**372,558**	**45,377**	**427,674**
Additions	-	1,097	42,075	43,172
Disposals	(708)	(8,658)	(5,217)	(14,583)
Depreciation	(11,063)	(44,665)	-	(55,728)
Business combinations	311,002	531,035	8,432	850,469
Translation differences and other	1,411	18,416	(1,616)	18,211
Transfers	2,552	16,018	(18,570)	-
Balance at 06/30/2016	**312,933**	**885,800**	**70,481**	**1,269,214**

Business combinations relate to the acquisitions of Telxius Torres España, S.L.U., Towerco Latam Perú, S.A.C., Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil Ltda.), Towerco Latam Chile Holding, S.A. and Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) and the acquisition of the cable business in Spain by Telxius Cable España, S.L.U. from TIWS España (see Note 4).

Additions of the period relate primarily to the investment in BRUSA, the new underwater cable that will link the Brazilian cities of Río de Janeiro and Fortaleza with San Juan, Puerto Rico, and Virginia Beach in the United States, for 31.1 million United States dollars (approximately 27.8 million euros). It is expected to enter into operation in 2018.

Additionally, on May 26, 2016, Microsoft and Facebook issued a press release announcing a plan to build a new underwater cable, Marea, to connect Virginia Beach (Virginia, USA) with Bilbao (Spain), through a 6,600-km system with an estimated useful life of 25 years following its expected launch in the first half of 2018. The additions registered in the first semester of 2016 for this project amount to 5 million dollars (approximately 4.5 million euros).

This cable will allow Telxius to expand its network capacity in order to obtain new revenue from Western Europe and North Africa and establish the largest-capacity transatlantic cable system that concentrates the transferring of massive amounts of data between northern Virginia and network centers in Europe, Africa, the Middle East and Asia. The network will be made up of 8 fiber pairs, with an initial assumption of at least 20 Tbps of capacity per fiber pair.

The ownership of the network, relations with partners, and the construction of the underwater cable will be governed by the Joint Building Agreement ("JBA"). Under this agreement, Telxius will formally commit to:

- Maintaining, at all events, a 50% stake in Marea, while its partners ((Facebook and Microsoft) will have the remaining shareholding.
- Becoming the system operator.
- Becoming the landing partner in Spain.

Note 8. Related parties

The significant transactions between the Telxius Group and the Telefónica Group, of which Telefónica, S.A. is the parent and to which the consolidated subgroup listed in these interim financial statements belongs, are summarized below. Note 17 of these interim financial statements details transactions with the Company's directors and employees considered Senior Executives as transactions and balances with related parties.

All these transactions are carried out at market prices.

Transactions and balances with related parties

The breakdown of the amounts corresponding to Telefónica Group companies and associates, recognized in the consolidated statements of financial position, is as follows:

Thousands of euros	06/30/2016	12/31/2015
Current prepayments (Note 11)	2,925	2,829
Non-current prepayments (Note 11)	16,864	17,059
Trade receivables	170,752	227,359
Cash (Note 9)	72,427	12,980
Trade payables	74,330	319,103
Other current non-financial borrowings	7,039	-
Other non-current non-financial borrowings	263	-
Current deferred revenue (Note13)	6,411	10,618
Non-current deferred revenue (Note 13)	31,878	30,700
Current financial debt (Note 12)	1,683	-
Non-current financial debt	700,000	-

The breakdown of amounts relating to the Telefónica Group companies and associates for continuing and discontinued operations recorded in the consolidated income statements for the six-month periods ended on June 30, 2016 and 2015, is as follows:

Thousands of euros	January-June 2016	January- June 2015
Revenue	173,135	124,276
Other operative income	1,248	27
Supplies	39,045	56,990
External services	17,625	3,428
Finance income	289	173
Finance expense	1,310	-

The results for the period relate mainly to the TIWS América business which manages IP traffic and capacity services of the Telefónica Group, as well as to the results of the cable business in Spain and the tower business since its inclusion in Telxius scope of consolidation.

Note 9. Cash and cash equivalents

The breakdown of cash and cash equivalents at June 30, 2016, and December 31, 2015, is as follows:

Thousands of euros	06/30/2016	12/31/2015
Telefónica Group companies (Note 8)	72,427	12,980
Others	28,189	26,550
Total	**100,616**	**39,530**

At June 30, 2016, there are no restrictions of the use of the balance of cash and cash equivalents.

Note 10. Equity

Share capital

On January 1, 2016, Telefónica, S.A. and Telefónica Internacional, S.A. held 50% of the share capital of Telxius Telecom, S.A., consisting of 60,000 shares with a par value of 1 euro each. On January 29, 2016, Telefónica Internacional, S.A. sold its stake in Telxius to Telefónica, S.A., which became the sole shareholder of the Company.

Due to the corporate reorganization, the Company increased its share capital twice during the first half of 2016:

- On March 31, 2016, the Company increased the share capital, without a pre-emptive subscription right, for a nominal amount of 87,500,000 euros, which was recognized as share capital. The difference vis-à-vis the cash amount of the capital increase, which amounted to 1,450,000,000 euros, was recognized as a share premium.

- On May 27, 2016, Telefónica S.A. subscribed a capital increase amounting to 501,548,532 euros (with 162,440,000 euros corresponding to share capital and 339,108,532 euros to the share premium).

At June 30, 2016, the share capital of Telxius Telecom, S.A.U. stood at 250,000,000 euros and was divided into 250,000,000 ordinary and fully paid shares, with a par value of 1 euro each.

This share capital and share premium, within the framework of the global business combination carried out and for the purpose of preparing these consolidated interim financial statements, must be considered equity issued for the inclusion of all combined businesses under the legal acquirer, Telxius Telecom, S.A.U., which, prior to the reorganization described in Note 4, was an inactive holding company whose business, individually considered, had an insignificant fair value. Taking into consideration that the acquirer in the business combination is TIWS América, these consolidated financial statements of Telxius Telecom, S.A.U. are a continuation of those of TIWS América. Consequently, the share capital was retrospectively restated to January 1, 2016 in changes in equity to reflect the share capital of the legal acquirer, which is the parent of the Group, Telxius Telecom, S.A.U. The figure for share capital is presented under the caption "Adjustment to restate equity due to the reverse acquisition" in the consolidated statement of changes in equity, while the total equity of the economic acquirer remained unchanged. Therefore, the initial share capital as of 1 January 2016 amounts to 60,000 euros and is composed of 60,000 ordinary and fully paid shares of a single series, with a par value of 1 euro each.

The changes in share capital (number of shares) are as follows:

	No. of shares
Share capital of the economic acquirer at December 31, 2015	1,430,401
Effects of the reverse acquisition	(1,370,401)
Adjusted share capital at January 1, 2016	60,000
Capital increase at March 31, 2016	87,500,000
Capital increase at May 27, 2016	162,440,000
Share capital at June 30, 2016	250,000,000

Contributions from shareholders

On March 28, 2016, the Extraordinary General Shareholders' Meeting of Telefónica International Wholesale Services América, S.A., was attended by the two shareholders of the Company at that date, Telefónica International Wholesale Services, S.L. and Telefónica S.A., agreed to a monetary capital increase, in the amount of 7,233,841 thousand Uruguayan pesos (equivalent to 167,156 thousand euros at the historical exchange rate). This amount will be recorded in reserves and not in share capital, given that it is a capital increase of the economic acquirer.

Translation differences

Translation differences have been generated as a result of the translation to euros of the interim financial statements of the different Group subsidiaries.

The functional currency of the TIWS América subgroup is the US dollar, and those of Telxius Torres Brasil (formerly, Towerco Latam Brasil, Ltda.), Towerco Latam Perú, S.A.C. and Towerco Latam Chile, S.A. are the Brazilian real, Peruvian sol and Chilean peso, respectively.

The following table gives a breakdown of the translation differences between continuing operations and discontinued operations in the first half of 2016:

Balance as of 12/31/2015	**58,323**
Continuing operations	21,671
Discontinued operations	18,510
Generated during the year (Note 18)	*10,010*
Reclassification to the consolidated income statement	*8,500*
Balance as of 06/30/2016	**98,504**

In continuing operations, the main change corresponds to the impact of the acquisitions of the towers business since March 31, 2016 (35,139 thousand euros), mainly the tower business in Brazil, due to a 13.7% appreciation of the Brazilian real vs. the euro, partially offset by the cable business (which is primarily denominated in US dollars) and the 1.9% depreciation of the US dollar vs. the euro, using the exchange rates as of June 2016 and December 2015 (-3,458 thousand euros).

Regarding discontinued operations, in the first half of 2016 negative translation differences from discontinued operations, amounting to 8,500 thousand euros, were taken to income (see Note 18).

Note 11. Prepayments

The breakdown of current and non-current prepayments at June 30, 2016, and December 31, 2015, is as follows:

Thousands of euros	06/30/2016		12/31/2015	
	Non-current	Current	Non-current	Current
Prepayments, Group companies (Note 8)	16,864	2,925	17,059	2,829
Prepayments, third parties	51,944	29,229	44,890	18,002
Total	**68,808**	**32,154**	**61,949**	**20,831**

The prepayments heading includes the rights to use the networks of other companies in order to complete the infrastructure necessary to carry out the sales.

Note 12. Financial debt

The breakdown of the financial debt at June 30, 2016, and December 31, 2015, is as follows:

Thousands of euros	06/30/2016		12/31/2015	
	Non-current	Current	Non-current	Current
Financial debt with Group companies (Note 8)	700,000	1,683	-	-
Derivative financial instruments, third parties	-	1,855	-	1,464
Other financial debt	-	1	-	30
Total	**700,000**	**3,539**	**-**	**1,494**

On March 28, 2016, Telfisa Global B.V., a Telefónica Group company, extended to the Telxius Telecom, S.A.U. a line of credit for up to 300 million euros. On March 30, 2016, this limit was increased to 600 million euros. On April 8, 2016, this limit was increased to 608 million euros. On April 20, 2016, the line of credit was increased to 1,200 million euros, in order to cover the acquisition of the cable and tower businesses (Note 4). The maturity date of the line of credit was set at March 30, 2017, and the credit generated monthly interest calculated based in the one-month Euribor plus a market spread.

On May 27, 2016, Telefónica S.A. extended financing to Telxius Telecom, S.A.U. for an aggregate amount of 700 million euros, divided into two loans, one for 560 million euros at a fixed rate (280 million euros maturing in 2022, 140 million euros in 2024, and 140 million euros in 2026); and the other for 140 million euros at a variable rate and maturing in five years (renewable for two additional one-year periods at the discretion of Telefónica S.A.). With these funds, Telxius Telecom, S.A.U. partially discharged its line of credit with Telfisa Global B.V. The remaining amount of the line of credit was discharged through the capital increase carried out on May 27 2016, in the amount of 501,549 thousand euros and described in Note 10.

Additionally, several companies of the Group have signed lines of credit with Telfisa Global B.V., for a total amount of 77,000 thousand euros. The detail of the financial debt of the Group as of June 30, 2016, is as follows:

Thousand euros	Expiring date	Limit	Disposed as of 06/30/2016	Available as of 06/30/2016
Non-current financial debt with Telefónica S.A. (fixed rate)				
Tranche 1	2022	280,000	280,000	-
Tranche 2	2024	140,000	140,000	-
Tranche 3	2026	140,000	140,000	-
Non-current financial debt with Telefónica S.A. (variable rate)	2021	140,000	140,000	-
Lines of credit with Telfisa Global, B.V.	2016	77,000	1,683	75,317
Total as of June 30, 2016		**777,000**	**701,683**	**75,317**

Note 13. Deferred revenue

The breakdown of current and non-current deferred revenue at June 30, 2016, and December 31, 2015, is as follows:

Thousands of euros	06/30/2016		12/31/2015	
	Non-current	Current	Non-current	Current
Deferred revenue, Group (Note 8)	31,878	6,411	30,790	10,618
Deferred revenue, other	164,279	43,062	131,570	30,905
Total	**196,156**	**49,473**	**162,359**	**41,524**

The “deferred revenue, other” and “deferred revenue, Group” line items mainly reflect indefeasible rights of use.

Note 14. Provisions

The breakdown of provisions at June 30, 2016, and December 31, 2015, is as follows:

Thousands of euros	06/30/2016		12/31/2015	
	Non-current	Current	Non-current	Current
Decommissioning of assets	151,462	-	-	-
Employee benefits	1,016	-	821	-
Other provisions	326	1,721	622	1,049
Total	**152,804**	**1,721**	**1,443**	**1,049**

The amount of non-current provisions at June 30, 2016, mainly reflects the provision for decommissioning of Telxius Torres España, S.L.U. and Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) amounting to 147,149 thousand euros.

The changes in the provisions during the first semester of 2016 are as follows:

Thousand euros	Non Current	Current
Balance as of 12/31/2015	**1,443**	**1,049**
Additions	5,067	983
Disposals / Utilizations	(262)	(421)
Business combinations (Note 4)	146,709	135
Translation differences and financial discount	(153)	(25)
Balance as of 06/30/2016	**152,804**	**1,721**

Note 15. Tax matters

Changes in deferred taxes

The changes in deferred taxes in the first half of 2016 are as follows:

Thousands of euros	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2015	**13,108**	**5,508**
Additions	478	782
Disposals	(723)	(4,785)
Business combinations (Note 4)	9,527	289,760
Translation differences	(217)	147
Other	(2,384)	2,482
Balance at June 30, 2016	**19,789**	**293,894**

Reconciliation of accounting profit and income tax expense

The following table shows the reconciliation between the accounting profit before taxes and the income tax expense from continuing operations for the first half of 2016:

Thousands euros	June 2016
Accounting profit before tax	**71,261**
Tax expense as per statutory rate applicable in each country	12,827
Permanent differences in tax payable	6,804
Other permanent differences in consolidation in tax payable	(2,986)
Effect in tax payable of changes in the deferred taxes in Consolidation	(3,662)
Other effects in tax payable	954
Income tax expense	**13,938**

The main effects in tax payable recorded in the income tax expense relate to positive exchange differences in Telxius Torres Brazil materialized for tax purposes in the second quarter of 2016, as a consequence of the settlement of various accumulated commercial accounts among companies of the Telefónica Group. The effect in the tax payable amounts to 6,804 thousand euros, which has been recorded as a permanent difference for fiscal purposes as at the moment when it was recorded in previous years it was also treated as a permanent difference.

Likewise, the income tax expense has been adjusted in (2,986) thousand euros due to the impact in the consolidated income statement of the fair value of the net assets in excess of the consideration paid for the acquisition of the tower business in Chile, which is not taxable.

Additionally, there is an adjustment in the tax payable amounting to (3,662) thousand euros, associated to the deferred tax liabilities reversion generated in the acquisition of the different tower business, due to the amortization of the revaluated assets is not fiscally deductible. The reversion of the deferred tax liabilities is made according to the amortization rate of the assets revaluated.

Finally, there is an adjustment in the tax payable amounting to 954 thousand euros due to the variation in the tax rates of the Group's companies vis-à-vis the statutory rate used, as well as to differences between the provision for tax expense recorded at year-end 2015 and the final income tax calculation, primarily in the United States, Colombia and Ecuador.

Tax audits and litigation

The Telxius Group has three significant tax appeals ongoing in Brazil in connection with the "ICMS" (indirect tax levied on telecommunications services) in 2008 through 2013. The tax authorities from the Brazilian State of Rio de Janeiro are demanding payment of ICMS on income associated with the assignment of network facilities to a number of companies. The Company argues that its actions are in accordance with current tax regulations in this matter, which attributes the responsibility for payment of the tax to the assignee, i.e., to the party receiving the network facilities, and not to the Company.

With respect to two of these cases, an application for administrative expert evidence was approved, which was partially favorable to the interests of the Company in relation to invoices concerning GVT and Sercomtel. In connection with SPRINT and IMPROVAC, the authorities chose not to admit the expert evidence on the grounds that this procedure was outside their area of expertise. A ruling is pending on the appeals submitted. The amount associated with these matters at June 30, 2016 (including interest and fines) was 15,375 thousand euros.

In the third case, involving the amount of 6,849 thousand euros at June 30, 2016 (including interest and fines), the request for administrative expert was denied. The Company is currently awaiting the official announcement of the ruling, at which point it will be submit an administrative appeal in the second instance and issue another request for administrative expert evidence.

Finally there is another case open related to ICMS in the Brazilian State of Bahia amounting to 2,007 thousand euros at June 30, 2016, relative to a tax credit taken by the Company as a result of the acquisition of fixed assets between June and December, 2000. The Company presented its defense in the first instance and is awaiting a ruling.

Provisions have not been set aside for these proceedings, because they could be classified as possible risks and the likelihood of the Company obtaining a favorable ruling is above 50%. Additionally, the Company has external opinions that support its legal interpretation.

Note 16. Revenue and expenses

Revenue and other operative income

The breakdown of sales and services and other operative income is as follows:

Thousands of euros	June 2016	June 2015
Revenue	243,041	177,199
Other operative income	3,332	129
Total	**246,373**	**177,328**

The breakdown of revenue and other operative income with Telefónica Group companies and others is as follows:

Thousands of euros	June 2016	June 2015
Group companies	174,383	115,718
Other	71,990	61,610
Total	**246,373**	**177,328**

Headcount

The average number of Telxius Group employees for the six-month periods ended June 30, 2016 and 2015, excluding employees working on discontinued operations, is as follows:

	June 2016	June 2015
Men	136	95
Women	45	23
Total	**181**	**118**

In six-month periods ended June 30, 2016 and 2015, the average number of employees associated with discontinued operations was 115.

Earnings per share

Earnings per share attributable to equity holders of the parent are calculated based on the following data:

	January –June 2016
Profit after taxes attributable to ordinary equity holders of the parent from continuing operations (thousands of euros)	57,323
Loss after taxes attributable to ordinary equity holders of the parent from discontinued operations (thousands of euros)	(45,170)
Average number of ordinary shares	75,529,231
Basic earnings per share from continuing operations (euros per share)	0.76
Basic earnings per share from discontinued operations (euros per share)	(0.60)

As described in Note 10, capital increases of 87,500,000 and 162,440,000 new shares were carried out to undertake the corporate reorganization, and, in particular, to acquire the combined businesses. As described in Notes 4 and 10, and given that TIWS América was the acquirer in the business combination since the business combinations were carried out on different dates stating on March 31, 2016, the average number of ordinary shares refers to the legal acquirer (Telxius Telecom, S.A.U.) and the result after taxes relates basically to TIWS América for the six-month period, and for the three-month period, primarily for the remaining businesses acquired. Comparative information is not included given that such information would not be representative of the performance of earnings per share.

In addition, and given that as of the date of these condensed consolidated interim financial statements the contribution to results by the businesses acquired on March 31, 2016, and later is not for six months, current basic earnings per share is not representative of the future value of this indicator for subsequent periods.

Note 17. Other information

Guarantees and warranties

Telxius Group companies are required to furnish certain guarantees within their regular commercial activity and guarantees for tenders. Nevertheless, no additional liabilities are expected to arise from the guarantees and warranties furnished. As of June 30, 2016, the guaranties and warranties in force are not material.

Litigation and arbitration

Telxius and the companies of its Group are party to various lawsuits or proceedings currently pending before various jurisdictional, administrative and arbitration bodies in several countries in which the Telxius Group has a presence. Provisions have been created in these financial statements when the Group's legal advisors have classified the probability of loss as high, and they have been explicitly noted in the financial statements if they are material and the probability of loss is below 50%.

Taking into consideration the reports issued by the Group's legal advisers in these proceedings, it is reasonable to assume that such lawsuits or legal proceedings will not significantly affect the economic-financial position or the solvency of the Telxius Group.

There are no noteworthy proceedings on which a ruling is pending or that were underway in the first half of 2016, with the exception of the tax-related ones referred to in Note 15.

Telxius offering public shares

At the date of preparation of these interim financial statements, the Telefónica Group is preparing an Initial Public Offering (IPO) of Telxius shares. It is estimated that the Telxius Group will assume a cost of approximately 2.1 million euros, directly or indirectly associated with costs related to this process, of which approximately 1.1 million euros has already been recorded in the consolidated income statement for the first half of 2016. These costs include notary and registration expenses, valuation studies of the spin-off businesses, studies of the purchase price allocation, due diligence associated with the assets acquired by

Telxius, legal and tax advice on the transferred business, fees of the National Stock Market Commission for the review of documentation and supervision, audits and advertising related to the IPO. Additionally Telefónica, S.A., as a shareholder of Telxius, assumes other costs directly related to the IPO such as fees of banks, advisers and legal counsel, valuation studies of the transferred business and tax consulting costs, as well as those related to the costs of preparing the proforma financial information and associated audit, among others. Additionally, the Group intends to implement a long-term incentive plan in cash, and Telefónica S.A. has approved an incentive associated to the carry out of the IPO, which are detailed in the next paragraph, and that will only be executed if the IPO is carried out.

Board of Directors and employees classified as Senior Executives

During the period to which these interim financial statements refer, the Directors and employees classified as Senior Executives did not carry out any transactions with the Company or with the companies of the Group.

The Directors have not received any remuneration as a result of their position as of June 30, 2016.

Employees classified as Senior Executives have received employee benefits expenses amounting to 404 thousand euros in 2016. At June 30, 2016, and December 31, 2015, no advances had been granted to the Directors and employees classified as Senior Executives.

Pursuant to article 229 of the Corporate Enterprise Act, the Directors and employees classified as Senior Executives have reported that they were not involved in any conflicts of interest with the Company.

Telxius's Management takes part in the long-term incentive plans consisting of the delivery of shares of Telefónica S.A., approved by the Telefónica S.A. General Shareholders Meeting.

The main share-based payment plans in place in the 2013-2016 period are as follows:

a) Long-term incentive plan based on Telefónica, S.A. shares: "Performance and Investment Plan 2011-2016"

At the General Shareholders' Meeting of Telefónica, S.A. held on May 18, 2011, a long-term Telefónica S.A. share-based incentive plan called "Performance and Investment Plan" was approved for certain of the Telefónica Group's senior executives and executive officers.

Under this Plan, a certain number of shares of Telefónica, S.A. are delivered to participants selected by Telefónica S.A. who meet the requirements set forth in the General Conditions of the Plan and who decide to participate.

The plan lasts five years and is divided into three phases. The termination dates of the first and second phase of the Plan, reached on June 30, 2014, and June 30, 2015, respectively, have had no impact in the Company, given that the company did not have employees at that dates.

On June 30, 2016, the third phase of the Telefónica, S.A. long-term incentive plan called ''Performance and Investment Plan 2013-2016'' (''PIP 2013-2016'') ended, and did not entail the delivery of any shares to Telxius Group's directors.

b) Long-term incentive plan based on Telefónica, S.A. shares: "Performance and Investment Plan 2014-2019"

The Telefónica, S.A. General Shareholders' Meeting of May 30, 2014 approved a new instalment of the long-term Telefónica S.A. share-based incentive, "Performance and Investment Plan", for certain senior executives and members of the Telefónica Group's management team, which was to enter into effect upon the conclusion of the first "Performance and Investment Plan."

Like its predecessor, the new plan has a term of a total of five years and is divided into three phases.

The initial and the second share allocations took place on October 1, 2014, and on October 1, 2015, respectively, and the third allocation is scheduled for October 1, 2016. From these allocations, the following amounts correspond to current employees of the Telxius Group: the 1 October, 2014 allocation corresponds to 15 employees, for a total amount of 71,668 shares; and the 2015 allocation corresponds to 15 employees, for a total amount of 77,309 shares.

c) Telefónica, S.A. global share plan: “Global Employee Share Plan III” (2015-2017)

The Telefónica, S.A. Ordinary General Shareholders’ Meeting on May 30, 2014 approved a new voluntary plan for incentivized purchases of shares for the employees of the Telefónica Group. Under this plan, employees were offered the option of acquiring Telefónica, S.A. shares during a twelve month period (the acquisition period), with the Company undertaking to deliver a certain number of free shares to participants, subject to certain requirements. Each employee was limited to buying a maximum of 1,800 euros in Telefónica, S.A. shares, and the minimum amount was 300 euros. Employees who remain at the Telefónica Group and keep the shares for one year following the acquisition period (consolidation period) will be entitled to receive one free share for each share they acquire and retain throughout the consolidation period.

The acquisition period commenced in July 2015. The plan will be settled through the delivery of shares to employees. The number of employees that initiated the purchase process and that are currently part of the Telxius Group amount to 32 employees.

d) Long-term incentive plan based on Telefónica, S.A. shares: “Talent for the Future Share Plan” (TFSP)

At the General Shareholders’ Meeting held on May 30, 2014, a long-term share-based incentive plan called “Talent for the Future Share Plan” was approved for certain Telefónica Group employees.

Under this Plan, a certain number of shares of Telefónica, S.A. will be delivered to participants selected by the company who have opted to take part and who meet the relevant requirements and conditions stipulated. The plan has been implemented to recognize and reward Telefónica Group employees with consistently outstanding performance, high potential and key skills who are expected to take leading roles in the future, by giving them a stake in the share capital of the Company

The term of the plan is five years and it is divided into three phases.

The amount accrued as of June 30, 2016 and recorded in these financial statements for the different plans described above is 366 thousand euros. Additionally, the employees who are beneficiaries of those plans, and who are part of the Telxius Group are: 9 employees with 6,569 shares for the 2014 phase; and 13 employees with 11,000 shares for the 2015 phase.

The Company intends to introduce in 2016 the following two incentives:

(I) Long-term cash incentive plan

In 2016 and subject to the carry out of the IPO, the Company intends to implement a long-term incentive plan for certain executives. Under this new incentive, the Company intends that these executives receive an amount of cash, subject to the fulfillment of the corporate goals and their continued employment at Telxius. The total maximum amount to be distributed under this plan is 3 million euros.

Telefónica’s Appointments and Remuneration Committee and Telxius’s Appointments and Remuneration and Corporate Governance Committee will be responsible for determining the members of Telxius’s management team (including executive directors and senior management) who will take part in this plan. The pool of potential beneficiaries is made up of some 20 Telxius executives.

The duration of the long-term incentive will be three years, starting at its implementation date. However, intermediate periods of payment can be included on the first and second anniversaries of the date of acceptance.

The amount of the long-term incentive to be paid will depend on the degree of fulfillment of each goal. If the degree of fulfillment of the goals is 100%, participants will receive an amount equal to the 100% of their annual fixed compensation.

The long-term incentive payment will depend on the performance of the value of the “Total Shareholder Return” (TSR) of Telxius, S.A. (50%), and the performance of the key indicators of financial performance (50%).

(II) Bonus linked to the success of the IPO

In 2016, Telxius intends to implement a one-time incentive linked to the success of the IPO. This incentive will be granted to certain Telxius executives and key employees, including executive directors, previously named by Telxius's Appointments and Remuneration Committee, in order to reward and recognize the commitment of the team who has been actively part of the IPO. This bonus has been approved by Telefónica S.A., which is formally committed to assume the associated cost if this bonus is finally paid out, and therefore without an impact in the consolidated income statement of the Telxius Group.

One month after the date of the quotation acceptance, the beneficiaries will receive a variable compensation of up to 25% of their annual fixed compensation, subject to their continued employment at Telxius one month after the date of the quotation acceptance. The only condition for the payment of this bonus is the success of the IPO, and it is not based on or tied to the price of the shares. Other than the permanence period of one month, there is no condition, such as continued employment or permanence at the Company, in order to be a beneficiary of this incentive.

In exceptional circumstances, beneficiaries who are not part of the executive team could receive a larger incentive, which could amount to a maximum of the 50% (rather than 25%) of their annual fixed compensation, on the basis of a recommendation from the head of the area or Telxius's Human Resources director and approved by the Telxius's Appointments and Remuneration Committee. In any case, the bonus linked to the IPO's success will be not higher than 3 million euros in total.

Note 18. Discontinued operations

From the date of the agreement on the creation of the Telxius Group by the Telefónica Group's Management (see Note 1), businesses of TIWS América other than IP and Capacity, that is, VPN, voice, IPX and satellite, have been considered discontinued businesses, and the assets associated with the businesses discussed above have been considered non-current assets held for sale, starting on that date.

TIWS América's business comprises several business lines with different levels of maturity, the main ones of which are the IP and Capacity lines in which the Company is a leader by market share in the region, as it capitalizes the demand from the operators of the Telefónica Group.

IP services are intended to provide Internet access to users of operator customers, enabling communication with other users and access to Internet content. Capacity services provide point-to-point data transport to telecom operators, content providers, as well as multinational and large companies. Both lines have a market with high growth rates in volumes managed, resulting from an increase in broadband telecommunications services (fixed and mobile) as well as in consumption of multimedia content over the Internet. The aim of TIWS América is to strengthen its leadership position in the international wholesale telecom business in the region, concentrating its activity in the IP and Capacity businesses. To that end, Telefónica Group decided to concentrate these lines in the "Telxius" infrastructure unit.

Satellite services both for backhaul of mobile networks and for data transmission and Internet, VPN data services, messaging services (SMS) and voice management and transport (LDI) rounded out the services catalogue. These businesses, with the assets and resources that support them, have been transferred to other companies in Telefónica Group in the first half of 2016 (see Note 18). They are currently running a deficit for various reasons, mainly because they have not yet reached the volumes required to cover fixed costs in some businesses with large customers, and because of the need to use third-party networks in countries where the Telefónica Group has no presence or its presence is not wide reaching. It is expected that the profitability of discontinued operations can improve within a reasonable amount of time.

In addition, it is necessary to consider compensatory billing charged by Telefónica International Wholesale Services, S.L. (which manages the business in Spain) to TIWS América, exclusively for discontinued operations, because the profit or residual loss after offsetting all entities corresponds to TIWS América as the primary contractor. If these businesses as a whole, including Telefónica International Wholesale Services, S.L., were considered, the resulting losses would be lower.

The following table summarizes the result of the discontinued operations:

Thousands of euros	January-June	January-June
INCOME STATEMENT	2016	2015
Revenue	(1,492)	(1,346)
Supplies	(26,355)	(33,002)
Personnel expenses	(3,493)	(7,159)
Other expenses	(6,323)	(7,176)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(37,663)**	**(48,683)**
Depreciation and amortization	-	(1,445)
OPERATING INCOME	**(37,663)**	**(50,128)**
LOSS BEFORE TAXES	**(37,663)**	**(50,128)**
Income tax	-	(665)
LOSS AFTER TAXES	**(37,663)**	**(50,793)**
Profit for the sale of discontinued operations	993	-
Translation differences transferred to the income statement (Note 10)	(8,500)	-
LOSS FOR THE PERIOD	**(45,170)**	**(50,793)**

The discontinued businesses have been transferred at close to their carrying amount. The overall result generated in this sale amounts to 993 thousand euros, which is included in the profit from discontinued operations in Telxius's condensed consolidated interim financial statements.

The cash flow from discontinued operations is as follows:

Thousands of euros	June 2016	June 2015
Net cash flow from discontinued operations	(37,663)	(48,683)
Net cash flow from discontinued investing activities	19,258	-

The following table gives the amounts generated during the year (net of the income tax impact) included in other comprehensive income:

Thousands of euros	06/30/2016	06/30/2015
Translation differences generated in the period (Note 10)	10,010	(5,968)

Disposal of the discontinued businesses

- Telefónica International Wholesale Services México, S.A. de C.V.

  On March 31, 2016, Telefónica International Wholesale Services América, S.A. sold the shares of Telefónica International Wholesale Services México, S.A. de C.V. to Telefónica International Wholesale Services, S.L. The agreed selling price was 2.4 million euros.

- Telefónica Servicios TIWS S.A.C.

  On March 31, 2016, Telefónica International Wholesale Services Perú, S.A.C. sold its shares in Telefónica Servicios TIWS S.A.C. to Telefónica International Wholesale Services, S.L. The agreed selling price was 1.9 million euros.

- VPN, Voice, IPX and satellite businesses

  On March 31, 2016, Telefónica International Wholesale Services Brasil, Ltda. disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of the contracts in force for these activities and the employees associated with the activities to Media Networks Soluções Digitais. The agreed selling price was 6.3 million euros.

On March 31, 2016, Telefónica International Wholesale Services USA disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of the contracts in force for these activities and the transfer of the employees associated with the activities to Telefónica USA, Inc. The agreed selling price was 7.7 million euros.

On March 31, 2016, Telefónica International Wholesale Services Chile, SPA disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of contracts in force for these activities and the transfer of the employees associated with the activities to TIWS Chile II S.P.A. The agreed selling price was 0.3 million euros.

On March 31, 2016, Telefónica International Wholesale Services Colombia, SAS disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of contracts in force for these activities and the transfer of the employees associated with the activities to TIWS Colombia II SAS. The agreed selling price was 0.1 million euros.

On March 31, 2016, Telefónica International Wholesale Services Ecuador S.A. disposed of assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of contracts in force for these activities and the transfer of the employees associated with the activities to TIWS Ecuador II SA. The agreed selling price was 2 million euros.

On March 31, 2016, Telefónica International Wholesale Services Puerto Rico disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of the contracts in force for these activities and the transfer of the employees associated with the activities to TLD Puerto Rico. The agreed selling price was 0.6 million euros.

On March 31, 2016, Telefónica International Wholesale Services Guatemala disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of the contracts in force for the activities to Telefónica Móviles Guatemala. The agreed selling price was 0.1 million euros.

On March 31, 2016, Telefónica International Wholesale Services Argentina, S.A. disposed of the assets and liabilities associated with the operation of its local businesses related to VPN, voice, IPX and satellite, including the transfer of the contracts in force for these activities and the transfer of the employees associated with the activities to TIWS Argentina II, S.A. The agreed selling price was 0.4 million euros.

Note 19. Management risk policy

The Telxius Group is exposed to various financial market risks. The risk management policies are established by the Risk Committee. Based on these policies, the Telefónica Group's financial department has established a number of procedures and controls that make it possible to identify, measure and manage the main financial market risks to which the Group is exposed.

The main financial market risks that affect to the Group are the exchange rate, liquidity and credit risks.

Exchange rate risks

Exchange rate risk arises from a possible loss caused by variations in the fair value, or in the future cash flows, of a financial instrument due to fluctuations in the exchange rate.

In the Cable segment, a significant portion of the business is carried out in US dollars, given that the main contracts, including those signed with the Telefónica Group, are denominated in this currency. In this case, the risk is limited because most of the income of the Group is tied to its functional currency, the US dollar.

In some countries, although revenue is tied to the US dollar, billing is carried out in the local currency. Consequently, the Group assumes the risk of exchange rate fluctuations between the billing date and the collection date.

At the date of preparation of these consolidated financial statements, the Group has signed new contracts with certain operators, through which the latter assume most of the exchange rate risk between the billing date and the collection date. Specifically the new framework agreement for IP services to be rendered to the operators of the Telefónica Group sets that, if the payment has to be done in local currency, the exchange rate to be applied will be the one set for two days before the due date. Consequently, the exchange rate risk of the Group will henceforth be mitigated.

In the Tower segment, most business is conducted in euros, and therefore the exchange rate risk is limited.

Liquidity risks

Liquidity risk relates to the possibility that the Group will not be able to draw down, or access, liquid funds, in a sufficient amount and at a reasonable cost to meet its payment obligations at all times.

The Group’s liquidity needs are at all times ensured through lines of credit with a company of the Telefónica Group (Telfisa Global B.V.). On June 30, 2016, there are lines of credit with a total limit of 77,000 thousand euros, maturing on March 30, 2017. The balance drawn down as of June 30, 2016, amounts to 1,683 thousand euros.

Interest rate risk

Interest rate risk relates mainly to variations in interest rates that affect: (i) the financial costs of the borrowings with a variable interest rate (or short-term borrowings likely to be renewed), as a consequence of fluctuations in interest rates, and (ii) the value of the long-term liabilities with fixed interest rates.

The Group's exposure to the risk of changes in interest rates is mainly due to loans and credits received at variable interest rates, which account for 20% of total financial debt at June 30, 2016. Variable interest rate financing is tied to Euribor.

Note 20. Events after the reporting period

Between June 30, 2016, and the date of authorization for issue of these interim financial statements, no significant events have occurred.

Note 21. Additional note for English translation

These interim financial statements were originally prepared in Spanish. In the event of a discrepancy, the Spanish language version prevails.

These interim financial statements are presented on the basis of International Accounting Standards (IAS) 34 Interim Financial Reporting and article 12 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group do not conform with generally accepted principles in other countries.

Appendix I: Changes to the scope of consolidation

Telxius Torres Latam, S.L.U. (formerly, Towerco Américas, S.L.U.)

On February 5, 2016, Towerco Américas, S.L.U. was incorporated. The holding company of the shares Telxius Telecom, S.A.U. (formerly, Telefónica América, S.A.) with a 100% shareholding. Towerco Américas, S.L.U. is fully consolidated.

On March 10, 2016, Towerco Américas, S.L.U. changed its corporate name to Telxius Torres Latam, S.L.U.

Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil Ltda.)

On February 25, 2016 Towerco Latam Brasil, Ltda., wholly owned by Telxius Torres Latam, S.L.U. (formerly, Towerco Américas, S.L.), was created. On April 8, 2016, Towerco Latam Brasil changed its corporate name to Telxius Torres Brasil Ltda.

Towerco Latam Perú, S.A.C.

On March 31, 2016, Telxius Torres Latam, S.L.U. acquired 100% of Towerco Latam Perú S.A.C from Telefónica del Perú, S.A.A.

Telxius Torres España, S.L.U.

On March 31, 2016, Telxius Telecom, S.A.U. acquired 100% of Telxius Torres España, S.L.U. from Telefónica, S.A.

Telxius Towers Germany GmbH (previously, Telefónica Germany Vermögensverwaltungsgesellschaft mbH)

On April 21, 2016, Telxius Telecom, S.A.U. acquired 100% of Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) from E-Plus Mobilfunk GmbH.

On June 29, 2016, Telefónica Germany Vermögensverwaltungsgesellschaft mbH changed its corporate name to Telxius Towers Germany GmbH.

Towerco Latam Chile Holding, S.A.

On May 1, 2016, Telxius Torres Latam, S.L.U. subscribed the 100% of the shares of Towerco Latam Chile Holding, S.A., previously an investee of Telefónica Móviles Holding, S.A.

Telefónica International Wholesale Services México, S.A. de C.V.

On March 31, 2016, Telefónica International Wholesale Services América, S.A. sold the shares of Telefónica International Wholesale Services México, S.A. de C.V. to Telefónica International Wholesale Services, S.L.

The transactions of this company are shown in the consolidated income statement for the six-month period ended June 30, 2016, under “Profit for the period from continuing operations.”

Telefónica Servicios TIWS S.A.C.

On March 31, 2016, the Group company Telefónica International Wholesale Services Perú, S.A.C. sold its shareholding in Telefónica Servicios TIWS S.A.C. to Telefónica International Wholesale Services, S.L.

The transactions of this entity were reported in the consolidated income statement for the period ended June 30, 2016, under “Loss after tax for the period from discontinued operations.”

Appendix II: Companies in the Telxius Group

The table below lists the companies that make up the Telxius Group at June 30, 2016, which are fully consolidated.

The following information is provided for each company: corporate name, primary corporate purpose, country, functional currency, share capital (expressed in thousands of units of the functional currency), effective shareholding of the Telxius Group, and the company or companies through which the Group's stake is held.

Parent:

Telxius Telecom, S.A.U.

Corporate name and purpose	Country	Functional currency	Share capital	% Telxius Group	Holding company
Towers					
Telxius Torres España, S.L.U. (formerly, Wireless Towers, S.L.) Establishment and operation of any kind of communications infrastructure and/or network	Spain	EUR	10,000	100%	Telxius Telecom, S.A.U.
Telxius Torres Latam, S.L.U. (formerly, Towerco Américas, S.L.) Establishment and operation of any kind of infrastructure and/or communications network	Spain	EUR	3	100%	Telxius Telecom, S.A.U.
Telxius Torres Brasil Ltda. (formerly, Towerco Latam Brasil Ltda.) Telecommunications services	Brazil	BRL	1,000	100%	Telxius Torres Latam, S.L.U.
Towerco Latam Perú, S.A.C. Telecommunications services	Peru	PEN	104,303	100%	Telxius Torres Latam, S.L.U.
Towerco Latam Chile Holding, S.A. Holding company	Chile	EUR	8,123	99.98%	Telxius Torres Latam, S.L.U.
Towerco Latam Chile, S.A. Telecommunications services	Chile	CLP	7,770,270	100%	Towerco Latam Chile Holding, S.A.
Telxius Towers Germany GmbH (formerly, Telefónica Germany Vermögensverwaltungsgesellschaft mbH) Telecommunications services	Germany	EUR	25	100%	Telxius Telecom, S.A.U.

Corporate name and purpose	Country	Functional currency	Share capital	% Telxius Group	Holding company
Cable					
Telxius Cable España, S.L.U. (formerly, Submarine Telecommunications, S.L.U.) Establishment and operation of any kind of communications infrastructure and/or network	Spain	EUR	3	100%	Telxius Telecom, S.A.U.
Telefónica International Wholesale Services América, S.A. Provision of high bandwidth communications services	Uruguay	USD	429,278	100%	Telxius Telecom, S.A.U.
Telefónica International Wholesale Services Guatemala S.A. Installation and operation of telecommunications services for wholesalers	Guatemala	USD	15,938	99.99(*)%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Perú, S.A.C. Involvement in the operation and deployment of international telecommunications services via underwater cables and other means	Peru	USD	19,920	99.99(*)%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Argentina S.A. Operation and deployment of telecommunications infrastructures	Argentine	USD	78,051	99.94%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Brasil Participações Ltda. Operation and deployment of telecommunications infrastructure	Brazil	USD	62,474	99.99(*)%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Brasil Ltda. Operation and deployment of telecommunications infrastructure	Brazil	USD	73,738	99.99(*)%	Telefónica International Wholesale Services Brasil Participações, Ltda.
Telefónica International Wholesale Services Colombia S.A.S. Supply of data transmission capacity via the SAM1 underwater cable system	Colombia	USD	4,443	100%	Telefónica International Wholesale Services América, S.A. 94.99% Telefónica International Wholesale Services Perú, S.A.C. 1.67% Telefónica International Wholesale Services Chile, S.A. 1.67% Telefónica International Wholesale Services Guatemala, S.A. 1.67% Telefónica International Wholesale Services Argentina, S.A. 0.00(*)%
Telefónica International Wholesale Services Ecuador S.A. Sale of usage of data transmission capacity via an underwater optic fiber network	Ecuador	USD	5,345	100%	Telefónica International Wholesale Services América, S.A. 99.99% Telefónica International Wholesale Services Perú, S.A.C. 0.01%
Telefónica Global Solutions Panamá S.A. Installation and operation of telecommunications networks for wholesalers	Panama	USD	10	100%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Puerto Rico, Inc. High capacity optic fiber network communications services	Puerto Rico	USD	23,681	100%	Telefónica International Wholesale Services América, S.A.

Telefónica International Wholesale Services USA, Inc. High bandwidth communications services	United States	USD	58,387	100%	Telefónica International Wholesale Services América, S.A.
Telefónica International Wholesale Services Chile S.P.A. Involvement in businesses related to public or private telecommunications services	Chile	USD	37,354	99.99(*)%	Telefónica International Wholesale Services América, S.A.

[*] In these companies the minority shareholders participate in a percentage lower than 0.01% as rounding consequence.

Management Report

Business performance and situation of the Group

General overview

The results for the first half of 2016 cover six months of activities of the TIWS América Group and Telxius Telecom S.A.U. (holding company of the Telxius Group); three months of activities (April-June) of Telxius Cable España S.L.U., Telxius Torres España S.L.U., Torres Telxius Brazil, Ltda and Towerco Latam Perú, S.A.C.; and two months (May and June) of Telxius Towers Germany GmbH and Towerco Latam Chile S.A..

Activities

In the first half of 2016, the Group's activities were focused in the cable business, the main services of which are the IP service and the capacity service, and the tower business, the main activity of which is the establishment and operation of telecommunication infrastructures as well as the provision and management of services associated with said infrastructure.

In the cable business, Telxius, capitalizing on the scale provided by the demand from the Telefónica Group's operators, is a leader in market share in Latin America.

IP services are aimed at providing operators' users with Internet access, thus allowing them to communicate with other users and access Internet content.

Capacity services provide end-to-end data transportation for telecommunications operators, content providers as well as multinational companies and large enterprises.

Telxius is a leader in the tower business due to the quantity of towers of independent tower companies as well as those admitted to trading, in Spain, Germany and Peru. It has a less significant position in Brazil and Chile.

The Group's main customers are global, regional and local telecommunications operators, both third parties and operators of the Telefónica Group, as well as global players in the Internet business and content providers.

Financial Results (continuing operations)

The total business volume of Telxius in the first half of 2016 amounted to 246,373 thousand euros (excluding 11,942 thousand euros from “Other operating income” coming from the incorporation of the Chile tower business), of which 243,041 thousand euros corresponds to net sales and services provided, and 3,332 thousand euros to other operative income.

Operating results stood at 67,998 thousand euros, while the result for the period from continuing operations was 57,323 thousand euros.

A comparison with the results for January to June 2015 is not representative from the point of view of management, given that for this period only the results of the cable business associated with TIWS América are shown.

During the year 2016, and due to the process of the sale of the business shown as discontinue and to the IPO process, with effect on March 31, 2016 the Company has carried out a work of intercompany balances conciliation, which has led to the cancellation of important old accounts payable with companies of the Telefónica Group which existed as of December 31, 2015. This work has led to a significant decrease of the existing receivable and payable balances.

Additionally, certain commercial relationships in the cable segment have quarterly invoicing, which make longer the payment period, which begins after the issue of the corresponding invoice. Likewise, the annual renegotiations of the contracts with the Telefónica Group in the cable segment and the carry out of the contracts with the Telefónica Group for the tower segment after the acquisition of the different business, have increased temporary the receivables balances, due to the need of adjudication of the new conditions, which does not allow the invoicing of the services until those processes are not concluded.

Notwithstanding the foregoing and to provide greater agility to these processes, it has been implemented in Telxius a working group that gives periodic tracking to the trade balances.

Outlook

Over the remaining quarters of 2016, Telxius will continue to focus on the IP traffic and Capacity businesses associated with TIWS América and Telxius Cable España, along with the operations of the infrastructure and telecommunications tower business in Spain, Germany, Brazil, Peru and Chile.

Risk management policies

The Group activities are exposed to different risks: regulatory, legal, market competition (price and market share), financial markets (including exchange rate and interest rate risk), liquidity and credit.

Telxius has quickly adjusted to the risk management policies of Telefónica, S.A., allowing it to monitor the most significant risks that may affect the main companies of its Group. To this end, it has a corporate model that allows it to evaluate the importance of each risk that may affect the Company as well as the degree of control necessary for each risk.

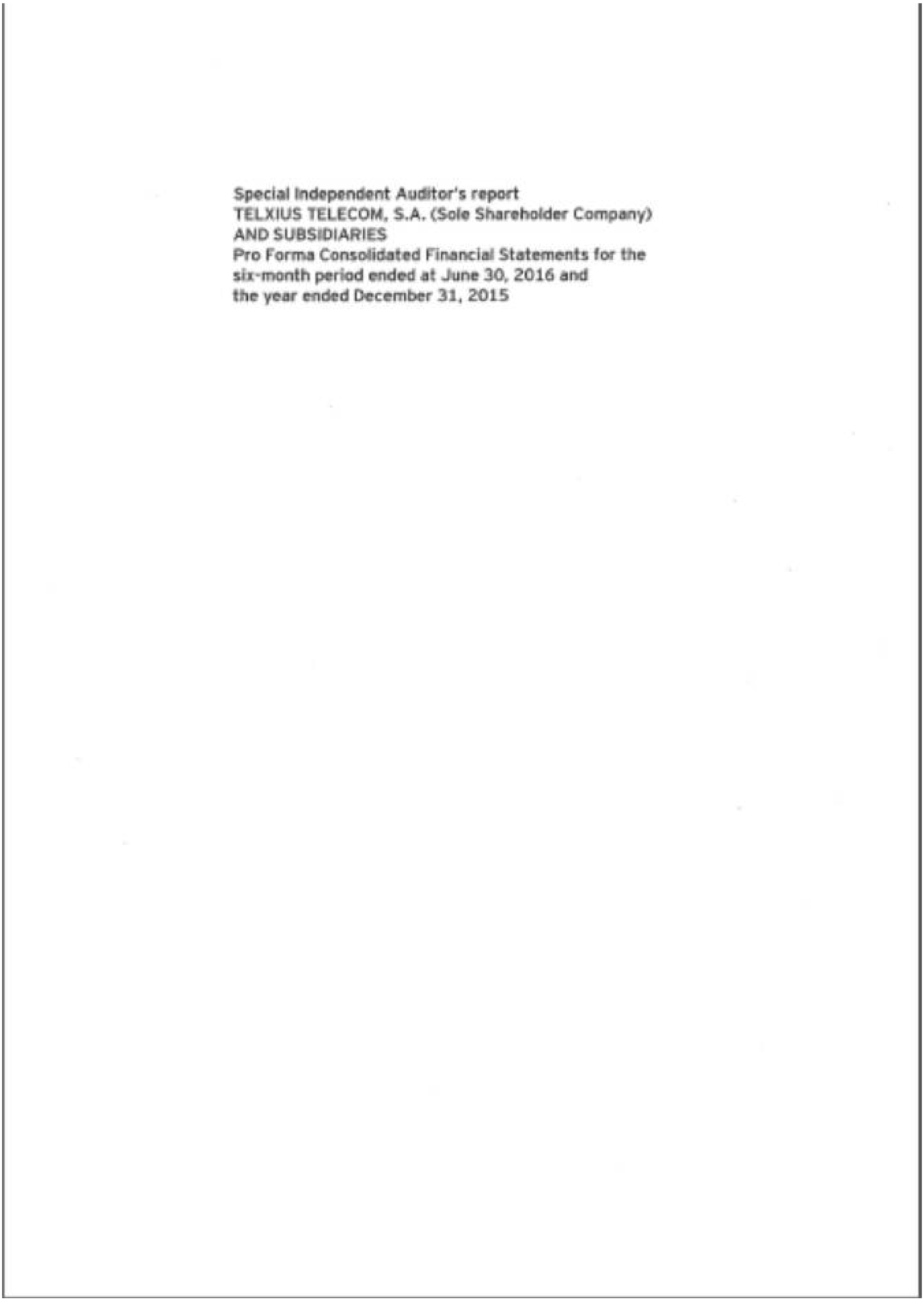
Accordingly, Telxius applies the recommendations established through this corporate model with regard to the following actions:

- Creation of control units responsible for designing, establishing and verifying compliance with the control objectives established by Management to mitigate the main risks identified in the company.

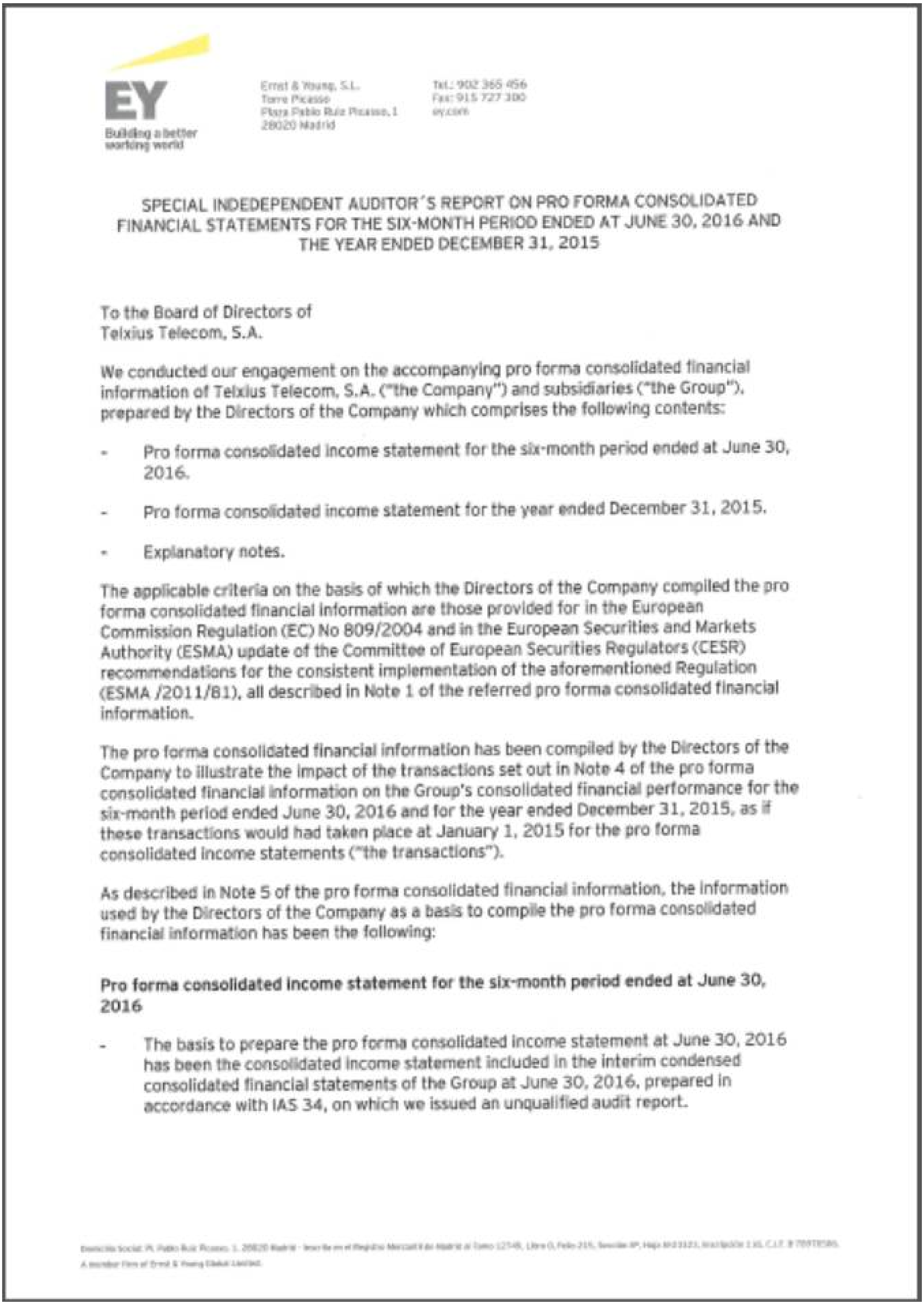
- Preparation of regulations that include control mechanisms.

- Determination of control mechanisms to be implemented in centralized services processes.

ANNEX 2 – PRO FORMA CONSOLIDATED FINANCIAL INFORMATION



Special Independent Auditor's report
TELXIUS TELECOM, S.A. (Sole Shareholder Company)
AND SUBSIDIARIES
Pro Forma Consolidated Financial Statements for the
six-month period ended at June 30, 2016 and
the year ended December 31, 2015



Building a better working world

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SPECIAL INDEDEPENDENT AUDITOR´S REPORT ON PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED AT JUNE 30, 2016 AND THE YEAR ENDED DECEMBER 31, 2015

To the Board of Directors of
Telxius Telecom, S.A.

We conducted our engagement on the accompanying pro forma consolidated financial information of Telxius Telecom, S.A. ("the Company") and subsidiaries ("the Group"), prepared by the Directors of the Company which comprises the following contents:

- Pro forma consolidated income statement for the six-month period ended at June 30, 2016.

- Pro forma consolidated income statement for the year ended December 31, 2015.

- Explanatory notes.

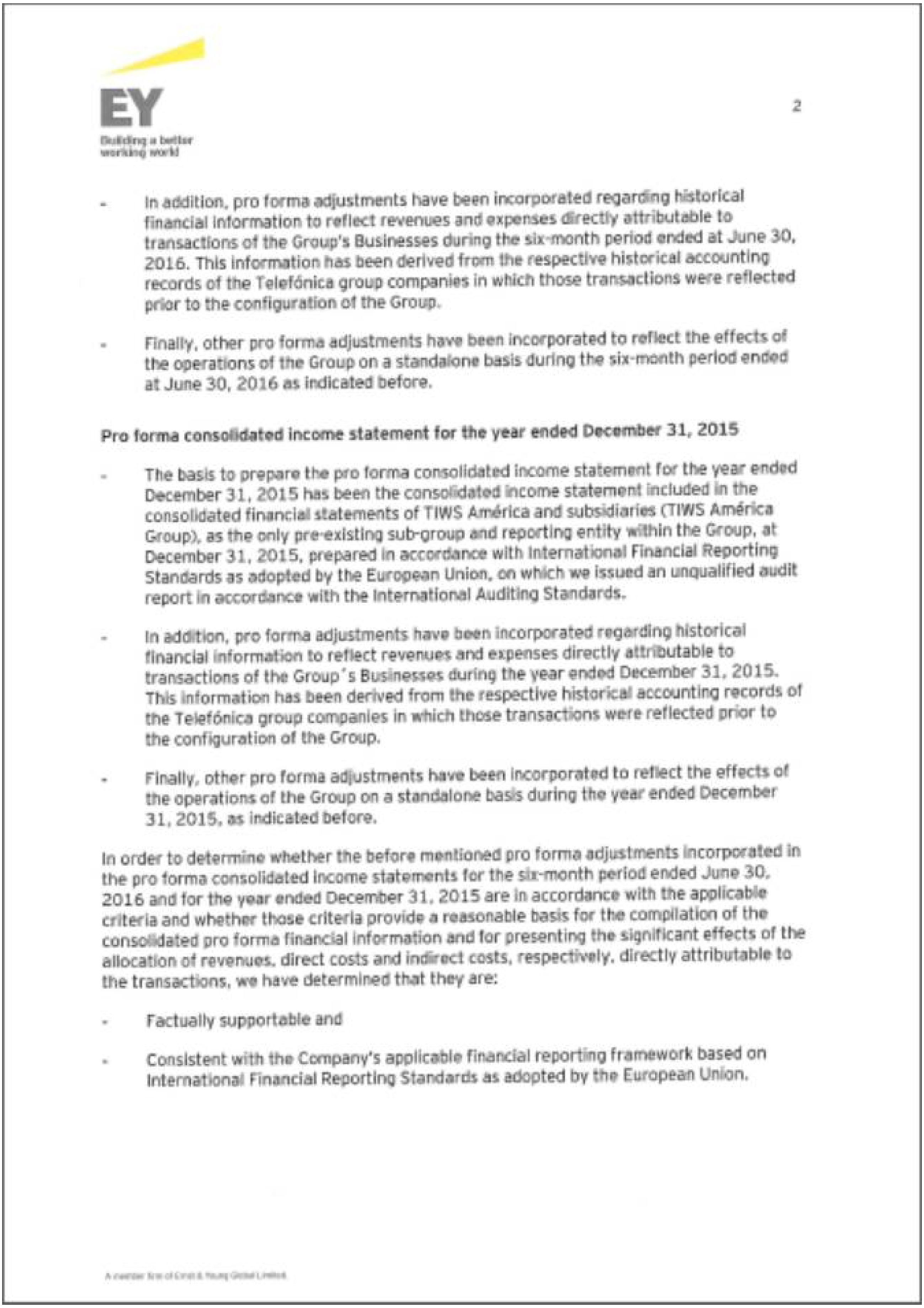
The applicable criteria on the basis of which the Directors of the Company compiled the pro forma consolidated financial information are those provided for in the European Commission Regulation (EC) No 809/2004 and in the European Securities and Markets Authority (ESMA) update of the Committee of European Securities Regulators (CESR) recommendations for the consistent implementation of the aforementioned Regulation (ESMA /2011/81), all described in Note 1 of the referred pro forma consolidated financial information.

The pro forma consolidated financial information has been compiled by the Directors of the Company to illustrate the impact of the transactions set out in Note 4 of the pro forma consolidated financial information on the Group's consolidated financial performance for the six-month period ended June 30, 2016 and for the year ended December 31, 2015, as if these transactions would had taken place at January 1, 2015 for the pro forma consolidated income statements ("the transactions").

As described in Note 5 of the pro forma consolidated financial information, the information used by the Directors of the Company as a basis to compile the pro forma consolidated financial information has been the following:

Pro forma consolidated income statement for the six-month period ended at June 30, 2016

- The basis to prepare the pro forma consolidated income statement at June 30, 2016 has been the consolidated income statement included in the interim condensed consolidated financial statements of the Group at June 30, 2016, prepared in accordance with IAS 34, on which we issued an unqualified audit report.



- In addition, pro forma adjustments have been incorporated regarding historical financial information to reflect revenues and expenses directly attributable to transactions of the Group's Businesses during the six-month period ended at June 30, 2016. This information has been derived from the respective historical accounting records of the Telefónica group companies in which those transactions were reflected prior to the configuration of the Group.

- Finally, other pro forma adjustments have been incorporated to reflect the effects of the operations of the Group on a standalone basis during the six-month period ended at June 30, 2016 as indicated before.

Pro forma consolidated income statement for the year ended December 31, 2015

- The basis to prepare the pro forma consolidated income statement for the year ended December 31, 2015 has been the consolidated income statement included in the consolidated financial statements of TIWS América and subsidiaries (TIWS América Group), as the only pre-existing sub-group and reporting entity within the Group, at December 31, 2015, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on which we issued an unqualified audit report in accordance with the International Auditing Standards.

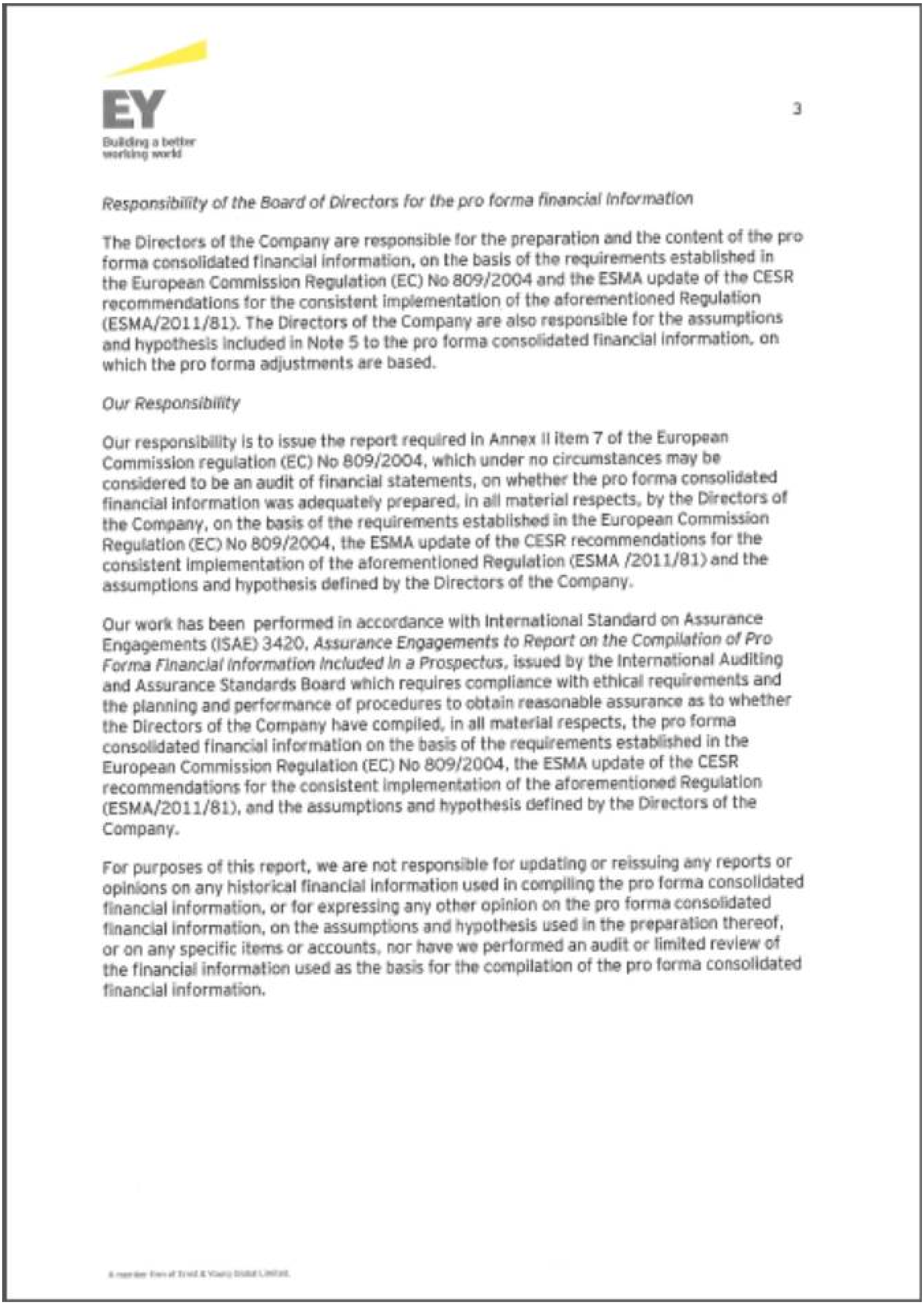
- In addition, pro forma adjustments have been incorporated regarding historical financial information to reflect revenues and expenses directly attributable to transactions of the Group´s Businesses during the year ended December 31, 2015. This information has been derived from the respective historical accounting records of the Telefónica group companies in which those transactions were reflected prior to the configuration of the Group.

- Finally, other pro forma adjustments have been incorporated to reflect the effects of the operations of the Group on a standalone basis during the year ended December 31, 2015, as indicated before.

In order to determine whether the before mentioned pro forma adjustments incorporated in the pro forma consolidated income statements for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are in accordance with the applicable criteria and whether those criteria provide a reasonable basis for the compilation of the consolidated pro forma financial information and for presenting the significant effects of the allocation of revenues, direct costs and indirect costs, respectively, directly attributable to the transactions, we have determined that they are:

- Factually supportable and

- Consistent with the Company's applicable financial reporting framework based on International Financial Reporting Standards as adopted by the European Union.



Responsibility of the Board of Directors for the pro forma financial information

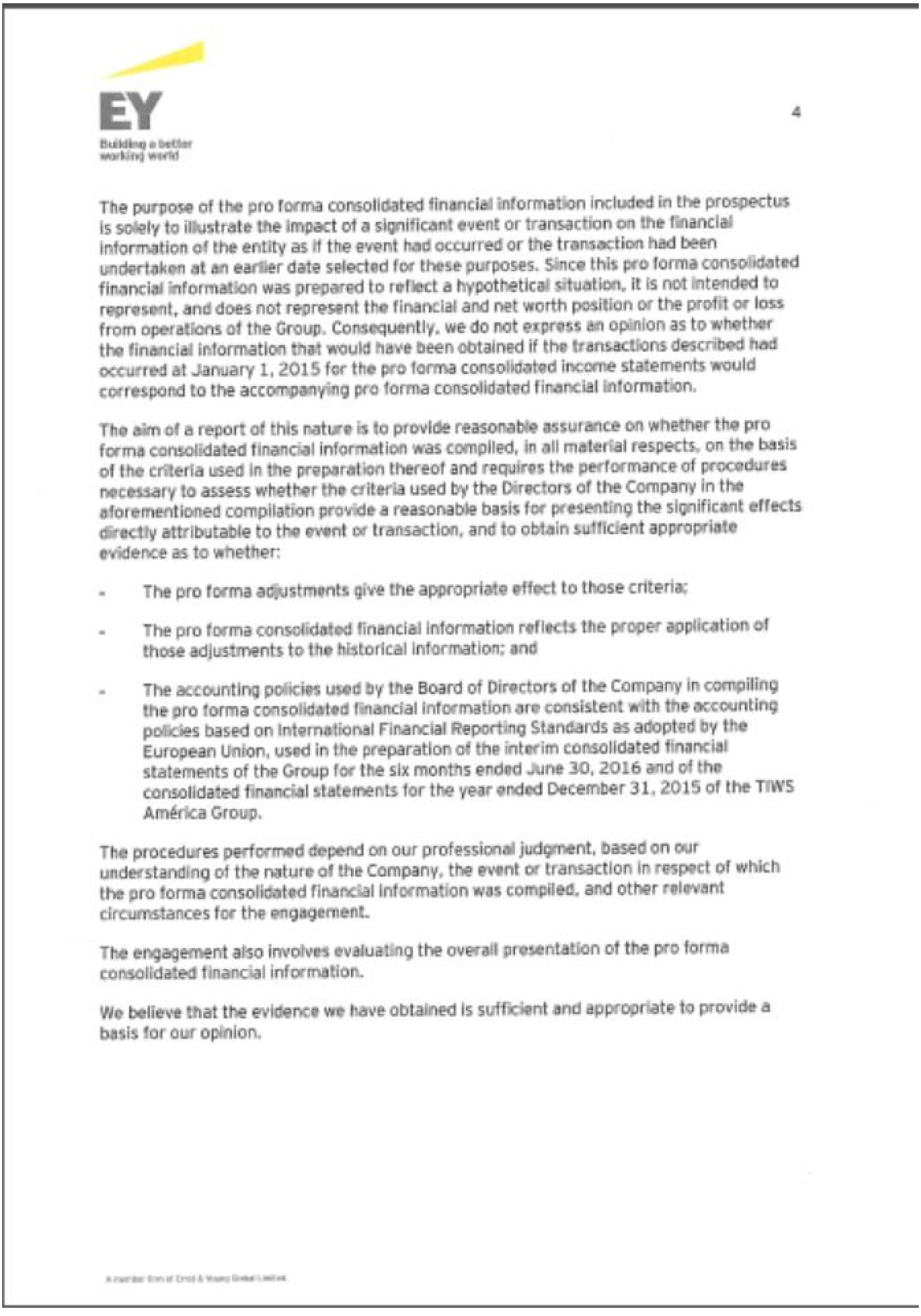
The Directors of the Company are responsible for the preparation and the content of the pro forma consolidated financial information, on the basis of the requirements established in the European Commission Regulation (EC) No 809/2004 and the ESMA update of the CESR recommendations for the consistent implementation of the aforementioned Regulation (ESMA/2011/81). The Directors of the Company are also responsible for the assumptions and hypothesis included in Note 5 to the pro forma consolidated financial information, on which the pro forma adjustments are based.

Our Responsibility

Our responsibility is to issue the report required in Annex II item 7 of the European Commission regulation (EC) No 809/2004, which under no circumstances may be considered to be an audit of financial statements, on whether the pro forma consolidated financial information was adequately prepared, in all material respects, by the Directors of the Company, on the basis of the requirements established in the European Commission Regulation (EC) No 809/2004, the ESMA update of the CESR recommendations for the consistent implementation of the aforementioned Regulation (ESMA /2011/81) and the assumptions and hypothesis defined by the Directors of the Company.

Our work has been performed in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board which requires compliance with ethical requirements and the planning and performance of procedures to obtain reasonable assurance as to whether the Directors of the Company have compiled, in all material respects, the pro forma consolidated financial information on the basis of the requirements established in the European Commission Regulation (EC) No 809/2004, the ESMA update of the CESR recommendations for the consistent implementation of the aforementioned Regulation (ESMA/2011/81), and the assumptions and hypothesis defined by the Directors of the Company.

For purposes of this report, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated financial information, or for expressing any other opinion on the pro forma consolidated financial information, on the assumptions and hypothesis used in the preparation thereof, or on any specific items or accounts, nor have we performed an audit or limited review of the financial information used as the basis for the compilation of the pro forma consolidated financial information.



The purpose of the pro forma consolidated financial information included in the prospectus is solely to illustrate the impact of a significant event or transaction on the financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for these purposes. Since this pro forma consolidated financial information was prepared to reflect a hypothetical situation, it is not intended to represent, and does not represent the financial and net worth position or the profit or loss from operations of the Group. Consequently, we do not express an opinion as to whether the financial information that would have been obtained if the transactions described had occurred at January 1, 2015 for the pro forma consolidated income statements would correspond to the accompanying pro forma consolidated financial information.

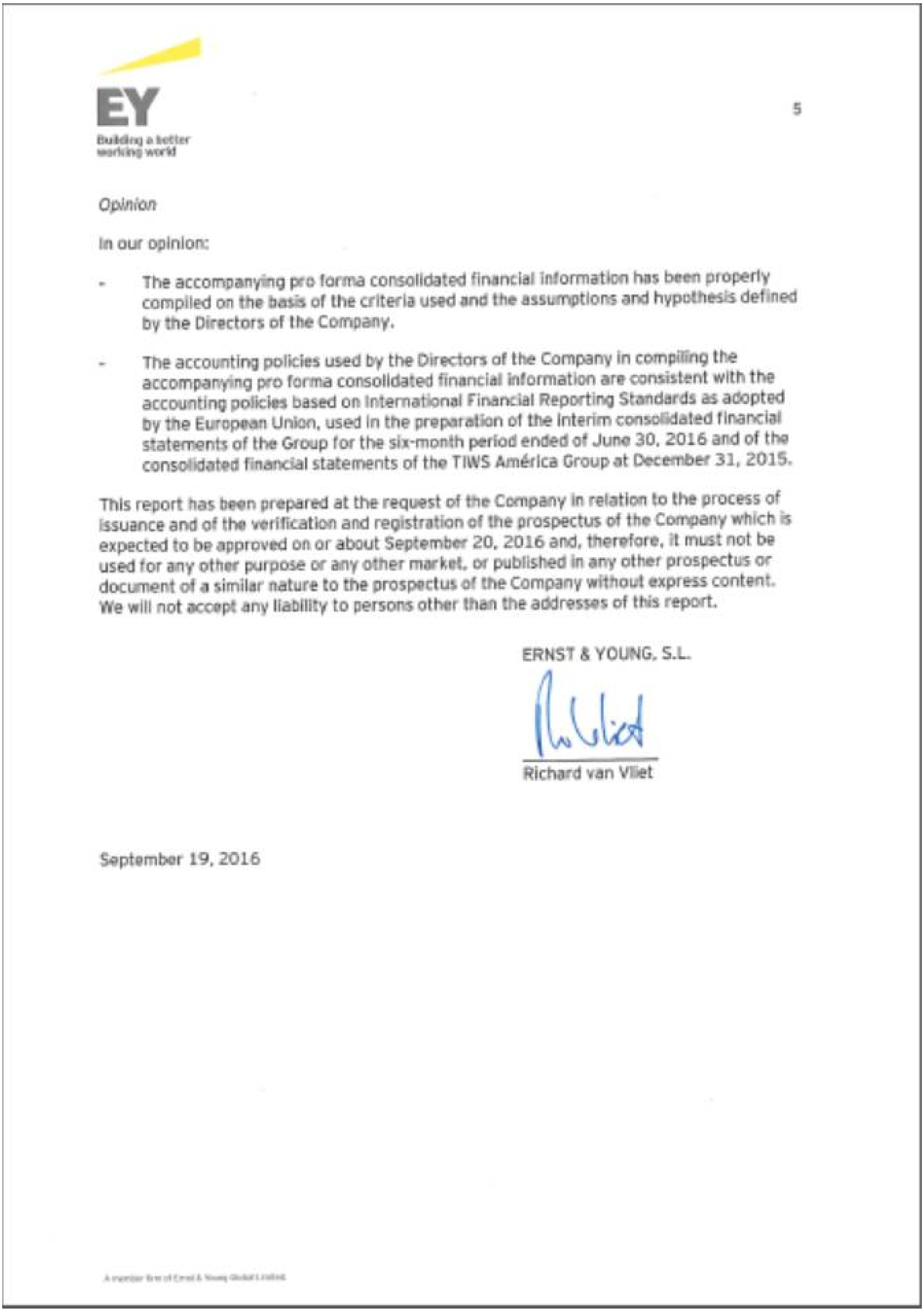
The aim of a report of this nature is to provide reasonable assurance on whether the pro forma consolidated financial information was compiled, in all material respects, on the basis of the criteria used in the preparation thereof and requires the performance of procedures necessary to assess whether the criteria used by the Directors of the Company in the aforementioned compilation provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence as to whether:

- The pro forma adjustments give the appropriate effect to those criteria;
- The pro forma consolidated financial information reflects the proper application of those adjustments to the historical information; and
- The accounting policies used by the Board of Directors of the Company in compiling the pro forma consolidated financial information are consistent with the accounting policies based on International Financial Reporting Standards as adopted by the European Union, used in the preparation of the interim consolidated financial statements of the Group for the six months ended June 30, 2016 and of the consolidated financial statements for the year ended December 31, 2015 of the TIWS América Group.

The procedures performed depend on our professional judgment, based on our understanding of the nature of the Company, the event or transaction in respect of which the pro forma consolidated financial information was compiled, and other relevant circumstances for the engagement.

The engagement also involves evaluating the overall presentation of the pro forma consolidated financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion:

- The accompanying pro forma consolidated financial information has been properly compiled on the basis of the criteria used and the assumptions and hypothesis defined by the Directors of the Company.

- The accounting policies used by the Directors of the Company in compiling the accompanying pro forma consolidated financial information are consistent with the accounting policies based on International Financial Reporting Standards as adopted by the European Union, used in the preparation of the interim consolidated financial statements of the Group for the six-month period ended of June 30, 2016 and of the consolidated financial statements of the TIWS América Group at December 31, 2015.

This report has been prepared at the request of the Company in relation to the process of issuance and of the verification and registration of the prospectus of the Company which is expected to be approved on or about September 20, 2016 and, therefore, it must not be used for any other purpose or any other market, or published in any other prospectus or document of a similar nature to the prospectus of the Company without express content. We will not accept any liability to persons other than the addresses of this report.

ERNST & YOUNG, S.L.

Richard van Vliet

September 19, 2016

FINANCIAL INFORMATION INCLUDING THE PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST, 2015 AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016 OF TELXIUS TELECOM S.A.U. AND RELATED EXPLANATORY NOTES

Telxius Telecom, S.A.U. and subsidiaries

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FINANCIAL INFORMATION INCLUDING THE PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST, 2015 AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016 OF TELXIUS TELECOM S.A.U. AND RELATED EXPLANATORY NOTES

1. BACKGROUND

This document presents the financial information including the pro-forma consolidated comprehensive income statements for the year ended December 31st, 2015 and the six-month period ended June 30th, 2016 (hereinafter the "**Pro-Forma Comprehensive Income Statement**") of Telxius Telecom, S.A.U. (hereinafter "**Telxius**" or the "**Company**") and the related explanatory notes (hereinafter the "**Pro-Forma Financial Information**").

Telxius' entire share capital at the date of this document is held by Telefonica S.A. ("**Telefonica S.A.**" and, together with its subsidiaries, "**Telefonica Group**").

Telxius is a global telecommunications infrastructure provider with presence around the world. It organizes its activities in two lines of business: the cable line of business (the "**Cable Business**") and the tower line of business (the "**Tower Business**").

The Cable Business primarily consists of the provision, as an international global carrier, of wholesale connectivity services (both Internet protocol ("IP") and capacity) for international data transmission to both other companies of the Telefonica Group and third parties through the Company's undersea infrastructure and international circuits.

The Tower Business primarily consists of the leasing of space on multi-tenant communications sites to wireless service providers and wireless data providers both to other companies of the Telefonica Group and third parties.

The Pro-Forma Financial Information has been prepared to be included in the prospectus relating to the offering and admission to listing of the Company's ordinary shares on the Spanish Stock Exchanges.

The Pro-Forma Financial Information has been prepared in application of European Commission regulation EC No 809/2004, using the acquisition method in compliance with IFRS, to represent the main effects of the Transfer as if all the transactions related to the Transfer (as detailed in Note 4) would have occurred on January 1st, 2015, for the purposes of the Company's Pro-forma consolidated comprehensive income statements for the year ended December 31, 2015 and for the six-month period ended June 30th, 2016.

The Pro-Forma Financial Information has been prepared for the purpose of presenting the main effects of the Transfer, in accordance with the accounting policies followed by the Company and the applicable legislation. It should be noted that the details contained in the Pro-Forma Financial Information represent a simulation that aims to illustrate the effects of the Transfer. Despite complying with generally accepted regulations and using reasonable assumptions, the Pro-Forma Financial Information has been prepared to retrospectively reflect the effects of subsequent transactions, and therefore, there are limits associated with the very nature of the Pro-Forma Financial Information. Consequently, it is important to keep in mind that, if the transactions would have occurred on the date assumed above, the effects would not necessarily have been the same as those presented in the Pro-Forma Financial Information.

Finally, the Pro-Forma Financial Information is not in any way intended to be a forecast of the Company's future results and therefore it should not be considered as such in any way.

The Pro-Forma Financial Information should be read in conjunction with the audited consolidated financial statements of Telefónica International Wholesale Services América, S.A. for the years ended December 31, 2014 and 2015 (hereinafter "**TIWS América consolidated financial statements**"), included in the Prospectus, which were prepared by Management on September 6th 2016, and audited by Ernst & Young, and the Company's consolidated interim financial statements as of and for the six-month period ended June 30th, 2016 (the "**Telxius Interim Financial Statements**"), which were approved by the Company's Board of Directors on September 7th 2016. Additionally, they should be read in conjunction with the audited consolidated financial statements of each of the companies within the Telefonica Group considered in the transfer of the tower business for the year ended December 31, 2015.

2. PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31ST, 2015

The following schedule sets forth the pro-forma consolidated comprehensive income statement for the year ended December 31, 2015 split by the different businesses that have been incorporated into the perimeter (described in Note 4), made to reflect the significant effects of the Transfer on the Company's comprehensive income statement.

Please note that the pro-forma consolidate comprehensive income statement, to which reference will be made throughout this document, has been subject to procedures performed by the external auditor of Telxius in accordance with the applicable International Standard of Assurance Engagements (ISAE) 3420.

2015 (thousands of Euro)	**TIWS America consolidated comprehensive income statement – Cable business**	Other historical Cable operating results	Pro-forma Cable adjustments	**Telxius Cable business**	Tower historical operating results	Pro-forma Tower adjust-ments	**Telxius Tower business**	**Other Pro-forma Adjustments**	**Total Pro-Forma Consolidated Comprehensive Income Statement**
	(b.1)	(b.2)	(b.3)		(b.4)	(b.5)		(b.6)	
IP and Capacity Cable Revenues	335,931	56,612	4,123	396,666	-	-	-	-	396,666
Tower Collocation	-	-	-	-	31,874	139,928	171,802	-	171,802
Other revenues	-	-	-	-	3,700	118,871	122,571	-	122,571
Revenues	**335,931**	**56,612**	**4,123**	**396,666**	**35,574**	**258,799**	**294,373**	**-**	**691,039**
Supplies (rebilling)	-	-	-	-	(108,196)	(8,593)	(116,789)	-	(116,789)
Supplies (other)	(95,294)	(12,115)	2,865	(104,544)	(20,601)	(1,603)	(22,204)	-	(126,748)
Personnel expenses	(13,018)	(9,707)	9,292	(13,433)	-	-	-	(7,014)	(20,447)
Other expenses	(43,540)	(13,870)	(22,191)	(79,601)	(1,131)	(16,401)	(17,532)	(6,446)	(103,579)
Expenses	**(151,852)**	**(35,692)**	**(10,034)**	**(197,578)**	**(129,928)**	**(26,597)**	**(156,525)**	**(13,460)**	**(367,563)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**184,079**	**20,920**	**(5,911)**	**199,088**	**(94,354)**	**232,202**	**137,848**	**(13,460)**	**323,476**
Depreciation and amortization	(67,378)	(4,699)	-	(72,077)	(62,697)	-	(62,697)	(62,159)	(196,933)
Operating Income	**116,701**	**16,221**	**(5,911)**	**127,011**	**(157,051)**	**232,202**	**75,151**	**(75,619)**	**126,543**
Net financial result	(11,083)	-	-	(11,083)	-	-	-	(9,584)	(20,667)
Profit (loss) before tax	**105,618**	**16,221**	**(5,911)**	**115,928**	**(157,051)**	**232,202**	**75,151**	**(85,203)**	**105,876**
Corporate income tax	(13,686)	(4,642)	-	(18,328)	45,319	(67,476)	(22,157)	28,981	(11,504)
RESULT FOR THE PERIOD	**91,932**	**11,579**	**(5,911)**	**97,600**	**(111,732)**	**164,726**	**52,994**	**(56,222)**	**94,372**

3. PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016

The following schedule sets forth the pro-forma consolidated comprehensive income statement for the six-month period ended June 30th 2016, including the different businesses that have been incorporated into the perimeter (described in Note 4), made to reflect the significant effects of the Transfer on the Company's comprehensive income statement

Please note that the pro-forma consolidate comprehensive income statement, to which reference will be made throughout this document, has been subject to procedures performed by the external auditor of Telxius in accordance with the applicable International Standard of Assurance Engagements (ISAE) 3420.

Six-month period ended June 30th 2016 (thousands of Euro)	**Telxius business Consolidated Comprehensive Income statement**	Other cable historical operating results	Pro-forma Cable adjust-ments	Other tower historical operating results	Pro-forma Tower adjust-ments	**Other Pro-forma Adjust-ments**	**Total Pro-Forma Consolidated Compre-hensive Income Statement**
	(b.1)	(b.2)	(b.3)	(b.4)	(b.5)	(b.6)	
IP and Capacity Cable Revenues	178,060	12,669	1,037	-	-	(211)	191,555
Tower Collocation	38,077	-	-	31,347	16,173	100	85,697
Other revenues	30,236	-	-	25,687	5,309	-	61,232
Revenues	**246,373**	**12,669**	**1,037**	**57,034**	**21,482**	**(111)**	**338,484**
Other income	11,942					(11,942)	-
Supplies (rebilling)	(25,572)	-	-	(28,840)	(722)	-	(55,134)
Supplies (other)	(48,101)	(3,585)	540	(5,392)	(1,164)	-	(57,702)
Personnel expenses	(8,626)	(2,143)	1,942	-	-	(2,347)	(11,174)
Other expenses	(41,522)	(2,355)	(4,966)	(2,145)	(4,196)	(889)	(56,073)
Net Expenses-Income	**(111,879)**	**(8,083)**	**(2,484)**	**(36,377)**	**(6,082)**	**(15,178)**	**(180,083)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**134,494**	**4,586**	**(1,447)**	**20,657**	**15,400**	**(15,289)**	**158,401**
Depreciation and amortization	(66,496)	(1,244)	-	(18,036)	-	(15,699)	(101,475)
Operating Income	**67,998**	**3,342**	**(1,447)**	**2,621**	**15,400**	**(30,988)**	**56,926**
Net financial result	3,263	-	-	(8)	705	(3,306)	654
Profit (loss) before tax	**71,261**	**3,342**	**(1,447)**	**2,613**	**16,105**	**(34,294)**	**57,580**
Corporate income tax	(13,938)	(836)	8.897	72	(6,444)	6,719	(5,530)
RESULT FOR THE PERIOD	**57,323**	**2,506**	**7,450**	**2,685**	**9,661**	**(27,575)**	**52,050**

In order to provide a comparison with the pro-forma consolidated comprehensive income statement for the year ended December 31st 2015 presented above, we include on Appendix I additional information with a similar breakdown of pro-forma consolidated comprehensive income statement for the six-month period ended June 30th 2016.

The following table sets forth a breakdown of Telxius Consolidated Comprehensive Income Statement for the six-month period ended June 30th 2016 (the first column of the table presented in the previous page), which includes the cable business, the tower business and the holding company.

The consolidated comprehensive income statement of Telxius for the cable business includes TIWS America operation for the six-month period ended June 30th 2016 and the cable business in Spain (hereinafter "**Cable Spain**") for the three-month period ended June 30th 2016.

The consolidated comprehensive income statement of Telxius for the tower business includes the operation of the tower business in Spain, Brazil and Peru for a three-month period ended June 30th 2016, since Telxius acquired the tower business in these countries from the Telefonica Group on March 31st 2016. It also includes the operation of the tower business in Chile and Germany for a two-month period ended June 30th 2016, since Telxius acquired the tower business in these countries on April 21st and May 1st 2016 respectively.

Six-month period ended June 30th 2016 (thousands of Euro)	**Cable business consolidated comprehensive income statement**	**Tower business consolidated comprehensive income statement**	**Other consolidated comprehensive income statement**	**Telxius consolidated comprehensive income statement**
	(b.1.1)	(b.1.2)	(b.1.3)	(b.1)
IP and Capacity Cable Revenues	178,060	-	-	178,060
Tower Collocation	-	38,077	-	38,077
Other revenues	3,332	26,904	-	30,236
Revenues	**181,392**	**64,981**	**-**	**246,373**
Other Income	-	-	11,942	11,942
Supplies (rebilling)	-	(25,572)	-	(25,572)
Supplies (other)	(44,487)	(3,614)	-	(48,101)
Personnel expenses	(6,940)	(525)	(1,161)	(8,626)
Other expenses	(37,906)	(1,319)	(2,297)	(41,522)
Net Expenses-Income	**(89,333)**	**(31,030)**	**8,484**	**(111,879)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**92,059**	**33,951**	**8,484**	**134,494**
Depreciation and amortization	(40,479)	(26,017)	-	(66,496)
Operating Income	**51,580**	**7,934**	**8,484**	**67,998**
Net financial result	5,219	(781)	(1,175)	3,263
Profit (loss) before tax	**56,799**	**7,153**	**7,309**	**71,261**
Corporate income tax	(15,069)	(25)	1,156	(13,938)
RESULT FOR THE PERIOD	**41,730**	**7,128**	**8,465**	**57,323**

4. THE TRANSFER

For the purposes of the pro-forma consolidated comprehensive income statements, the revenues and costs impacts have been considered as if all the business combinations denominated as the Transfer and described below would have occurred on January 1st, 2015.

The key elements of the Transfer are described below:

4.1 Tower business

On March 31st, 2016, Telxius acquired from the Telefonica Group the tower business in Spain, Brazil and Peru. Additionally, on April 21st, 2016, Telxius acquired from the Telefonica Group the tower business in Germany and on May 1st, 2016 Telxius acquired from the Telefonica Group the tower business in Chile (hereafter, considering the five countries, the "**Tower Business**").

The Tower Business consists of: i) 15,931 complete sites (hereinafter the "**Site**" is referred to a single site and **"Sites"** to all sites) including their towers, poles, containers and shelters, which are required to house the transmission systems for mobile telephone and radio networks (collectively referred to as "**Passive Infrastructures**"), and which are mainly located on leased property throughout Spain, Brazil, Peru, Germany and Chile; ii) the rights (lease and use contracts, building and rental rights etc.) to use spaces owned by third parties, and iii) the hosting arrangements agreed by the Telefonica Group with other operators regarding space on Sites.

The following table provides the number of Sites included in The Transfer at a country level.

	Number of Sites included
Spain	10,741
Brazil	1,655
Peru	849
Chile	327
Germany	2,359

The information has been structured by the countries where Telxius operates.

As consequence of the transfer of the Sites to Telxius, the following contracts have been signed between Telxius and the Telefonica Group, to govern the relationship for the Tower business:

i) Master Lease Agreement

The Master Lease Agreements with the Telefonica Group (hereinafter the "**MLA**" is referred to a single agreement and "**MLAs**" to all agreements) governs the "Integrated Hosting Services" provided by Telxius on all existing Sites.

Certain subsidiary companies (the "**Lessors**" and each of them a "**Lessor**") of Telxius have entered into five MLAs with certain subsidiary companies (the "**Lessees**" and each of them a "**Lessee**") of the Telefonica Group, to govern the use by the Lessees of certain spaces within the Sites, which form part of different portfolios of Sites located in Spain, Germany, Brazil, Chile and Peru, respectively.

The Sites were installed in the relevant areas of the abovementioned countries by virtue of different property assignment of use or lease agreements (the "**Ground Leases**") which were originally entered into by the Lessees with third parties and have been assigned by subsidiaries of the Telefonica Group to the Lessors. Therefore, the Lessor of each jurisdiction has stepped into (subrogation) the lessee's position in the Ground Leases.

By virtue of MLAs, the Lessees leases several spaces within the Sites (the "**Reserved Space**") to install (or to keep, in the case of pre-existing equipment) telecommunication equipment in exchange of a rent (the "**Telecommunication Equipment**").

Spain

The Master Lease Agreement in Spain was signed on February 18th, 2016 and is provided under the "Contrato de Coubicación" agreement.

It includes: (i) supply of physical space for the installation of the Telefonica Group's Telecommunication Equipment and (ii) supply of energy systems capable of ensuring an adequate supply of energy.

The total base consideration agreed for the provision of services will increase each January, starting January 1, 2017, by an amount equal to the previous year's percentage increase in the Spanish CPI, if positive.

The MLA has an initial term of 10 years from its effective date, starting from February 18th, 2016, and could be renewed on expiry for three further consecutive five-year terms. These renewals will be optional for the Telefonica Group and Telxius.

Brazil

The Master Lease Agreement in Brazil was signed on March 31st, 2016 and is provided under "Contrato Marco de Cesión de Uso de Espacio de Infraestructura y otros acuerdos" agreement.

This agreement includes the supply of physical space for the installation of the Telefonica Group's Telecommunication Equipment.

The total base consideration agreed for the provision of services will increase each January, starting January 1, 2017, by an amount equal to the previous year's percentage increase in the IPCA (Índice Nacional de Preços ao Consumidor Amplo) (Brazil's CPI), if positive.

The MLA has an initial term of 10 years from its effective date, and could be renewed on expiry for three further consecutive five-year terms if the Telefonica Group desires to do so. These renewals will be optional for the Telefonica Group and mandatory for Telxius.

Peru

The Master Lease Agreement in Peru was signed on March 31st, 2016 and is provided under "Contrato Marco de Usufructo de Espacio de Infraestructuras" agreement.

This agreement includes supply of physical space for the installation of the Telefonica Group's Telecommunication Equipment.

The total base consideration agreed for the provision of services will increase each January, starting January 1, 2017, by an amount equal to the previous year's percentage in the IPCLM (Índice de Precios al Consumidor de Lima Metropolitana) (Peru's CPI), if positive.

The MLA has an initial term of 10 years from its effective date, which coincides with the signature date, and could be renewed on expiry for three further consecutive five-year terms if the Telefonica Group desires to do so. These renewals will be optional for the Telefonica Group and mandatory for Telxius.

Chile

The Master Lease Agreement in Chile which was signed on April 27th, 2016 and came into effect as of April 1st, 2016 and is provided under "Contrato Marco de Arrendamiento de Espacio de Infraestructuras" agreement.

This agreement includes supply of physical space for the installation of the Telefonica Group's Telecommunication Equipment.

The total base consideration agreed for the provision of services will increase each January, starting January 1, 2017, by an amount equal to the previous year's percentage in the IPCC (Índice de Precios al Consumidor de Chile) (Chile's CPI), if positive.

The MLA has an initial term of 10 years from its effective date, which coincides with the signature date, and could be renewed on expiry for three further consecutive five-year terms if the Telefonica Group desires to do so. These renewals will be optional for the Telefonica Group and mandatory for Telxius.

Germany

The Master Lease Agreement in Germany was signed on April 20th, 2016 and came into economic effect as of January 1st, 2016 and is provided under "Master Agreement for the Leasing of Antenna Spaces ('Master Lease Agreement')" agreement.

This agreement includes supply of physical space for the installation of the Telefonica Group's Telecommunication Equipment.

The total base consideration agreed for the provision of services will increase each January, starting January 1st, 2017, by an amount equal to the previous year's percentage in the German CPI, if positive.

The MLA has an initial term of 15 years from its economic effective date and will be renewed on expiry for two further consecutive five-year terms if the Telefonica Group desires to do so.

Following the Extended Term, the Tower MLAs will be extended indefinitely unless they are terminated by either Party with a notice period of six months, in the case of Spain and Germany, and twelve months, in the rest of cases.

ii) Ground Lease Agreement

The Ground Lease Agreements (the "**Ground Lease Agreement**") cover the lease of properties of the Telefonica Group which are used by Telxius for Spain, Brazil and Chile and properties of Telxius which are used by the Telefonica Group for Peru.

Spain

The Company entered into a Ground Lease Agreement with the Telefonica Group on February 18th, 2016, which results in the lease of 863 properties owned by the Telefonica Group.

Despite the fact that those properties also host the Telefonica Group's infrastructure in addition to the Company's Passive Infrastructure, the Ground Lease Agreement only covers areas of the properties used by the Company.

The Ground Lease Agreement has a duration of 10 years and could be renewed under the same terms and conditions as the Master Lease Agreement. The right not to renew the Ground Lease Agreement can be exercised only in the event that the Master Lease Agreement had been terminated because of reasons attributable to the Telefonica Group.

Brazil

The Company entered into a Ground Lease Agreement with the Telefonica Group on March 31st, 2016, which is provided under "Contrato de Compraventa de Infraestructura, de Cesión de Contratos de Arrendamiento, Coubicación y Otros" within the Annex 4 "Relación de los Emplazamientos titularidad del Vendedor", which results in the lease of 86 properties owned by the Telefonica Group.

At present, the contracts for different properties are in process of signing and closing of its duration. It is estimated to have an initial term of 5 years that may be automatically renewed for equal periods. However, the costs associated with these contracts have been recorded in the pro-forma consolidated comprehensive income statements for the period before the acquisition of the Brazilean Tower Business (i.e. the year 2015 and the three-month period ended 31st March, 2016) as a pro-forma adjustment, and, since the acquisition of the Brazilean Tower Business (i.e. the three-month period ended June 30st, 2016) included in Telxius business Consolidated Comprehensive Income statement.

Peru

The Company entered into a Ground Lease Agreement with the Telefonica Group on March 31st, 2016, which is provided under "Contrato de Compraventa" within the Annex 3 "Modelo de Cesión de Uso de Sitios". The Agreement refers to the lease of 35 properties owned by Telxius.

The Ground Lease Agreement has an initial term of 10 years from its effective date and could be automatically renewed on expiry for three further consecutive five-year terms. After the third five-year term the agreement will be renewed indefinitely.

Chile

The Company entered into a Ground Lease Agreement with the Telefonica Group on April 25th, 2016 and is provided under two different agreements; one that involves an agreement referring to 19 properties owned by Telefonica Chile S.A. (provided under "Contrato de Arrendamiento, para Uso de Espacios en Inmuebles" agreement), and another referring to 2 properties owned by Telefonica Moviles Chile S.A. (provided under "Contrato de Arrendamiento, para Uso de Espacios en Inmuebles" agreement).

The Ground Lease Agreement has an initial term of 5 years from its effective date and could be automatically renewed annually.

iii) Transition Service Agreement

The Transition Service Agreement (hereinafter the "**TSA**" is referred to a single agreement and "**TSAs**" to all agreements) refers to an agreement with the Telefonica Group for the provision of services which cannot be initially provided by Telxius, but are required to provide business continuity to operate on a standalone basis.

Spain

Signed by the Company and the Telefonica Group on February 18th, 2016, the TSA came into effect on the signature date and is provided under a set of annexes provided under two contracts with the Telefonica Group.

The agreement states that the provided services are set out in each of the annexes of the agreement:

- *"Anexo Construcción y Adecuación de infraestructuras"*
- *"Anexo Servicio de Mantenimiento y Supervisión"*
- *"Anexo Acuerdo de Servicio de Mantenimiento"*
- *"Anexo Gestión de Servicios de Seguridad"*
- *"Anexo Servicio de Gestión de la Energía Eléctrica"*
- *"Anexo Servicio de Prospección y Contratación de Emplazamientos Nuevos"*
- *"Anexo Servicio de Mantenimiento de los contratos / gestión de incidencias e informes"*
- *"Anexo Servicio de Coubicación"*
- *"Anexo Servicio de Facturación y Pagos"*
- *"Anexo Servicio de Atención al Arrendador"*
- *"Anexo Servicio de Proyecto de Legalización de Emplazamientos"*

These include: (i) maintenance management, (ii) supervision, (iii) global resources management, (iv) energy management, (v) security systems maintenance, (vi) security and surveillance and, (vii) business support services. The contract states that the Telefonica Group will be responsible for all the activities mentioned above and other services related to Passive Infrastructure located at the Sites.

The TSA has an initial term of 12 months from its effective date, and will be automatically renewed on expiry for three further consecutive six-month terms.

The right not to renew the TSA can be exercised only if one of the members of the contract expresses its intention not to renew the agreement within at least 3 months in advance in the case of Telxius and within at least 6 months in advance in the case of the Telefonica Group.

Peru

Signed by the Company and the Telefonica Group on March 29th, 2016, the TSA is provided under "Contrato de Locación de Servicios Integrados Estratégicos" and "Contrato de Locación de Servicios de Gestión, Supervisión y Mantenimiento de Infraestructura" agreements.

These agreements include: (i) strategic integrated services and (ii) management services, infrastructure monitoring and maintenance services. The contracts state that the Telefonica Group will be responsible for all the activities mentioned above and other services related to Passive Infrastructure located at the Sites.

The TSA contract provided under "Contrato de Locación de Servicios Integrados Estratégicos" has an unlimited duration and the contract provided under "Contrato de Locación de Servicios de Gestión, Supervisión y Mantenimiento de Infraestructura" expires on December 31st, 2016.

In both contracts, the right not to renew the agreement can be exercised at least 30 days in advance in the case of Telxius and within at least 6 months in advance in the case of the Telefonica Group.

Chile

Signed by the Company and the Telefonica Group on April 27th, 2016 and came into effect as of April 1st, 2016, the TSA is provided under "Contrato Marco de Prestación de Servicios" agreement.

This agreement includes: (i). general services, (ii) insurance management, (iii) treasury services, (iv) regulatory management, (v) financial management, (vi) management control, (vii) purchase management, (viii) tax services, (ix) wholesale services, (x) legal services, (xi) network management.

The TSA has an initial term of 12 months from its effective date, and will be automatically renewed on expiry for three further consecutive six-month terms.

The right not to renew the TSA can be exercised only, if one of the members of the contract expresses its intention not to renew the agreement within at least 3 months in advance in the case of Telxius and within at least 6 months in advance in the case of the Telefonica Group.

Germany

Signed by the Company and the Telefonica Group on April 19th, 2016, the TSA is provided under "Contract for temporary provision of support services" agreement.

This includes: (i) site management and site marketing services, (ii) condition monitoring and repairs services and (iii) finance, accounting, tax and procurement services. The contract states that the Telefonica Group will be responsible for all the activities mentioned above and other services related to Passive Infrastructure located at the Sites.

The TSA has an initial term of 12 months from its effective date. Before the expiration of this contract, the parties shall in good faith enter into a discussion with regard to the eventual extension of the term, if requested by Telxius.

4.2. Cable business

On March 31st, 2016, within the framework of the creation of Telxius, Telefónica International Wholesale Services América, S.A. and subsidiaries (hereinafter, TIWS America Cable) were incorporated into Telxius' perimeter after the carve-out of the non-cable businesses. Those non-cable businesses remained within the Telefonica Group.

In addition, on March 31st, 2016, Telxius acquired the cable assets and business from Telefonica International Wholesale Services, S.L., (hereinafter, TIWS S.L. Carve In) , while the rest of operations and assets of that company and the company itself remained as a business line of the Telefonica Group, which has been named Gr. TIWS.

Because there will still be business relationships between Telxius and companies within Gr. TIWS (hereinafter, referred to as TIWS I), the pro-forma consolidated comprehensive income statements express the relationships that would exist between them as if the contracts between Telxius and TIWS I had been signed on January 1st, 2015.

As consequence of the transfer of the cable business to Telxius, the following contracts have been signed between Telxius and the Telefonica Group, to govern the relationship for the Cable business.

i) Cable Master Commercial Agreement

On March 31st, 2016, the Telefonica Group and Telxius entered into the Master Commercial Agreement (the "**Cable MCA**") to govern the provision of IP transit services by Telxius, directly or through its affiliates, to other companies within the Telefonica Group. This Cable MCA is effective as of January 1st, 2016.

Telxius shall provide the services to the Telefonica Group for an initial five-year term. Thereafter, the Cable MCA shall be automatically renewed for a three-year term, provided that Telxius and the Telefonica Group agree on the prices to be applied during such three-year term.

ii) Cable Outsourcing Agreements

Effective as of April 1st, 2016, TIWS I (as service provider) and Telxius (as service recipient), entered into a set of four service agreements under which the former shall provide to the latter services in support to the selling workforce and professional technical services in support of the company's business, infrastructure support services necessary for the Company to expand and support its own infrastructure and temporary professional services, as follows:

- The "**Marketing Outsourcing Agreement**"

Pursuant to the Marketing Outsourcing Agreement, TIWS I shall provide Telxius with commercial support services in a worldwide scope.

The Marketing Outsourcing Agreement is effective from April 1st, 2016 up to December 31st 2017. Notwithstanding, Telxius has the option to migrate all the commercial activities assigned to TIWS I to its own workforce during the contract term. Once elapsed the initial term, the Marketing Outsourcing Agreement shall be automatically renewed for three consecutive periods of one year each, provided that any party has not refused to do so or unilaterally early terminated it with a six month prior notice, up to December 31st, 2020.

- The "**Professional Services Outsourcing Agreement**"

Pursuant to the Professional Services Outsourcing Agreement, TIWS I shall provide Telxius with professional services in support of the company's business.

The Professional Services Outsourcing Agreement is effective from April 1st 2016 up to December 31st 2017, Once elapsed the initial term, the Professional Service Outsourcing Agreement shall be automatically renewed for three consecutive periods of one year each, provided that any party has not refused to do so or unilaterally early terminated it with a six month prior notice, up to December 31st, 2020.

- The "**Infrastructure Extension Outsourcing Agreement**"

Pursuant to the Infrastructure Extension Outsourcing Agreement, TIWS I shall provide Telxius with certain services needed in order to allow Telxius to extend and give support to its network, including the following specific services:(i) housing services, (ii) IP network maintenance and Anti-Distributed Denial of Service (DDoS) attacks equipment maintenance and (iii) Information Technology Operation Support Service and Business Support System services.

The Infrastructure Extension Outsourcing Agreement is affective from April 1st, 2016 up to December 31st, 2017. Once elapsed the initial term, the Infrastructure Extension Outsourcing Agreement shall be automatically renewed for three consecutive periods of one year each, provided that any party has not refused to do so or unilaterally early terminated it with a six month prior notice, up to December 31st, 2020.

- The "**Defined Services Outsourcing Agreement**"

Pursuant to the Defined Services Outsourcing Agreement, TIWS I shall provide Telxius with certain services limited in term on an annual basis as agreed between Telxius and TIWS I.

The Defined Services Outsourcing Agreement is effective from April 1st 2016 up to December 31st 2017. Once elapsed the initial term, the Defined Services Outsourcing Agreement shall be automatically renewed for three consecutive periods of one year each, provided that any party has not refused to do so or unilaterally early terminated it with a six month prior notice, up to December 31st, 2020.

Thus for the first period of the Defined Services Outsourcing Agreement, i.e. up to December 31st 2016, TIWS I shall provide technical services such as Internet transit, Virtual NAP or Housing Colocation focussed to improve Telxius's services.

The services to be provided and the associated fees for the rest of the agreement will be agreed between the parties within the six months preceding the commencement of the next calendar year.

4.3. Debt and Equity structure

On May 27th, 2016, Telefónica, S.A. approved a new debt and equity structure for Telxius, which resulted in the repayment of short-term debt held with the Telefónica Group of approximately 1.200 million euros, financed through a capital increase of 501,5 million euros and through a long-term loan of 700 million euros provided by the Telefónica Group. For the purposes of the pro-forma, the financial expenses as consequence of that structure have been considered in the pro-forma consolidated comprehensive income statements as if the structure would have been in place since January 1st, 2015.

4.4. Other pro-forma adjustments

In addition to the above transactions, for the purposes of the pro-forma consolidated comprehensive income statements, the following impacts have been considered retrospectively since January 1st, 2015:

- the incremental corporate costs required for the new group to operate on a standalone basis, obtained from Telxius' budget.

- the amortization expenses related to the new assets recognized in Telxius' consolidated statement of financial position as of June 30th, 2016 as consequence of the Purchase Price Allocation (PPA) exercise, calculated on an annual and semi-annual basis for the year ended December 31st, 2015 and for the six-month period ended June 30th, 2016 respectively.

5. EXPLANATORY NOTES

5.1 Basis of preparation and accounting policies adopted

The accounting policies adopted in preparing the Pro-Forma Financial Information are consistent with those used to prepare Telxius' consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, including all the "International Accounting Standards" and all the interpretations of the "International Financial Reporting Interpretations Committee," previously known as the "Standing Interpretations Committee," as endorsed by the European Union ("**IFRS-EU**").

Unless otherwise indicated, all amounts in this document are expressed in thousands of Euro.

5.2 Historical information considered in preparing the Pro-Forma Consolidated Comprehensive Income Statement

This historical information considered in the Pro-Forma Consolidated Comprehensive Income Statements includes all the income and expenses directly attributable to those businesses as reflected in Telxius Group after April 1st and the Telefonica Group, relating to income and expenses associated to those businesses previous to the incorporation to Telxius' perimeter, as if those businesses would have been incorporated into Telxius' perimeter since January 1st, 2015. The source of the historical financial information used is summarized as follows:

- The audited consolidated comprehensive income statement of continuing operations of TIWS America Cable for the year ended December 31st, 2015 as the source of information for the pro-forma consolidated comprehensive income statement for the year ended December 31st, 2015.
- For the purposes of the pro-forma consolidated comprehensive income statement for the six-month period ended June 30th, 2016, the source of information used has been the consolidated comprehensive income statement of Telxius for the six-month period ended June 30th 2016, which reflects mainly the results of TIWS América Cable business as acquiring entity, as the rest of the businesses have been incorporated into Telxius' perimeter in April, May and June, as mentioned in Note 4 "The Transfer".
- The historical operating results for the year ended December 31st, 2015 and for the three-month period ended March 31st, 2016 that result from the Carve-in of TIWS S.L. in relation to the Cable business, are directly derived from the audited 2015 annual accounts and March 2016 management accounts of TIWS S.L. respectively and the adjustments to exclude the intercompany transactions between TIWS America Cable and TIWS S.L. are directly derived from the historical accounting records for those periods respectively.
- The Tower Business historical operating results with third parties and the depreciation and amortization of non-current assets for the year ended December 31st, 2015 and for the three-month period from 1st January 2016 to March 31th, 2016 (except four-month period ended April 30th 2016 for Chile and Germany), are derived from the accounting records and management accounts of the Telefonica Group. Telxius accounts includes the three-month period from March 31th 2016 to June 30th, 2016 (except two-month period ended June 30th 2016 for Chile and Germany).

5.3 Pro-forma adjustments made in preparing the Pro-Forma Consolidated Comprehensive Income Statement

The pro-forma adjustments made in preparing the Pro-Forma Consolidated Comprehensive Income Statements are described below. Firstly, however, it is noted that the Telxius Business until April 1st, 2016:

- had never, operated autonomously as a separate company
- did not constitute an operating segment (in accordance with IFRS 8 – Operating Segments) within the Telefonica Group. In accordance with IFRS 8, an operating segment is a component of an entity:
    - o that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

    - whose operating results are reviewed regularly by the Telefonica Group's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.
- had not been monitored separately by the Telefonica Group management

Accordingly, the operating results of the Business for the year ended December 31st, 2015 and for the six-month period ended June 30th, 2016 are based on the historical accounting records of Telxius and Telefonica Group. Specifically, the tower businesses are accounted individually per site, not requiring the definition of an allocation criteria. Regarding to cable businesses, it is not requiring special criteria to allocate costs because the operating results are based on the historical accounting records.

However, Pro-forma adjustments are considered for the tower and cable businesses to reflect the agreements between Telxius and the Telefonica Group, described in Note 4 and certain incremental costs that would be required to operate as a Group on a standalone basis. These costs have been considered on a pro-forma basis, in order to reflect the performance of the standalone business as if the Group would have been operating since January 1st, 2015. Moreover, the additional amortization expenses to reflect the impacts of the PPA adjustments are also incorporated in a pro-forma basis retrospectively from 1st January 2015. These figures are the result of the business combinations, being reflected at fair value in the Telxius consolidated statement of financial position as of June 30th, 2016.

5.4. Pro-forma Consolidated Comprehensive Income Statements for the year ended December 31, 2015 and the six-month period ended June 30th, 2016

Note (b.1) – TIWS America consolidated comprehensive income statement – Cable business for the year ended December 31, 2015/ Telxius consolidated comprehensive income statement for the six-month period ended June 30th 2016

This column includes the audited consolidated comprehensive income statement of continuing operations of TIWS America for the year ended December 31st, 2015 and the consolidated comprehensive income statement of Telxius (cable and tower business) for the six-month period ended June 30th, 2016.

Note (b.1.1). Telxius consolidated comprehensive income statement for the six-month period ended June 30th 2016 for the cable business

The following table sets forth a breakdown of the consolidated comprehensive income statement of Telxius for the cable business, which includes TIWS America for the six-month period ended June 30th and the cable business in Spain (hereinafter "**Cable Spain**") for the three-month period ended June 30th 2016.

six-month period ended June 30th 2016 (thousands of Euro)	**Telxius Cable business Consolidated Compre-hensive Income Statement (TIWS America)**	**Telxius Cable business Consolidated Compre-hensive Income Statement (Cable Spain)**	**Cable business consolidated Comprehensive-income statement**
			(b.1.1)
IP and Capacity Cable Revenues	151,476	26,584	178,060
Other revenues	2,574	758	3,332
Revenues	**154,050**	**27,342**	**181,392**
Supplies	(36,401)	(8,086)	(44,487)
Personnel expenses	(6,427)	(513)	(6,940)
Other expenses	(27,281)	(10,625)	(37,906)
Expenses	**(70,109)**	**(19,224)**	**(89,333)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**83,941**	**8,118**	**92,059**
Depreciation and amortization	(35,956)	(4,523)	(40,479)
Operating Income	**47,985**	**3,595**	**51,580**
Net financial result	5,342	(123)	5,219
Profit (loss) before tax	**53,327**	**3,472**	**56,799**
Corporate income tax	(14,414)	(655)	(15,069)
RESULT FOR THE PERIOD	**38,913**	**2,817**	**41,730**

The following table sets forth a breakdown of the consolidated comprehensive income statement of Cable Spain.

six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the Cable Business in Spain	Purchase Price Allocation (PPA) for the Cable Business in Spain	InterCo Adjustment	**Cable Spain**
IP and Capacity Cable Revenues	32,607	(211)	(5,812)	26,584
Other revenues	758	-	-	758
Revenues	**33,365**	**(211)**	**(5,812)**	**27,342**
Supplies (rebilling)	(13,898)	-	5,812	(8,086)
Personnel expenses	(513)	-	-	(513)
Other expenses	(10,625)	-	-	(10,625)
Expenses	**(25,036)**	**-**	**5,812**	**(19,224)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**8,329**	**(211)**	**-**	**8,118**
Depreciation and amortization	(1,263)	(3,260)	-	(4,523)
Operating Income	**7,066**	**(3,471)**	**-**	**3,595**
Net financial result	(123)	-	-	(123)
Profit (loss) before tax	**6,943**	**(3,471)**	**-**	**3,472**
Corporate income tax	(655)	-	-	(655)
RESULT FOR THE PERIOD	**6,288**	**(3,471)**	**-**	**2,817**

Note (b.1.2). Tower business consolidated comprehensive income statement for the six-month period ended June 30th 2016

This column includes the consolidated comprehensive income statement for the tower business for the six-month period ended June 30th, 2016, since Telxius acquired from the Telefonica Group the tower business in Spain, Brazil and Peru on March 31st 2016, in Germany on April 21st 2016 and in Chile on May 1st 2016.

Therefore, the consolidated comprehensive income statement includes the results for the three-month period ended June 30th 2016 for Spain, Brazil and Peru and the two-month period ended June 30th 2016 for Chile and Germany.

The following table sets forth the results for the countries where Telxius operates.

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Telxius Tower business consolidated comprehensive income statements**
						(b.1.2)
Tower Collocation	23,585	4,557	1,492	626	7,817	38,077
Other revenues	22,091	2,881	1,227	655	50	26,904
Revenues	**45,676**	**7,438**	**2,719**	**1,281**	**7,867**	**64,981**
Supplies (rebilling)	(20,930)	(2,881)	(1,105)	(656)	-	(25,572)
Supplies (other)	(1,840)	(118)	(71)	-	(1,585)	(3,614)
Other expenses	(887)	(509)	(134)	(72)	(242)	(1,844)
Expenses	**(23,657)**	**(3,508)**	**(1,310)**	**(728)**	**(1,827)**	**(31,030)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**22,019**	**3,930**	**1,409**	**553**	**6,040**	**33,951**
Depreciation and amortization	(17,886)	(2,090)	(796)	(213)	(5,032)	(26,017)
Operating Income	**4,133**	**1,840**	**613**	**340**	**1,008**	**7,934**
Net financial result	(7)	(700)	(53)	(17)	(4)	(781)
Profit (loss) before tax	**4,126**	**1,140**	**560**	**323**	**1,004**	**7,153**
Corporate income tax	535	(385)	(95)	(80)	-	(25)
RESULT FOR THE PERIOD	**4,661**	**755**	**465**	**243**	**1,004**	**7,128**

The following tables set forth the breakdown of the historical operating results and the Purchase Price Allocation (PPA) for the tower business for each country where Telxius operates.

As previously explained, the Tower business consolidated comprehensive income statement for Spain for the six-month period ended June 30th 2016 only refers to the three-month period ended June 30th 2016, since the acquisition took place in March 31st 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the tower business in Spain	Purchase Price Allocation (PPA) for the tower business in Spain	**Spain tower business consolidated comprehensive income statements**
Tower Collocation	23,585	-	23,585
Other revenues	22,091	-	22,090
Revenues	**45,676**	**-**	**45,675**
Supplies (rebilling)	(20,930)	-	(20,930)
Supplies (other)	(1,840)	-	(1,840)
Other expenses	(886)	-	(886)
Expenses	(23,656)	-	(23,656)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**22,019**	**-**	**22,019**
Depreciation and amortization	(9,835)	(8,051)	(17,886)
Operating Income	**12,184**	**(8,051)**	**4,133**
Net financial result	(7)	-	(7)
Profit (loss) before tax	**12,177**	**(8,051)**	**4,126**
Corporate income tax	(2,972)	3,507	535
RESULT FOR THE PERIOD	**9,205**	**(4,544)**	**4,661**

In the case of Brazil, the Tower business consolidated comprehensive income statement for the six-month period ended June 30th 2016 only refers to the three-month period ended June 30th 2016, since the acquisition took place in March 31st 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the tower business in Brazil	Purchase Price Allocation (PPA) for the tower business in Brazil	**Brazil tower business consolidated comprehensive income statements**
Tower Collocation	4,557	-	4,557
Other revenues	2,881	-	2,881
Revenues	**7,438**	**-**	**7,438**
Supplies (rebilling)	(2,881)	-	(2,881)
Supplies (other)	(118)	-	(118)
Other expenses	(509)	-	(509)
Expenses	**(3,508)**	**-**	**(3,508)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**3,930**	**-**	**3,930**
Depreciation and amortization	(574)	(1,516)	(2,090)
Operating Income	**3,356**	**(1,516)**	**1,840**
Net financial result	(700)	-	(700)
Profit (loss) before tax	**2,656**	**(1,516)**	**1,140**
Corporate income tax	(385)	-	(385)
RESULT FOR THE PERIOD	**2,271**	**(1,516)**	**755**

In the case of Peru, the Tower business consolidated comprehensive income statement for the six-month period ended June 30th 2016 only refers to the three-month period ended June 30th 2016, since the acquisition took place in March 31st 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the tower business in Peru	Purchase Price Allocation (PPA) for the tower business in Peru	**Peru tower business consolidated comprehensive income statements**
Tower Collocation	1,492	-	1,492
Other revenues	1,227	-	1,227
Revenues	**2,719**	**-**	**2,719**
Supplies (rebilling)	(1,105)	-	(1,105)
Supplies (other)	(71)	-	(71)
Other expenses	(134)	-	(134)
Expenses	**(1,310)**	**-**	**(1,310)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**1,409**	**-**	**1,409**
Depreciation and amortization	(615)	(181)	(796)
Operating Income	**794**	**(181)**	**613**
Net financial result	(53)	-	(53)
Profit (loss) before tax	**741**	**(181)**	**560**
Corporate income tax	(213)	118	(95)
RESULT FOR THE PERIOD	**528**	**(63)**	**465**

In the case of Chile, the Tower business consolidated comprehensive income statement for the six-month period ended June 30th 2016 only refers the two-month period ended June 30th 2016, since the acquisition took place in May 1st 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the tower business in Chile	Purchase Price Allocation (PPA) for the tower business in Chile	**Chile tower business consolidated comprehensive income statements**
Tower Collocation	626	-	626
Other revenues	655	-	655
Revenues	**1,281**	**-**	**1,281**
Supplies (rebilling)	(656)	-	(656)
Supplies (other)	-	-	-
Other expenses	(72)	-	(72)
Expenses	**(728)**	**-**	**(728)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**553**	**-**	**553**
Depreciation and amortization	(233)	20	(213)
Operating Income	**320**	**20**	**340**
Net financial result	(17)	-	(17)
Profit (loss) before tax	**303**	**20**	**323**
Corporate income tax	(117)	37	(80)
RESULT FOR THE PERIOD	**186**	**57**	**243**

In Germany, the Tower business consolidated comprehensive income statement for the six-month period ended June 30th 2016 only refers to the two-month period ended June 30th 2016, since the acquisition took place in April 21st 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Historical operating results for the tower business in Germany	Purchase Price Allocation (PPA) for the tower business in Germany	**Germany tower business consolidated comprehensive income statements**
Tower Collocation	7,817	-	7,817
Other revenues	-	50	50
Revenues	**7,817**	**50**	**7,867**
Supplies (rebilling)	-	-	-
Supplies (other)	(1,585)	-	(1,585)
Other expenses	(242)	-	(242)
Expenses	**(1,827)**	**-**	**(1,827)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**5,990**	**50**	**6,040**
Depreciation and amortization	(2,798)	(2,234)	(5,032)
Operating Income	**3,192**	**(2,184)**	**1,008**
Net financial result		(4)	(4)
Profit (loss) before tax	**3,192**	**(2,188)**	**1,004**
Corporate income tax	-	-	-
RESULT FOR THE PERIOD	**3,192**	**(2,188)**	**1,004**

Note (b.1.3) – Other Consolidated comprehensive income statement for the six-month period ended June 30th 2016

This column includes the consolidated comprehensive income statement of Telxius for the holding for the six-month period ended June 30th, 2016, mainly incurred in the months of April, May and June

Note (b.2) – Other historical Cable operating results

The following table sets forth a breakdown of *Other historical operating results* for the year ended December 31st, 2015:

2015 (thousands of Euro)	Carve in TIWS S.L.	InterCo Adjustment	Other Historical Cable operating results
			(b.2)
IP and Capacity Cable Revenues	160,777	(104,165)	56,612
Tower Collocation	-	-	-
Other revenues	-	-	-
Revenues	**160,777**	**(104,165)**	**56,612**
Supplies (rebilling)	-	-	-
Supplies (other)	(116,280)	104,165	(12,115)
Personnel expenses	(9,707)	-	(9,707)
Other expenses	(13,870)	-	(13,870)
Expenses	**(139,857)**	**104,165**	**(35,692)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**20,920**	**-**	**20,920**
Depreciation and amortization	(4,699)	-	(4,699)
Operating Income	**16,221**	**-**	**16,221**
Net financial expense	-	-	-
Profit (loss) before tax	**16,221**	**-**	**16,221**
Corporate income tax	(4,642)	-	(4,642)
RESULT FOR THE PERIOD	**11,579**	**-**	**11,579**

The following table sets forth a breakdown of *Other historical operating results* for the six-month period ended June 30th, 2016, which includes the results for the three-month period ended March 31st, 2016 of the Cable business within TIWS S.L. before the acquisition, since the results for the following three-month period (from April to June) are considered as Cable Spain Consolidated Comprehensive Income Statement within Telxius consolidated income statement for the six-month period ended June 30th, 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	Carve in TIWS S.L.	InterCo Adjustment	Other Historical Cable operating results
			(b.2)
IP and Capacity Cable Revenues	40,469	(27,800)	12,669
Tower Collocation	-	-	-
Other revenues	-	-	-
Revenues	**40,469**	**(27,800)**	**12,669**
Supplies (rebilling)	-	-	-
Supplies (other)	(31,385)	27,800	(3,585)
Personnel expenses	(2,143)	-	(2,143)
Other expenses	(2,355)	-	(2,355)
Expenses	**(35,883)**	**27,800**	**(8,083)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**4,586**	**-**	**4,586**
Depreciation and amortization	(1,244)	-	(1,244)
Operating Income	**3,342**	**-**	**3,342**
Net financial result	-	-	-
Profit (loss) before tax	**3,342**	**-**	**3,342**
Corporate income tax	(836)	-	(836)
RESULT FOR THE PERIOD	**2,506**	**-**	**2,506**

Carve In of TIWS S.L.

This column includes for the year ended December 31st, 2015, the operating results for the year ended December 31st, 2015 that result from TIWS S.L. Carve In, corresponding with discontinued operations, which are directly derived from the audited financial statements of TIWS S.L and for the six-month period ended June 30th 2016, the operating results for the three-month period ended March 31st 2016 before the acquisition of the Cable Spain business, derived from the management accounts of TIWS S.L, since the results for the following three-month period are considered as Cable Spain Consolidated Comprehensive Income Statement within Telxius consolidated income statement for the six-month period ended June 30th, 2016..

Accordingly, this adjustment reflects the inclusion of TIWS S.L. Cable business, which is part of the Telxius' perimeter, as if the transaction would have taken place on January 1st, 2015.

Intercompany adjustment

This column includes the adjustments to exclude the intercompany transactions between TIWS America Cable and TIWS S.L Carve In in relation to the Cable business for the year ended December 31st, 2015 and for the six-month period ended June 30th 2016. These adjustments have been directly derived from historical accounting records of the involved companies on those periods.

Note (b.3) – Pro-forma Cable adjustments

This column includes the pro-forma adjustments that relate to those additional revenues/costs that will be incurred by Telxius as consequence of its new relationship with TIWS I, since these entities operate as separated business units. The Pro-forma adjustments include the incremental effect of the agreements between Telxius and TIWS I related to the Cable Master Commercial Agreement (Cable MCA) and the Cable Outsourcing Agreements, described in Note 4.2.

The different concepts, before the incremental effects of the agreements between Telxius and TIWS I, can be identified individually by the Consolidated Comprehensive Income Statement caption with the historical financial information, to provide business continuity at least on a temporary basis. As previously explained, for the three-month period ended June 30th 2016, the effect of the agreements between Telxius and TIWS I is reflected in the Consolidated Comprehensive Income Statement of Telxius as those contracts took effect from April 1st, 2016.

(thousands of Euro)	2015	Six month period ended June 30th 2016
	(b.3)	(b.3)
IP and Capacity Cable Revenues	4,123	1,037
Revenues	**4,123**	**1,037**
Supplies (other)	2,865	540
Personnel expenses	9,292	1,942
Other expenses	(22,191)	(4,966)
Expenses	**(10,034)**	**(2,484)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(5,911)**	**(1,447)**
Depreciation and amortization	-	-
Operating Income	**(5,911)**	**(1,447)**
Net financial result	**-**	**-**
Profit (loss) before tax	**(5.911)**	**(1.447)**
Corporate income tax	-	**8.897**
RESULT FOR THE PERIOD	**(5.911)**	**7.450**

Revenues

Revenues reflect the incremental impacts on historical revenues for the rebilling of costs to the Telefonica Group due to the new contractual conditions signed after the incorporation to Telxius perimeter, according to the Cable MCA as described in Note 4.2.

- Revenues from International Circuits (Cable MCA)
- Revenues from Housings Americas (Cable MCA)

Expenses

Expenses reflects the incremental costs impact to historical costs due to the new contractual conditions signed between Telxius and TIWS I in relation to certain services that will be provided by TIWS I as part of the Cable Outsourcing Agreement, as described in Note 4.2.

It includes commercial payroll costs (provision from the Telefonica Group of IP & Capacity sales support), factory payroll costs, factory subcontractors' costs, factory maintenance costs, factory housings costs, other factory costs, indirect tax costs, other indirect, additional costs and fixed assets utilization costs.

Corporate income tax

This adjustment reflects the reversal of the one-off amount included in Telxius Consolidated Comprehensive Income statement for the six-month period ended June 30th, 2016, concerning tax issues for pro forma purposes. The most relevant adjustments to the corporate income tax expense relate mainly to foreign exchange gains in Telxius Brazil materialized for tax purposes in the first half of 2016, amounting to 6,804 thousand euros. This one-off adjustment was generated by the settlement of certain accumulated receivables and payables between group companies.

Other tax adjustments mainly come from differences between the provision of income tax expense accounted for at the end of 2015 and the final calculation of tax amounting to 2,093 thousand euros.

Note (b.4) – Other Tower historical operating results

This column includes the Tower Business historical operating results with third parties and the depreciation and amortization of non-current assets for the year ended December 31st, 2015 and for the six-month period ended June 30th 2016 before Telxius' acquisition of each tower business. In 2015, these figures are derived from Audited financial statement for each of the companies within the Telefonica Group. For the six-month period ended June 30th, 2016, these figures are derived from the interim management accounts as of June 30th 2016, subject to limited review, for each of the companies within the Telefónica Group. For the six-month period ended June 30th, 2016, this column only includes revenues and expenses until the acquisition of the different tower businesses by Telxius, in particular, three months for the tower businesses in Spain, Brazil and Peru (from January to March) and four months for tower businesses in Chile and Germany (from January to April).

In most cases, historical operating costs, included in the audited financial statement for each of the companies, are accounted individually per site, not requiring the definition of an allocation criteria.

The information has been structured by the countries where Telxius operates.

The following schedule sets forth the Tower Business historical operating results by country for the year ended December 31st, 2015:

2015 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)
Tower Collocation	11,027	7,406	16	1,333	12,092	31,874
Other revenues	3,116	-	-	-	584	3,700
Revenues	**14,143**	**7,406**	**16**	**1,333**	**12,676**	**35,574**
Supplies (rebilling)	(89,299)	(11,325)	(4,046)	(3,526)	-	(108,196)
Supplies (other)	(6,971)	(4,982)	(554)	-	(8,094)	(20,601)
Other expenses	(658)	(394)	(79)	-	-	(1,131)
Expenses	**(96,928)**	**(16,701)**	**(4,679)**	**(3,526)**	**(8,094)**	**(129,928)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(82,785)**	**(9,295)**	**(4,663)**	**(2,193)**	**4,582**	**(94,354)**
Depreciation and amortization	(35,546)	(2,686)	(2,449)	(1,198)	(20,818)	(62,697)
Operating Income	**(118,331)**	**(11,981)**	**(7,112)**	**(3,391)**	**(16,236)**	**(157,051)**
Net financial result	-	-	-	-	-	-
Profit (loss) before tax	**(118,331)**	**(11,981)**	**(7,112)**	**(3,391)**	**(16,236)**	**(157,051)**
Corporate income tax	33,133	4,073	1,992	763	5,358	45,319
RESULT FOR THE PERIOD	**(85,198)**	**(7,908)**	**(5,120)**	**(2,628)**	**(10,878)**	**(111,732)**

The following schedule sets forth the Tower Business historical operating results by country for the six-month period ended June 30th, 2016. Note that revenues and expenses in Spain, resulting from the agreements with Telefonica for the three-month period ended March 31th 2016, are included in the table below as historical, since Telxius Torres España S.L.U., on an individual basis, has recorded all the impacts of the Transfer retrospectively from January 1st, 2016, in line with the Spanish accounting standards.

Under such standards, a demerger of a business into a new company carried out during the year shall have accounting effects as if it had taken place as of 1st January of such year. This means that all transactions corresponding to the demerged business that the preexisting company carried out with third parties from January 1st, 2016 to the legal effective date, have to be allocated to the new company, as if the preexisting company did them on behalf of the new company.

In addition, there are transactions between the new company and the preexisting company that have to be inferred as if the new company existed on 1st January 2016, for accounting purposes. They represent the use made by the preexisting company of the demerged assets and the services rendered to the demerged business with resources that do not correspond to such demerged business. These transactions do not appear in the accounts of the preexisting company before the legal effective date of the demerger, but considering as date for accounting purposes the beginning of the year, the use made by the preexisting company of the demerged assets until the legal effective date of the demerger, should be accounted for in the preexisting company, as an expense, and in the new company, as revenues, although it is not legally supported by any contract. The same applies to services provided by the preexisting company to the demerged business. These transactions have been recognized against reserves of both companies as part of the demerger process in their individual financial statements.

For the rest of the tower business, revenues and expenses for the six-month period ended June 30th 2016 are included in the Consolidated Comprehensive Income Statement of Telxius in accordance with the acquisition of the tower business in each country, as described in note (b.1.2). Therefore, the Other historical operating results for the tower business for the six-month period ended June 30th 2016, only refer to the three-month period ended March 31st 2016 for Spain, Brazil and Peru, and the four-month period ended April 31st 2016 for Chile and Germany.

From the legal effective date of the incorporation to Telxius' perimeter, all transactions are supported by the corresponding contracts and will be accounted for by the new company and/or by the preexisting company, as applicable.

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)
Tower Collocation	24,833	1,684	4	633	4,193	31,347
Other revenues	25,438	-	-	41	208	25,687
Revenues	**50,271**	**1,684**	**4**	**674**	**4,401**	**57,034**
Supplies (rebilling)	(24,292)	(2,544)	(1,057)	(947)	-	(28,840)
Supplies (other)	(1,492)	(1,098)	(97)	-	(2,705)	(5,392)
Other expenses	(1,869)	(88)	(18)	(55)	(115)	(2,145)
Expenses	**(27,653)**	**(3,730)**	**(1,172)**	**(1,002)**	**(2,820)**	**(36,377)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**22,619**	**(2,046)**	**(1,168)**	**(328)**	**1,581**	**20,657**
Depreciation and amortization	(9,407)	(582)	(619)	(321)	(7,107)	(18,036)
Operating Income	**13,211**	**(2,628)**	**(1,787)**	**(649)**	**(5,526)**	**2,621**
Net financial result	-	-	-	(8)	-	(8)
Profit (loss) before tax	**13,211**	**(2,628)**	**(1,787)**	**(657)**	**(5,526)**	**2,613**
Corporate income tax	(3,303)	894	500	158	1,823	72
RESULT FOR THE PERIOD	**9,908**	**(1,734)**	**(1,287)**	**(499)**	**(3,703)**	**2,685**

Revenues

Revenues, amounting to Euro 35,574 thousand for the year ended December 31st, 2015 and Euro 57,034 thousand for the six-month period ended June 30th 2016, relate mainly to Tower Collocation arrangements, which originally were between the Telefonica Group and third party operators (based on historical data), and that, as a result of the Transfer, have been transferred to Telxius. These revenues also include the re-invoiced ground leases, the re-invoiced energy costs to third parties and other revenues.

These revenues can be individually identified within total revenues of the Telefonica Group and, therefore, no assumptions or adjustments have been required to determine the amount attributable to the Business.

The following tables set forth a breakdown of the revenues for the year ended December 31, 2015 and for the six-month period ended June 30th, 2016.

As previously explained, in the case of Spain, revenues related to the contracts with the Telefonica Group are considered historical for the three-month period ended March 31st 2016 in Spain.

Additionally, in accordance with the acquisition of the tower business in each country, as described in note (b.1.2), the historical revenues for the tower business for the six-month period ended June 30th 2016, only refers to the three-month period ended March 31st 2016 for Spain, Brazil and Peru, and the four-month period ended April 31st 2016 for Chile and Germany.

2015 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)

Tower Collocation	11,027	7,406	16	1,333	12,092	31,874
Other revenues	3,116	-	-	-	584	3,700
Energy rebilling (with 3rd parties)	3,116	-	-	-	-	3,116
Others	-	-	-	-	584	584
Revenues	**14,143**	**7,406**	**16**	**1,333**	**12,676**	**35,574**

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)
Tower Collocation	24,833	1,684	4	633	4,193	31,347
Other revenues	25,438	-	-	41	208	25,687
Ground Leases	15,735	-	-	41		15,776
Energy Rebilling	8,558	-	-	-		8,558
Others	1,145	-	-	-	208	1,353
Revenues	**50,271**	**1,684**	**4**	**674**	**4,401**	**57,034**

The revenues associated with the historical operating results of the Tower Business may be summarized as follows.

- Tower Collocation: these revenues are based on historical data and include revenues from third parties. The figure relates to those revenues directly attributable to the Business that originally occurred between the Telefonica Group and third party operators, and which, as result of the Transfer, have been transferred to the Company.

  For the six-month period ended June 30th, 2016, Tower Collocation in Spain (Euro 24,833 thousand) also includes revenues from the Telefonica Group in relation to the new Master Lease Agreement signed.

- Other Revenues: these revenues are based on historical data and include revenues from third parties from re-invoiced energy costs in locations owned by third parties or the Telefonica Group where the total amount of the energy cost is assumed by Telxius (originally assumed by the Telefonica Group).

  - *Energy costs* are only considered in Spain, include revenues with third parties from the re-invoiced energy costs. Spain is the only country where Telxius operates the supply of the electricity, assuming its associated costs for subsequent re-invoice to the Telefonica Group or third parties.

    For the six-month period ended June 30th, 2016, these revenues also include the re-invoiced energy costs with the Telefonica Group. This amount refers to the pass through of the energy cost minus the revenues obtained through the third parties.

  - For the six-month period ended June 30th, 2016, *Ground Leases* for Spain refers to the pass-through of ground leases costs to the Telefonica Group, according to the Master Lease Agreement mentioned above.

  - *Other* revenues are considered in Germany and Spain.

    - In Germany, this figure comprises construction subsidies, operating costs allocation, energy expenses, infrastructure, charges and others.

    - Other revenues in Spain for the six-month period ended June 30th, 2016, relates to the recharge of certain costs supported by Telxius to the Telefonica Group in line with the contracts signed between Telxius and the Telefonica Group.

Expenses

The following table sets forth a breakdown of the costs associated with Supplies (other) and other expenses for the year ended December 31st, 2015 and for the six-month period ended June 30th, 2016.

As previously explained, in Spain expenses related to the contracts with the Telefonica Group are considered historical for a three-month period ended March 31st 2016.

Additionally, in accordance with the acquisition of the tower business in each country, as described in note (b.1.2), the historical expenses for the tower business for the six-month period ended June 30th 2016, only refers to the three-month period ended March 31st 2016 for Spain, Brazil and Peru, and the four-month period ended April 31st 2016 for Chile and Germany.

2015 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)
Supplies (rebilling)	(89,299)	(11,325)	(4,046)	(3,526)	-	(108,196)
Ground Leases	(52,041)	(11,325)	(4,046)	(3,526)	-	(70,938)
Energy	(37,258)	-	-	-	-	(37,258)
Supplies (other)	(6,971)	(4,982)	(554)	-	(8,094)	(20,601)
Ground Leases	-	-	-	-	(8,092)	(8,092)
Maintenance	(6,084)	(4,686)	(544)	-	-	(11,314)
Others	(887)	(296)	(10)	-	(2)	(1,195)
Other expenses	(658)	(394)	(79)	-	-	(1,131)
Expenses	**(96,928)**	**(16,701)**	**(4,679)**	**(3,526)**	**(8,094)**	**(129,928)**

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Tower historical operating results**
						(b.4)
Supplies (rebilling)	(24,292)	(2,544)	(1,057)	(947)	-	(28,840)
Ground Leases	(15,735)	(2,544)	(1,057)	(947)	-	(20,283)
Energy	(8,557)	-	-	-	-	(8,557)
Supplies (other)	(1,492)	(1,098)	(97)	-	(2,705)	(5,392)
Ground Leases	-	-	-	-	(2,704)	(2,704)
Maintenance	(1,492)	(1,050)	(94)	-	-	(2,636)
Others	-	(48)	(3)	-	(1)	(52)
Other expenses	(1,869)	(88)	(18)	(55)	(115)	(2,145)
Expenses	**(27,653)**	**(3,730)**	**(1,172)**	**(1,002)**	**(2,820)**	**(36,377)**

These expenses can be individually identified within total expenses of the Telefonica Group and, therefore, no assumptions or adjustments have been required to determine the amount attributable to the Business.

Specifically, the section of Expenses includes the following costs:

- *Supplies (rebilling)* includes the amounts relating to the ground lease in locations owned by third parties or the Telefonica Group where the total amount is assumed by Telxius (originally assumed by the Telefonica Group).

  Particularly in Spain, these expenses also include the amounts relating to the wholesale supply of electricity. These amounts are derived either from power companies or from the landlord's billing.

- *Supplies (other)* includes mainly maintenance costs. Other expenses vary among countries
  - In Spain*,* it includes maintenance costs and the real estate agents services (APIS). This kind of service needs a complementary business support service included in the TSA.
  - In Peru, it mainly comprises maintenance costs. The remaining relates to property tax from 35 properties owned by Telxius.
  - In Germany, it includes mainly expenses from ground leases where the total costs are assumed by Telxius (originally assumed by the Telefonica Group). The remaining relates to the energy consumption of the aviation obstruction lighting system.
  - In Brazil, it includes mainly *Maintenance costs.*

- *Other Expenses* are considered in Spain, Brazil and Peru.
    - In Spain, it includes security and surveillance that represents costs that will be assumed by Telxius for subsequent billing to the Telefonica Group.
    - In Brazil, it includes water costs taxes, licenses and renewal of licenses, and security and surveillance costs.
    - In Peru, it summarizes costs of other services.

In addition, for the six-month period ended June 30th, 2016, the following transactions between Telxius and the Telefonica Group have been considered as derived from management accounts of Telxius as of June 30th, 2016:

- *Ground Leases*: In Spain, Ground Leases includes costs of the lease of telephone exchange rooms, of the Telefonica Group.
- Energy is considered only in Spain where Telxius operates the supply of the electricity. This amount refers to energy consumption cost coming from the sites owned by third parties and energy consumption cost coming from the sites owned by the Telefonica Group.

Corporate income tax

Corporate income tax has been calculated based on each country corporate income tax.

- In Spain corporate income tax has been calculated based on Spanish corporate income tax which is set at a rate of 28% for the year ended December 31st, 2015 and 25% for the six-month period ended June 30th 2016
- In Brazil, corporate income tax has been calculated based on official tax rates: Brazilian corporate income tax at 15%, a supplementary tax for those revenues of over BRL 240,000 thousand at 10% and an additional social contribution tax, which for the purposes of this document has been estimated at 9% for the year ended December 31st, 2015 and the six-month period ended June 30th 2016
- In Peru, corporate income tax has been calculated based on Peruvian corporate income tax which is set at a rate of 28% for the year ended December 31st, 2015 and for the six-month period ended June 30th 2016
- In Chile, corporate income tax has been calculated based on Chilean corporate income tax which is set at a rate of 22.5% for the year ended December 31st, 2015 and 24% for the six-month period ended June 30th 2016.
- In Germany, corporate income tax has been calculated based on official tax rates: German corporate income tax at 16% and an additional professional tax, which for the purposes of this document has been estimated at 17% for the year ended December 31st, 2015 and for the six-month period ended June 30th 2016.

Note (b.5) – Pro-forma Tower adjustments

This column includes the pro-forma adjustments made to the Business' historical operating results for the year ended December 31st, 2015, to show the effects of the agreements between Telxius Tower and the Telefonica Group, the MLAs and TSAs described in Note 4.1, and other operating adjustments.

The information has been structured by the countries where Telxius operates. The following schedule sets forth the pro-forma adjustments by country for the year ended December 31st, 2015. These columns reflect the retrospective effect of these agreements from 1st January, 2015.

2015 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Pro-forma Tower adjust-ments**
						(b.5)
Tower Collocation	85,928	12,333	6,045	2,596	33,026	139,928
Other revenues	98,821	11,895	4,373	3,782	-	118,871
Revenues	**184,749**	**24,228**	**10,418**	**6,378**	**33,026**	**258,799**
Supplies (rebilling)	(7,767)	(570)	-	(256)	-	(8,593)
Supplies (other)	-	-	-	(203)	(1,400)	(1,603)
Other expenses	(9,453)	(2,374)	(1,304)	(849)	(2,421)	(16,401)
Expenses	**(17,220)**	**(2,944)**	**(1,304)**	**(1,308)**	**(3,821)**	**(26,597)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**167,529**	**21,284**	**9,114**	**5,070**	**29,205**	**232,202**
Depreciation and amortization	-	-	-	-	-	-
Operating Income	**167,529**	**21,284**	**9,114**	**5,070**	**29,205**	**232,202**
Net financial result	-	-	-	-	-	-
Profit (loss) before tax	**167,529**	**21,284**	**9,114**	**5,070**	**29,205**	**232,202**
Corporate income tax	(46,908)	(7,237)	(2,552)	(1,141)	(9,638)	(67,476)
RESULT FOR THE PERIOD	**120,621**	**14,047**	**6,562**	**3,929**	**19,567**	**164,726**

The following schedule sets forth the pro-forma adjustments by country for the six-month period ended June 30th 2016.

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Pro-forma Tower adjust-ments**
						(b,5)
Tower Collocation	-	3,038	1,485	641	11,009	16,173
Other revenues	246	2,685	1,136	1,242	-	5,309
Revenues	**246**	**5,723**	**2,622**	**1,883**	**11,009**	**21,482**
Supplies (rebilling)	(246)	(140)	-	(336)	-	(722)
Supplies (other)	(222)	(328)	-	(147)	(467)	(1,164)
Other expenses	(1,881)	(731)	(410)	(285)	(889)	(4,196)
Expenses	**(2,349)**	**(1,199)**	**(410)**	**(768)**	**(1,356)**	**(6,082)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(2,103)**	**4,523**	**2,211**	**1,115**	**9,653**	**15,400**
Depreciation and amortization	-	-	-	-	-	-
Operating Income	**(2,103)**	**4,523**	**2,211**	**1,115**	**9,653**	**15,400**
Net financial result	-	705	-	-	-	705
Profit (loss) before tax	**(2,103)**	**5,228**	**2,211**	**1,115**	**9,653**	**16,105**
Corporate income tax	526	(1,778)	(619)	(268)	(4,305)	(6,444)
RESULT FOR THE PERIOD	**(1,577)**	**3,451**	**1,592**	**847**	**5,348**	**9,661**

Revenues

As noted above, in accordance with the Master Lease Agreement, Telxius will provide the Telefonica Group with tower rental. These revenues will come from agreements between Telxius and the Telefonica Group and are considered with retrospective effect from January 1st 2015.

The following table sets forth a breakdown of the revenues for the year ended December 31st, 2015 and the six-month period ended June 30th 2016.

2015 (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Pro-forma Tower adjust-ments
						(b.5)
Tower Collocation	85,928	12,333	6,045	2,596	33,026	139,928
Other revenues	98,821	11,895	4,373	3,782	-	118,871
Ground Leases	59,808	11,895	4,373	3,782	-	79,858
Energy Rebilling	34,143	-	-	-	-	34,143
Others	4,870	-	-	-	-	4,870
Revenues	**184,749**	**24,228**	**10,418**	**6,378**	**33,026**	**258,799**

Six-month period ended June 30th 2016 (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Pro-forma Tower adjust-ments
						(b.5)
Tower Collocation	-	3,038	1,485	641	11,009	16,173
Other revenues	246	2,685	1,136	1,242	-	5,309
Ground Leases	246	2,685	1,136	1,242	-	5,309
Revenues	**246**	**5,723**	**2,622**	**1,883**	**11,009**	**21,482**

Specifically, each section of the Revenues includes the following revenues:

- Tower Collocation.
  - In Spain, Tower Collocation is the result of the application of the Master Lease Agreement mentioned above for 10,741 Sites. Note that no inflation rate has been applied to the amounts for 2016 to reflect the expected price at the beginning of 2015, because the Spanish inflation rate remained close to zero in 2015. No amount has been considered for the six-month period ended June 30th 2016 in relation to this agreement, as the total impact from 1st January 2016 has been considered within historical operation results (Note (b.4))
  - In Brazil, Tower Collocation is the result of the application of the Master Lease Agreement mentioned above for 1,655 Sites. This amount has been deflated by 9.03% (the FY15 annual CPI) to reflect the expected price if that agreement had taken place at the beginning of 2015, and taxes (PIS/COFINS) have not been included.
  - In Peru, this amount has been calculated according to the Master Lease Agreement mentioned above for 849 Sites. Derived from the original contract, the amount for 2016 has been deflated by 3.56% (the FY15 annual CPI) to reflect the expected price if that agreement had taken place at the beginning of 2015.
  - In Chile, this amount has been calculated according to the Master Lease Agreement mentioned above for 327 Sites. This amount has been deflated by 4.35% (the FY15 annual CPI) to reflect the expected price if that agreement had taken place at the beginning of 2015.
  - In Germany, this amount has been calculated according to the Master Lease Agreement mentioned above for 2,359 Sites. Note that no inflation rate has been applied to the amounts for 2016 to reflect the expected price at the beginning of 2015, because the inflation rate remained close to zero in 2015.
- Other revenues:
  - Ground Leases are considered in Spain, Brazil, Peru and Chile. This amount refers to the revenues re-invoiced from the pass-through ground rental costs to the Telefonica Group according to the Master Lease Agreement. It also includes revenues from ground Leases in locations property of Telxius in Peru.
  - Energy rebilling is only considered in Spain for the year ended December 31st, 2015 as mentioned above. This amount refers to the pass through of the energy cost minus the revenues obtained through the third parties energy cost, as defined in the MLA of Spain

- Others are only considered in Spain for the year ended December 31st, 2015 and relates to the pass through of the security cost with third parties and the pass through of the infrastructure sharing agreement between Telefonica Group and third parties, as defined in the MLA of Spain.

Expenses

Expenses mainly comprise costs associated to the Ground Lease Agreements, which refers to ground leases costs with the Telefonica Group, and the TSAs, which refers to those activities and other services that cannot be initially performed by Telxius and that the Telefonica Group will provide for the Tower business continuity at least on a temporary basis.

The following table sets forth a breakdown of the Pro-forma adjustments of the costs associated with supplies (rebilling), supplies (other) and other expenses for the year ended December 31st, 2015 and for the six-month period ended June 30th 2016:

2015 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Pro-forma Tower adjust-ments**
						(b.5)
Supplies (rebilling)	(7,767)	(570)	-	(256)	-	(8,593)
Ground Leases	(7,767)	(570)	-	(256)	-	(8,593)
Supplies (other)	-	-	-	(203)	(1,400)	(1,603)
Other expenses	(9,453)	(2,374)	(1,304)	(849)	(2,421)	(16,401)
Expenses	**(17,220)**	**(2,944)**	**(1,304)**	**(1,308)**	**(3,821)**	**(26,597)**

Six-month period ended June 30th 2016 (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Pro-forma Tower adjust-ments**
						(b.5)
Supplies (rebilling)	(246)	(140)	-	(336)		(722)
Ground Leases	(246)	(140)		(336)	-	(722)
Supplies (other)	(222)	(328)	-	(147)	(467)	(1,164)
Maintenance		(328)		(147)	-	(942)
Others	(222)				(467)	
Other expenses	(1,881)	(731)	(410)	(285)	(889)	(4,196)
Expenses	**(2,349)**	**(1,199)**	**(410)**	**(768)**	**(1,356)**	**(6,082)**

Specifically, the section of Expenses includes the following costs for the year ended December 31st, 2015 and for the six-month period ended June 30th, 2016:

- *Supplies (rebilling)*, includes the amounts relating to the ground lease in locations owned by the Telefonica Group in Spain, Brazil and Chile, according to the Ground Lease Agreements. These amounts, together with the historical amounts related to the ground lease, compose the pass through of the total ground rental costs.
- Supplies (other) includes maintenance costs in Chile and Germany. In Germany, maintenance costs amounts are based on the TSA mentioned in Note 4.1.. In Spain, it includes the real estate agents services.
- *Other expenses,* includes several expenses varying among countries
  - In Spain, this amount comprises other expenses related to the TSA mentioned in Note 4.1., including security and other activities required to operate the Sites.

    This figure also refers to the insurance premiums, licenses and permits and management costs, which are incremental costs that Telxius will incur to provide business continuity to operate on a standalone basis.

    For the six-month period ended June 30th, 2016 this figure relates to licenses and permits and a part of the total management costs.

- In Chile, this amount reflects incremental costs that Telxius will incur to provide business continuity to operate on a standalone basis, including agency, security, insurance, licensing, permits, taxes & duties costs, management and other SG&A.
- In Germany, this amount includes costs for real estate and site relations services, selling general and administrative services included in the TSA mentioned above.

  It also considers incremental costs, including management and insurance costs that Telxius will incur to operate on a standalone basis.
- In Peru, this figure comprises other expenses included in the TSA mentioned above such as insurance costs, corporate services costs and security and surveillance costs to operate the Sites.

  This figure also refers to the taxes and duties costs, licenses and permits, personnel costs and others which are incremental costs that Telxius will incur for business continuity.
- In Brazil, this figure refers to the management costs which are incremental costs that Telxius will incur to operate on a standalone basis.

Note (b.6) – Other Pro-forma adjustments

These columns include the pro-forma adjustments related to the corporate expenses, the Purchase Price Allocation (PPA) and the finance costs.

2015 (thousands of Euro)	Other adjustments: Corporate expenses	Adjustments related to the PPA	Finance costs	**Other adjustments**
	(b.6.1)	(b.6.2)	(b.6.3)	(b.6)
IP and Capacity Cable Revenues	-	-	-	-
Tower Collocation	-	-	-	-
Other revenues	-	-	-	-
Revenues	**-**	**-**	**-**	**-**
Supplies (rebilling)	-	-	-	-
Supplies (other)	-	-	-	-
Personnel expenses	(7,014)	-	-	(7,014)
Other expenses	(6,446)	-	-	(6,446)
Expenses	**(13,460)**	**-**	**-**	**(13,460)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(13,460)**	**-**	**-**	**(13,460)**
Depreciation and amortization	-	(62,159)	-	(62,159)
Operating Income	**(13,460)**	**(62,159)**	**-**	**(75,619)**
Net financial result	-	(594)	(8,990)	(9,584)
Profit (loss) before tax	**(13,460)**	**(62,753)**	**(8,990)**	**(85,203)**
Corporate income tax	3,770	22,694	2,517	28,981
RESULT FOR THE PERIOD	**(9,690)**	**(40,059)**	**(6,473)**	**(56,222)**

Six-month period ended June 30th 2016 (thousands of Euro)	Other adjustments: Corporate expenses	Adjustments related to the PPA	Finance costs	**Other adjustments**
	(b.6.1)	(b.6.2)	(b.6.3)	(b.6)
IP and Capacity Cable Revenues	-	(211)	-	(211)
Tower Collocation	-	100	-	100
Other revenues	-	-	-	-
Revenues	**-**	**(111)**	**-**	**(111)**
Other income	(11,942)			(11,942)
Supplies (rebilling)	-	-	-	-
Supplies (other)	-	-	-	-
Personnel expenses	(2,347)	-	-	(2,347)
Other expenses	(889)	-	-	(889)
Net Expenses-Income	**(15,178)**	**-**	**-**	**(15,178)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(15,178)**	**(111)**	**-**	**(15,289)**
Depreciation and amortization	-	(15,699)	-	(15,699)
Operating Income	**(15,178)**	**(15,810)**	**-**	**(30,988)**
Net financial result	-	(8)	(3,298)	(3,306)
Profit (loss) before tax	**(15,178)**	**(15,818)**	**(3,298)**	**(34,294)**
Corporate income tax	809	5,085	825	6,719
RESULT FOR THE PERIOD	**(14,369)**	**(10,733)**	**(2,473)**	**(27,575)**

b.6.1. Corporate expenses

This adjustment summarizes costs for travels (associated with Senior Management and the rest of the staff), public liability and damage to property insurances, consultancies (legal, processes and deployment consultancies), support services (financial support, human resources and Management Fee) and audit services, among others. These expenses derive from the expenditure budget, prepared by the management.

For the pro forma purposes , the adjustment related to other income reflects the reversal of the one.off positive impact recorded in Company's consolidated financial statements as of and for the six-month period ended June 30th, 2016, regarding the excess of fair value vs. the purchase price, referring to the transfer relating to the Tower business in Chile.

b.6.2. *Adjustments related to the PPA*

This adjustment reflects the incremental amortization on annual and semi-annual basis related to the increase in Intangibles and Property, Plant and equipment values as consequence of the Purchase price allocation process, as if this adjustments would have taken place as of January 1st, 2015. Note that at the date of authorization for issue of the accompanying pro forma financial statements, the purchase price allocation process is provisional.

2015 (thousands of Euro)	Other Pro-forma Cable Adjust-ments related to PPA	Other Pro-forma Tower Adjust-ments related to PPA	**Adjust-ments related to the PPA**
	(b.6.2.1)	(b.6.2.2)	(b.6.2)
IP and Capacity Cable Revenues	-	-	-
Tower Collocation	-	-	-
Other revenues	-	-	-
Revenues	**-**	**-**	**-**
Supplies (rebilling)	-	-	-
Supplies (other)	-	-	-
Personnel expenses	-	-	-
Other expenses	-	-	-
Expenses	**-**	**-**	**-**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**-**	**-**	**-**
Depreciation and amortization	(13,507)	(48,652)	(62,159)
Operating Income	**(13,507)**	**(48,652)**	**(62,159)**
Net financial result	(844)	250	(594)
Profit (loss) before tax	**(14,351)**	**(48,402)**	**(62,753)**
Corporate income tax	4,018	18,676	22,694
RESULT FOR THE PERIOD	**(10,333)**	**(29,726)**	**(40,059)**

2015 (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Other Pro-forma Tower Adjust-ments related to PPA
						(b.6.2.2)
IP and Capacity Cable Revenues	-	-	-	-	-	-
Tower Collocation	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-
Revenues	**-**	**-**	**-**	**-**	**-**	-
Supplies (rebilling)	-	-	-	-	-	-
Supplies (other)	-	-	-	-	-	-
Personnel expenses	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Expenses	**-**	**-**	**-**	**-**	**-**	-
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**-**	**-**	**-**	**-**	**-**	-
Depreciation and amortization	(34,466)	(6,643)	(949)	(49)	(6,545)	(48,652)
Operating Income	**(34,466)**	**(6,643)**	**(949)**	**(49)**	**(6,545)**	**(48,652)**
Net financial result	-	-	-	-	250	250
Profit (loss) before tax	**(34,466)**	**(6,643)**	**(949)**	**(49)**	**(6,295)**	**(48,402)**
Corporate income tax	14,030	2,258	507	232	1,649	18,676
RESULT FOR THE PERIOD	**(20,436)**	**(4,385)**	**(442)**	**183**	**(4,646)**	**(29,726)**

Six-month period ended June 30th 2016 (thousands of Euro)	Other Pro-forma Cable Adjust-ments related to PPA	Other Pro-forma Tower Adjust-ments related to PPA	**Adjust-ments related to the PPA**
	(b.6.2.1)	(b.6.2.2)	(b.6.2)
IP and Capacity Cable Revenues	(211)	-	(211)
Tower Collocation	-	100	100
Other revenues	-	-	-
Revenues	**(211)**	**100**	**(111)**
Supplies (rebilling)	-	-	-
Supplies (other)	-	-	-
Personnel expenses	-	-	-
Other expenses	-	-	-
Expenses	**-**	**-**	**-**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**(211)**	**100**	**(111)**
Depreciation and amortization	(3,279)	(12,420)	(15,699)
Operating Income	**(3,490)**	**(12,320)**	**(15,810)**
Net financial result	-	(8)	(8)
Profit (loss) before tax	**(3,490)**	**(12,328)**	**(15,818)**
Corporate income tax	872	4,213	5,085
RESULT FOR THE PERIOD	**(2,618)**	**(8,115)**	**(10,733)**

Six-month period ended June 30th 2016 (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Other Pro-forma Tower Adjust-ments related to PPA
						(b.6.2.2)
IP and Capacity Cable Revenues	-	-	-	-	-	-
Tower Collocation	-	-	-	-	100	100
Other revenues	-	-	-	-	-	-
Revenues	**-**	**-**	**-**	**-**	**100**	**100**
Supplies (rebilling)	-	-	-	-	-	-
Supplies (other)	-	-	-	-	-	-
Personnel expenses	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Expenses	**-**	**-**	**-**	**-**	**-**	**-**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**-**	**-**	**-**	**-**	**100**	**100**
Depreciation and amortization	(8,096)	(1,510)	(177)	(92)	(2,545)	(12,420)
Operating Income	**(8,096)**	**(1,510)**	**(177)**	**(92)**	**(2,445)**	**(12,320)**
Net financial result	-	-	-	-	(8)	(8)
Profit (loss) before tax	**(8,096)**	**(1,510)**	**(177)**	**(92)**	**(2,453)**	**(12,328)**
Corporate income tax	3,507	513	119	74	-	4,213
RESULT FOR THE PERIOD	**(4,589)**	**(997)**	**(58)**	**(18)**	**(2,453)**	**(8,115)**

Impact in the Consolidated Comprehensive Income Statement

The implications under the IFRS 3 of the business combinations in the Consolidated Comprehensive Income Statement of Telxius involves significant effect on depreciation due to revaluation of assets. This depreciation has been made on the remaining useful life according to the technical valuation made by third parties. Also, it includes the effects deriving from the reversal of deferred taxes and the impact on income taxes.

b.6.3. *Finance costs*

This column sets forth a breakdown of the amounts associated with finance costs. These expenses are related to the Debt Restructuring explained in the Note 4.3. and reflect the retrospective effect from 1st January, 2015.

APPENDIX I. PRO-FORMA CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016

Six-month period ended June 30th 2016 (thousands of Euro)	**Cable business Consolidated Comprehensive Income statement**	Other cable historical operating results	Pro-forma Cable adjust-ments	Other Pro-forma Cable Adjustments related to PPA	**Telxius Cable business**	**Tower business Consolidated Comprehensive Income statement**	Other tower historical operating results	Pro-forma Tower adjust-ments	Other Pro-forma Tower Adjustments related to PPA	**Telxius Tower business**	**Other Consolidated Comprehensive Income Statement**	**Other Pro-forma Adjustments**	**Total Pro-Forma Consolidated Comprehensive Income Statement**
	(b.1.1)	(b.2)	(b.3)	(b.6.2.1)		(b.1.2)	(b.4)	(b.5)	(b.6.2.2)		(b.1.3)	(b.6.1) & (b.6.3)	
IP and Capacity Cable Revenues	178,060	12,669	1,037	(211)	191,555	-	-	-	-	-	-	-	191,555
Tower Collocation	-	-	-	-	-	38,077	31,347	16,173	100	85,697	-	-	85,697
Other revenues	3,332	-	-	-	3,332	26,904	25,687	5,309	-	57,900	-	-	61,232
Revenues	**181,392**	**12,669**	**1,037**	**(211)**	**194,887**	**64,981**	**57,034**	**21,482**	**100**	**143,597**	**-**	**-**	**338,484**
Other income	-	-	-	-	-	-	-	-	-	-	11,942	(11,942)	-
Supplies (rebilling)	-	-	-	-	-	(25,572)	(28,840)	(722)	-	(55,134)	-	-	(55,134)
Supplies (other)	(44,487)	(3,585)	540	-	(47,532)	(3,614)	(5,392)	(1,164)	-	(10,170)	-	-	(57,702)
Personnel expenses	(6,940)	(2,143)	1,942	-	(7,141)	(525)	-	-	-	(525)	(1,161)	(2,347)	(11,174)
Other expenses	(37,906)	(2,355)	(4,966)	-	(45,227)	(1,319)	(2,145)	(4,196)	-	(7,660)	(2,297)	(889)	(56,073)
Expenses	**(89,333)**	**(8,083)**	**(2,484)**	**-**	**(99,900)**	**(31,030)**	**(36,377)**	**(6,082)**	**-**	**(73,489)**	**8,484**	**(15,178)**	**(180,083)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**92,059**	**4,586**	**(1,447)**	**(211)**	**94,987**	**33,951**	**20,657**	**15,400**	**100**	**70,108**	**8,484**	**(15,178)**	**158,401**
Depreciation and amortization	(40,479)	(1,244)	-	(3,279)	(45,002)	(26,017)	(18,036)	-	(12,420)	(56,473)	-	-	(101,475)
Operating Income	**51,580**	**3,342**	**(1,447)**	**(3,490)**	**49,985**	**7,934**	**2,621**	**15,400**	**(12,320)**	**13,635**	**8,484**	**(15,178)**	**56,926**
Net financial result	5,219	-	-	-	5,219	(781)	(8)	705	(8)	(92)	(1,175)	(3,298)	654
Profit (loss) before tax	**56,799**	**3,342**	**(1,447)**	**(3,490)**	**55,204**	**7,153**	**2,613**	**16,105**	**(12,328)**	**13,543**	**7,309**	**(18,476)**	**57,580**
Corporate income tax	(15,069)	(836)	8,897	872	(6,136)	(25)	72	(6,444)	4,213	(2,184)	1,156	1,634	(5,530)
RESULT FOR THE PERIOD	**41,730**	**2,506**	**7,450**	**(2,618)**	**49,068**	**7,128**	**2,685**	**9,661**	**(8,115)**	**11,359**	**8,465**	**(16,842)**	**52,050**

APPENDIX II. TOWER BUSINESS CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31ST, 2015

2015 CONSOLIDATED COMPREHENSIVE INCOME STATEMENT WITHOUT PPA (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Telxius Tower**
Tower Collocation	96,955	19,739	6,061	3,929	45,118	171,802
Other revenues	101,937	11,895	4,373	3,782	584	122,571
Revenues	**198,892**	**31,634**	**10,434**	**7,711**	**45,702**	**294,373**
Supplies (rebilling)	(97,066)	(11,895)	(4,046)	(3,782)	-	(116,789)
Supplies (other)	(6,971)	(4,982)	(554)	(203)	(9,494)	(22,204)
Other expenses	(10,111)	(2,768)	(1,383)	(849)	(2,421)	(17,532)
Expenses	**(114,148)**	**(19,645)**	**(5,983)**	**(4,834)**	**(11,915)**	**(156,525)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**84,744**	**11,989**	**4,451**	**2,877**	**33,787**	**137,848**
Depreciation and amortization	(35,546)	(2,686)	(2,449)	(1,198)	(20,818)	(62,697)
Operating Income	**49,198**	**9,303**	**2,002**	**1,679**	**12,969**	**75,151**
Net financial result	-	-	-	-	-	-
Profit (loss) before tax	**49,198**	**9,303**	**2,002**	**1,679**	**12,969**	**75,151**
Corporate income tax	(13,775)	(3,164)	(560)	(378)	(4,280)	(22,157)
RESULT FOR THE PERIOD	**35,423**	**6,139**	**1,442**	**1,301**	**8,689**	**52,994**

2015 CONSOLIDATED COMPREHENSIVE INCOME STATEMENT WITH PPA (thousands of Euro)	**Spain**	**Brazil**	**Peru**	**Chile**	**Germany**	**Telxius Tower**
Tower Collocation	96,955	19,739	6,061	3,929	45,118	171,802
Other revenues	101,937	11,895	4,373	3,782	584	122,571
Revenues	**198,892**	**31,634**	**10,434**	**7,711**	**45,702**	**294,373**
Supplies (rebilling)	(97,066)	(11,895)	(4,046)	(3,782)	-	(116,789)
Supplies (other)	(6,971)	(4,982)	(554)	(203)	(9,494)	(22,204)
Other expenses	(10,111)	(2,768)	(1,383)	(849)	(2,421)	(17,532)
Expenses	**(114,148)**	**(19,645)**	**(5,983)**	**(4,834)**	**(11,915)**	**(156,525)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**84,744**	**11,989**	**4,451**	**2,877**	**33,787**	**137,848**
Depreciation and amortization	(70,013)	(9,329)	(3,398)	(1,247)	(27,363)	(111,349)
Operating Income	**14,731**	**2,660**	**1,053**	**1,630**	**6,424**	**26,499**
Net financial result	-	-	-	-	250	250
Profit (loss) before tax	**14,731**	**2,660**	**1,053**	**1,630**	**6,674**	**26,749**
Corporate income tax	255	(906)	(53)	(146)	(2,631)	(3,481)
RESULT FOR THE PERIOD	**14,986**	**1,754**	**1,000**	**1,484**	**4,043**	**23,268**

APPENDIX III. TOWER BUSINESS CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED JUNE 30TH, 2016

Six-month ended June 30th 2016 CONSOLIDATED COMPREHENSIVE INCOME STATEMENT WITHOUT PPA (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Telxius Tower
Tower Collocation	48,418	9,279	2,981	1,900	23,019	85,597
Other revenues	47,775	5,566	2,363	1,938	208	57,850
Revenues	**96,193**	**14,845**	**5,344**	**3,838**	**23,227**	**143,447**
Supplies (rebilling)	(45,468)	(5,565)	(2,162)	(1,939)	-	(55,134)
Supplies (other)	(3,554)	(1,544)	(168)	(147)	(4,757)	(10,170)
Other expenses	(4,637)	(1,328)	(562)	(412)	(1,246)	(8,185)
Expenses	**(53,659)**	**(8,437)**	**(2,892)**	**(2,498)**	**(6,003)**	**(73,489)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**42,534**	**6,408**	**2,452**	**1,340**	**17,224**	**69,958**
Depreciation and amortization	(19,242)	(1,156)	(1,234)	(554)	(9,905)	(32,091)
Operating Income	**23,292**	**5,252**	**1,218**	**786**	**7,319**	**37,867**
Net financial result	(7)	5	(53)	(25)	-	(80)
Profit (loss) before tax	**23,285**	**5,257**	**1,165**	**761**	**7,319**	**37,787**
Corporate income tax	(5,749)	(1,269)	(332)	(227)	(2,482)	(10,059)
RESULT FOR THE PERIOD	**17,536**	**3,988**	**833**	**534**	**4,837**	**27,728**

Six-month ended June 30th 2016 CONSOLIDATED COMPREHENSIVE INCOME STATEMENT WITH PPA (thousands of Euro)	Spain	Brazil	Peru	Chile	Germany	Telxius Tower
Tower Collocation	48,418	9,279	2,981	1,900	23,119	85,697
Other revenues	47,775	5,566	2,363	1,938	258	57,900
Revenues	**96,193**	**14,845**	**5,344**	**3,838**	**23,377**	**143,597**
Supplies (rebilling)	(45,468)	(5,565)	(2,162)	(1,939)	-	(55,134)
Supplies (other)	(3,554)	(1,544)	(168)	(147)	(4,757)	(10,170)
Other expenses	(4,637)	(1,328)	(562)	(412)	(1,246)	(8,185)
Expenses	**(53,659)**	**(8,437)**	**(2,892)**	**(2,498)**	**(6,003)**	**(73,489)**
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**42,534**	**6,408**	**2,452**	**1,340**	**17,374**	**70,108**
Depreciation and amortization	(35,389)	(4,182)	(1,592)	(626)	(14,684)	(56,473)
Operating Income	**7,145**	**2,226**	**860**	**714**	**2,690**	**13,635**
Net financial result	(7)	5	(53)	(25)	(12)	(92)
Profit (loss) before tax	**7,138**	**2,231**	**807**	**689**	**2,678**	**13,543**
Corporate income tax	1,265	(756)	(95)	(116)	(2,482)	(2,184)
RESULT FOR THE PERIOD	**8,403**	**1,475**	**712**	**573**	**196**	**11,359**

PREPARATION OF PRO-FORMA COMPREHENSIVE INCOME STATEMENT

The Board of Directors have prepared the Pro Forma Comprehensive Income Statement in the meeting held on September 7th, 2016. All pages included in the present financial information, which is included in pages 1 to 42, have been endorsed by the Secretary of the Board of Directors, signing all the members in this sheet of paper.

D. Guillermo Ansaldo Lutz

Chairman

D. María García-Legaz Ponce

Director

D. Alberto Manuel Horcajo Aguirre

Director

D. Enrique Lloves Vieira

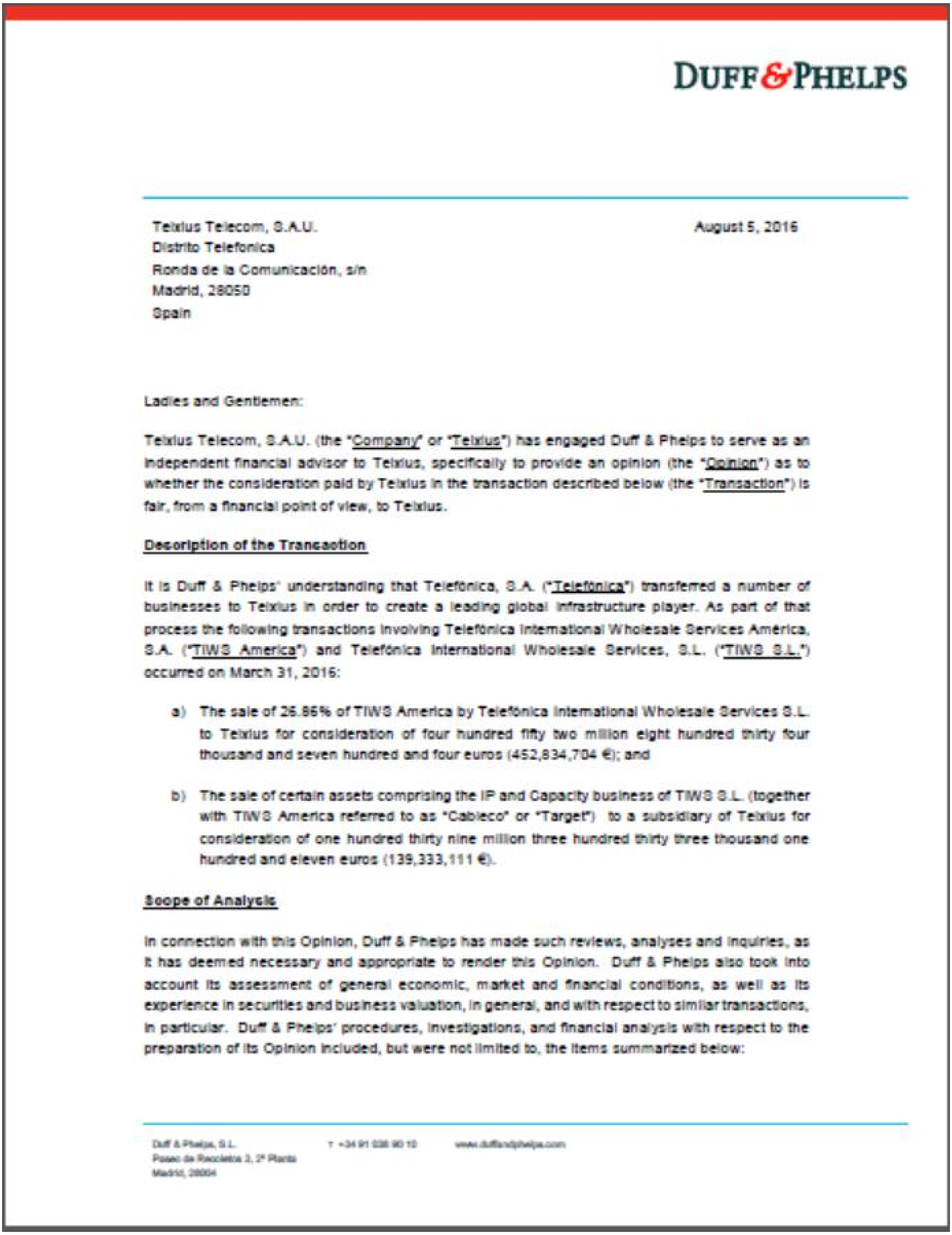
Director

D. Enrique Blanco Nadales

Director

ANNEX 3 - FAIRNESS OPINIONS

	Page
Fairness Opinion issued by Duff&Phelps, S.L. on 5 August 2016	FO-1
Fairness Opinion issued by Banco Santander, S.A. on 4 August 2016 (Spain)	FO-7
Fairness Opinion issued by Banco Santander, S.A. on 8 August 2016 (Germany)	FO-10
Fairness Opinion issued by Banco Santander, S.A. on 8 August 2016 (Brazil)	FO-13
Fairness Opinion issued by Banco Santander, S.A. on 8 August 2016 (Peru)	FO-16



DUFF & PHELPS

Telxius Telecom, S.A.U.
Distrito Telefonica
Ronda de la Comunicación, s/n
Madrid, 28050
Spain

August 5, 2016

Ladies and Gentlemen:

Telxius Telecom, S.A.U. (the "Company" or "Telxius") has engaged Duff & Phelps to serve as an independent financial advisor to Telxius, specifically to provide an opinion (the "Opinion") as to whether the consideration paid by Telxius in the transaction described below (the "Transaction") is fair, from a financial point of view, to Telxius.

Description of the Transaction

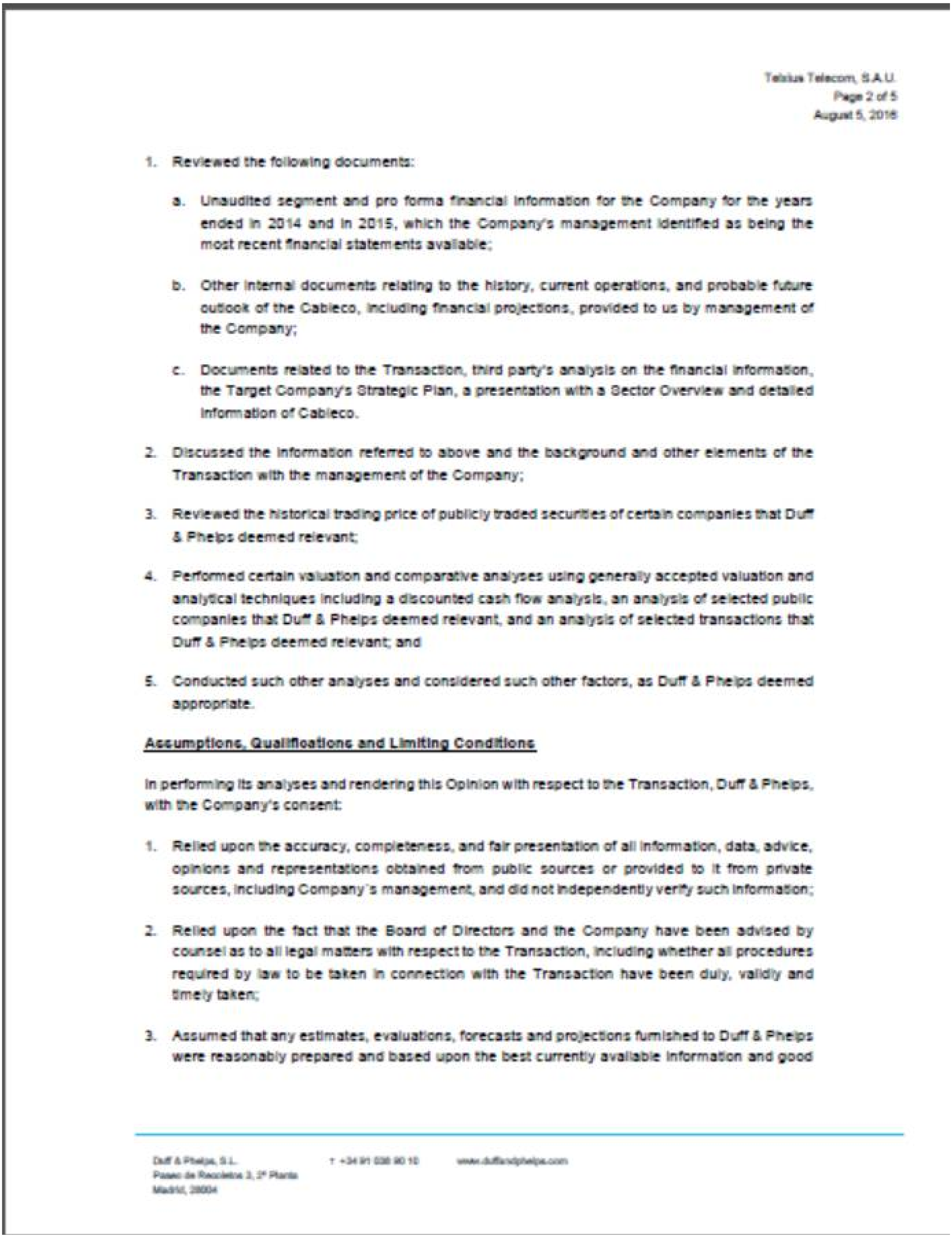
It is Duff & Phelps' understanding that Telefónica, S.A. ("Telefónica") transferred a number of businesses to Telxius in order to create a leading global infrastructure player. As part of that process the following transactions involving Telefónica International Wholesale Services América, S.A. ("TIWS America") and Telefónica International Wholesale Services, S.L. ("TIWS S.L.") occurred on March 31, 2016:

a) The sale of 26.86% of TIWS America by Telefónica International Wholesale Services S.L. to Telxius for consideration of four hundred fifty two million eight hundred thirty four thousand and seven hundred and four euros (452,834,704 €); and

b) The sale of certain assets comprising the IP and Capacity business of TIWS S.L. (together with TIWS America referred to as "Cableco" or "Target") to a subsidiary of Telxius for consideration of one hundred thirty nine million three hundred thirty three thousand one hundred and eleven euros (139,333,111 €).

Scope of Analysis

In connection with this Opinion, Duff & Phelps has made such reviews, analyses and inquiries, as it has deemed necessary and appropriate to render this Opinion. Duff & Phelps also took into account its assessment of general economic, market and financial conditions, as well as its experience in securities and business valuation, in general, and with respect to similar transactions, in particular. Duff & Phelps' procedures, investigations, and financial analysis with respect to the preparation of its Opinion included, but were not limited to, the items summarized below:



1. Reviewed the following documents:

   a. Unaudited segment and pro forma financial information for the Company for the years ended in 2014 and in 2015, which the Company's management identified as being the most recent financial statements available;

   b. Other internal documents relating to the history, current operations, and probable future outlook of the Cabieco, including financial projections, provided to us by management of the Company;

   c. Documents related to the Transaction, third party's analysis on the financial information, the Target Company's Strategic Plan, a presentation with a Sector Overview and detailed information of Cabieco.

2. Discussed the information referred to above and the background and other elements of the Transaction with the management of the Company;

3. Reviewed the historical trading price of publicly traded securities of certain companies that Duff & Phelps deemed relevant;

4. Performed certain valuation and comparative analyses using generally accepted valuation and analytical techniques including a discounted cash flow analysis, an analysis of selected public companies that Duff & Phelps deemed relevant, and an analysis of selected transactions that Duff & Phelps deemed relevant; and

5. Conducted such other analyses and considered such other factors, as Duff & Phelps deemed appropriate.

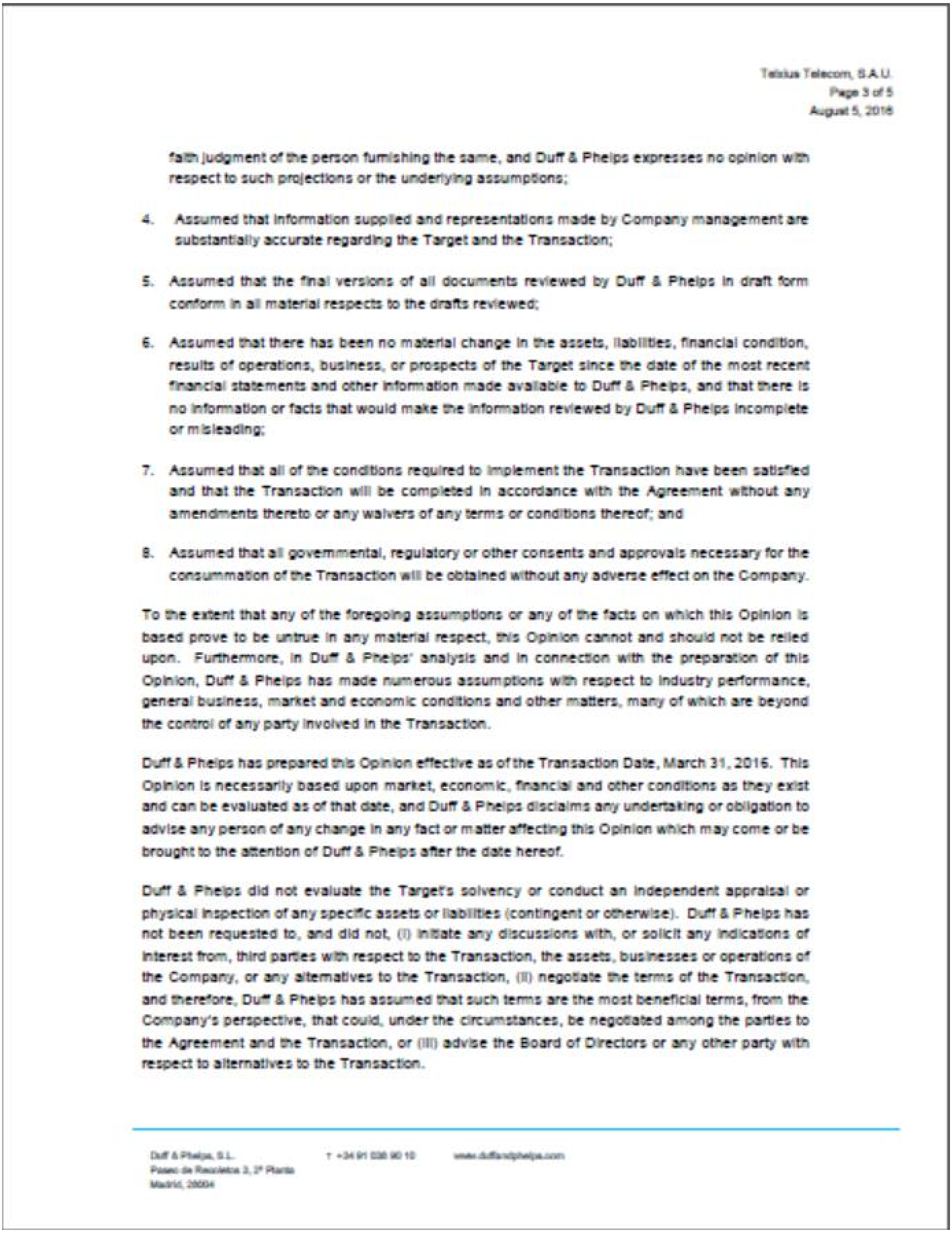
Assumptions, Qualifications and Limiting Conditions

In performing its analyses and rendering this Opinion with respect to the Transaction, Duff & Phelps, with the Company's consent:

1. Relied upon the accuracy, completeness, and fair presentation of all information, data, advice, opinions and representations obtained from public sources or provided to it from private sources, including Company´s management, and did not independently verify such information;

2. Relied upon the fact that the Board of Directors and the Company have been advised by counsel as to all legal matters with respect to the Transaction, including whether all procedures required by law to be taken in connection with the Transaction have been duly, validly and timely taken;

3. Assumed that any estimates, evaluations, forecasts and projections furnished to Duff & Phelps were reasonably prepared and based upon the best currently available information and good



faith judgment of the person furnishing the same, and Duff & Phelps expresses no opinion with respect to such projections or the underlying assumptions;

4. Assumed that information supplied and representations made by Company management are substantially accurate regarding the Target and the Transaction;

5. Assumed that the final versions of all documents reviewed by Duff & Phelps in draft form conform in all material respects to the drafts reviewed;

6. Assumed that there has been no material change in the assets, liabilities, financial condition, results of operations, business, or prospects of the Target since the date of the most recent financial statements and other information made available to Duff & Phelps, and that there is no information or facts that would make the information reviewed by Duff & Phelps incomplete or misleading;

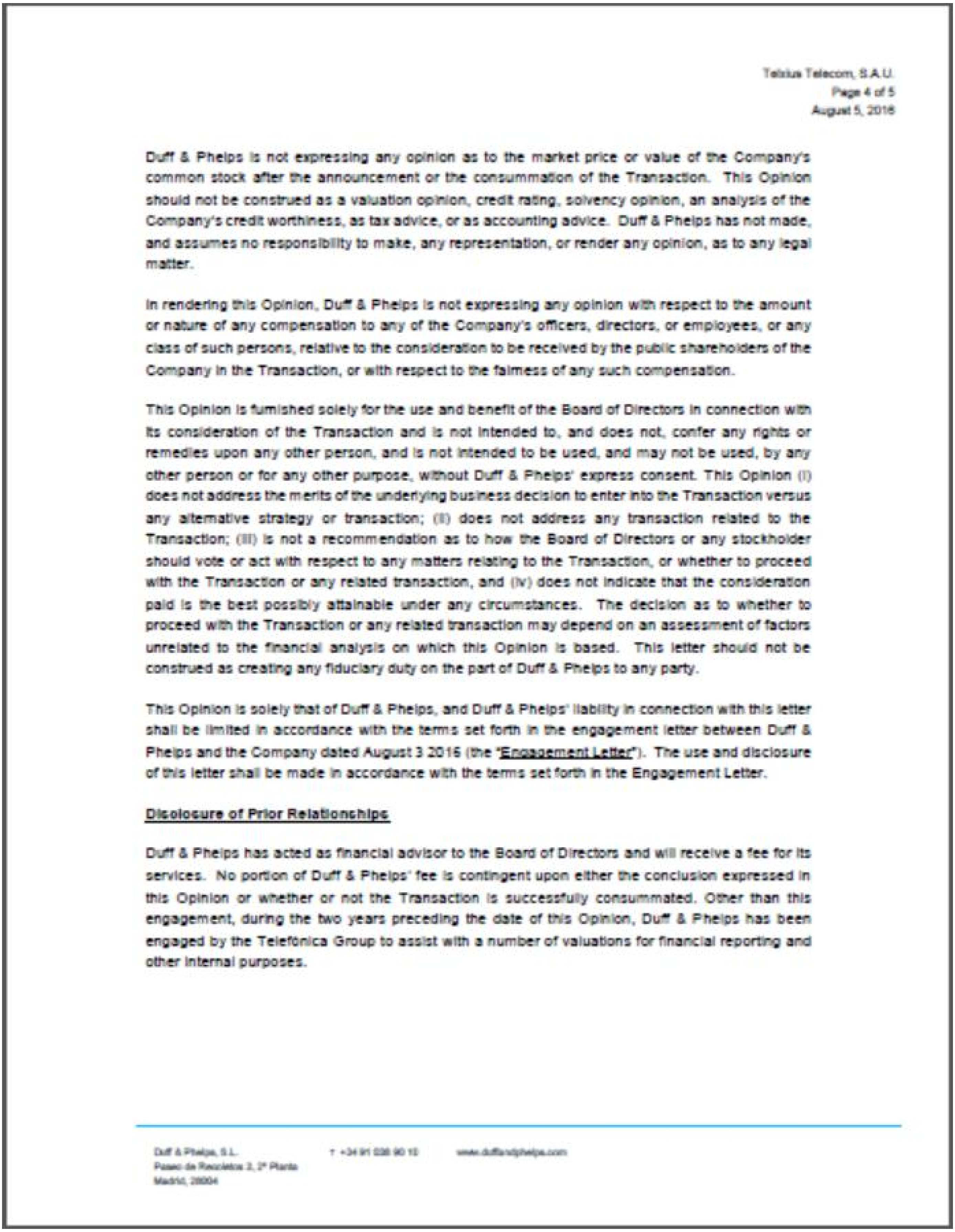
7. Assumed that all of the conditions required to implement the Transaction have been satisfied and that the Transaction will be completed in accordance with the Agreement without any amendments thereto or any waivers of any terms or conditions thereof; and

8. Assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company.

To the extent that any of the foregoing assumptions or any of the facts on which this Opinion is based prove to be untrue in any material respect, this Opinion cannot and should not be relied upon. Furthermore, in Duff & Phelps' analysis and in connection with the preparation of this Opinion, Duff & Phelps has made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Transaction.

Duff & Phelps has prepared this Opinion effective as of the Transaction Date, March 31, 2016. This Opinion is necessarily based upon market, economic, financial and other conditions as they exist and can be evaluated as of that date, and Duff & Phelps disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting this Opinion which may come or be brought to the attention of Duff & Phelps after the date hereof.

Duff & Phelps did not evaluate the Target's solvency or conduct an independent appraisal or physical inspection of any specific assets or liabilities (contingent or otherwise). Duff & Phelps has not been requested to, and did not, (i) initiate any discussions with, or solicit any indications of interest from, third parties with respect to the Transaction, the assets, businesses or operations of the Company, or any alternatives to the Transaction, (ii) negotiate the terms of the Transaction, and therefore, Duff & Phelps has assumed that such terms are the most beneficial terms, from the Company's perspective, that could, under the circumstances, be negotiated among the parties to the Agreement and the Transaction, or (iii) advise the Board of Directors or any other party with respect to alternatives to the Transaction.



Duff & Phelps is not expressing any opinion as to the market price or value of the Company's common stock after the announcement or the consummation of the Transaction. This Opinion should not be construed as a valuation opinion, credit rating, solvency opinion, an analysis of the Company's credit worthiness, as tax advice, or as accounting advice. Duff & Phelps has not made, and assumes no responsibility to make, any representation, or render any opinion, as to any legal matter.

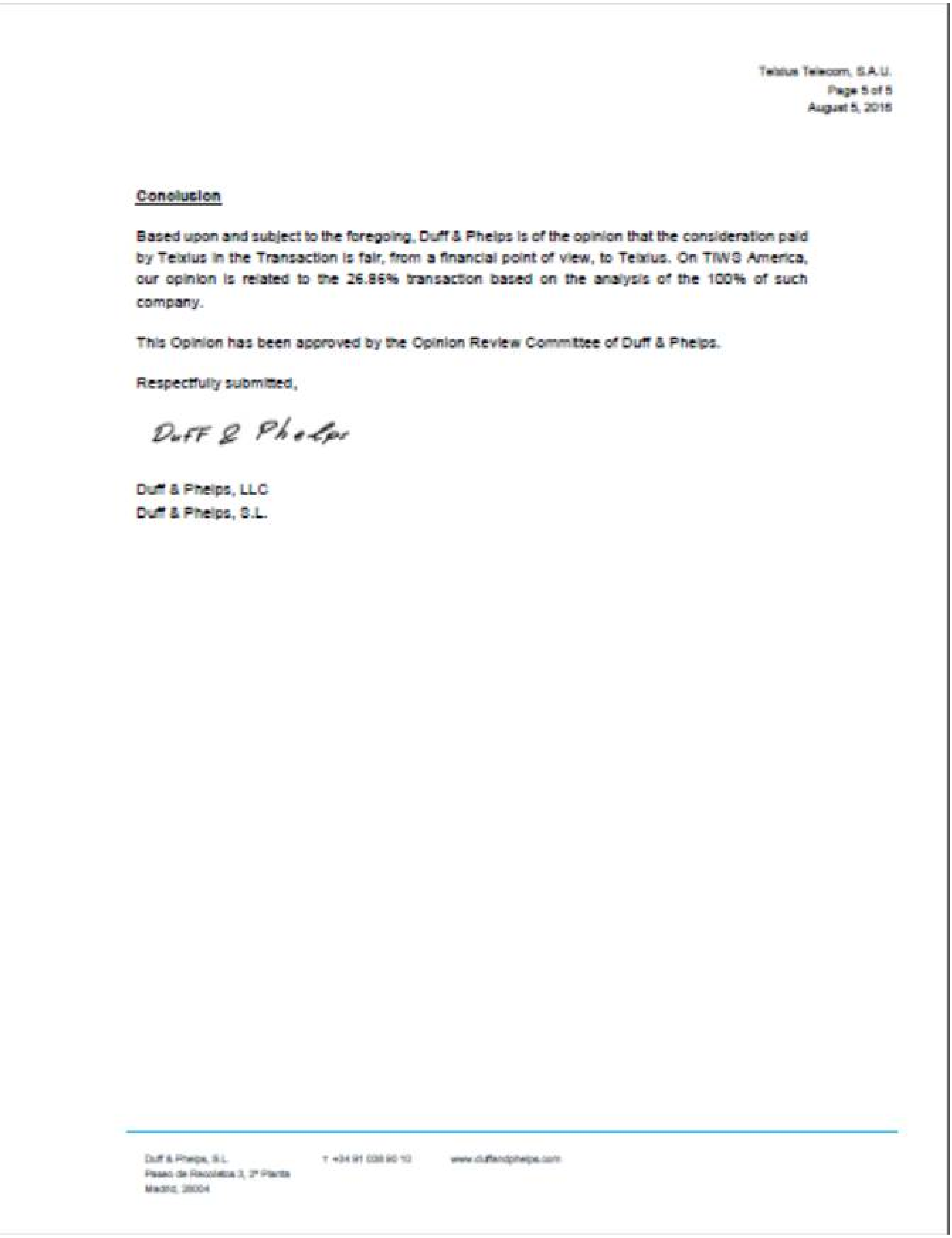
In rendering this Opinion, Duff & Phelps is not expressing any opinion with respect to the amount or nature of any compensation to any of the Company's officers, directors, or employees, or any class of such persons, relative to the consideration to be received by the public shareholders of the Company in the Transaction, or with respect to the fairness of any such compensation.

This Opinion is furnished solely for the use and benefit of the Board of Directors in connection with its consideration of the Transaction and is not intended to, and does not, confer any rights or remedies upon any other person, and is not intended to be used, and may not be used, by any other person or for any other purpose, without Duff & Phelps' express consent. This Opinion (i) does not address the merits of the underlying business decision to enter into the Transaction versus any alternative strategy or transaction; (ii) does not address any transaction related to the Transaction; (iii) is not a recommendation as to how the Board of Directors or any stockholder should vote or act with respect to any matters relating to the Transaction, or whether to proceed with the Transaction or any related transaction, and (iv) does not indicate that the consideration paid is the best possibly attainable under any circumstances. The decision as to whether to proceed with the Transaction or any related transaction may depend on an assessment of factors unrelated to the financial analysis on which this Opinion is based. This letter should not be construed as creating any fiduciary duty on the part of Duff & Phelps to any party.

This Opinion is solely that of Duff & Phelps, and Duff & Phelps' liability in connection with this letter shall be limited in accordance with the terms set forth in the engagement letter between Duff & Phelps and the Company dated August 3 2016 (the "Engagement Letter"). The use and disclosure of this letter shall be made in accordance with the terms set forth in the Engagement Letter.

Disclosure of Prior Relationships

Duff & Phelps has acted as financial advisor to the Board of Directors and will receive a fee for its services. No portion of Duff & Phelps' fee is contingent upon either the conclusion expressed in this Opinion or whether or not the Transaction is successfully consummated. Other than this engagement, during the two years preceding the date of this Opinion, Duff & Phelps has been engaged by the Telefónica Group to assist with a number of valuations for financial reporting and other internal purposes.



Conclusion

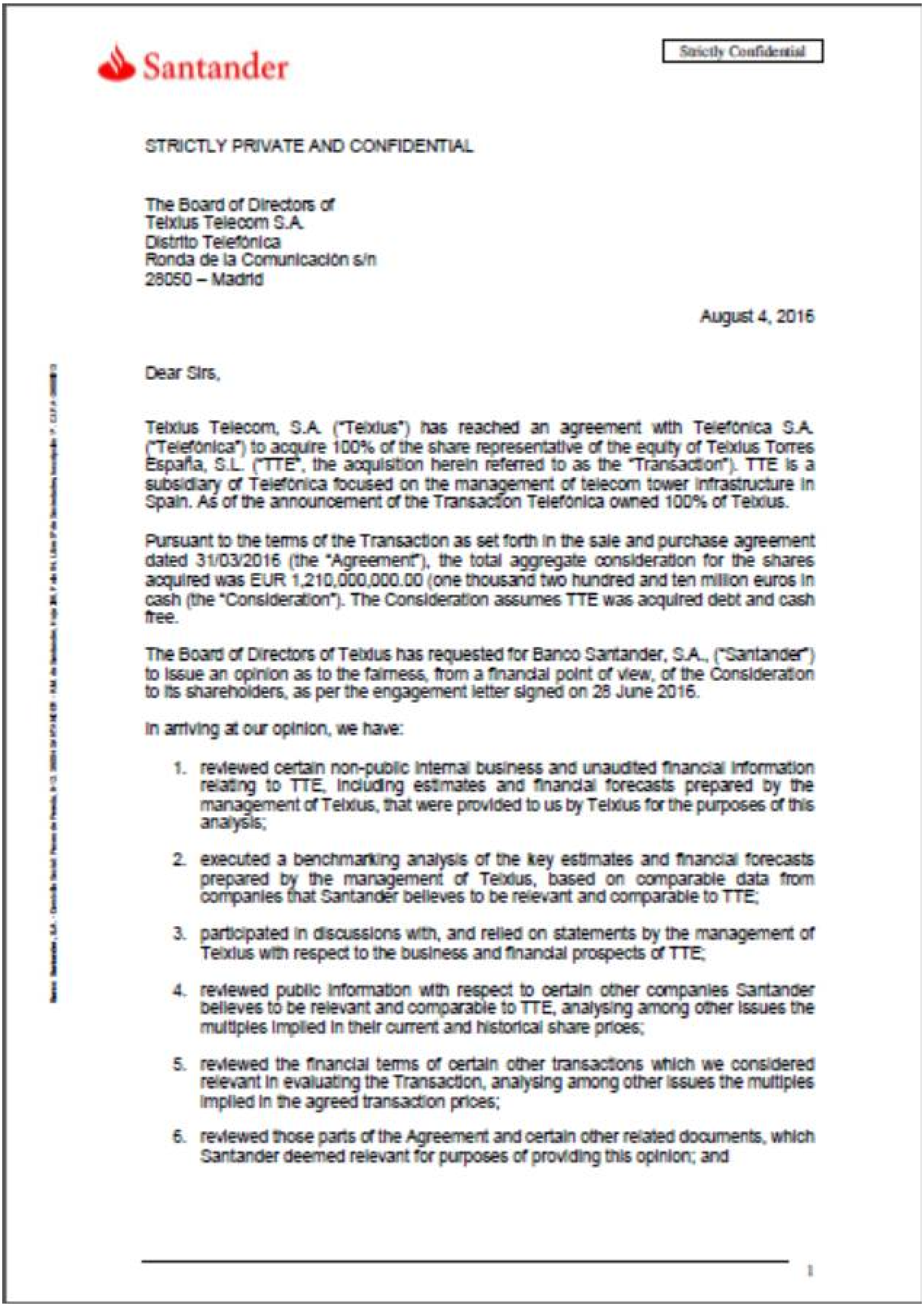
Based upon and subject to the foregoing, Duff & Phelps is of the opinion that the consideration paid by Telxius in the Transaction is fair, from a financial point of view, to Telxius. On TIWS America, our opinion is related to the 26.86% transaction based on the analysis of the 100% of such company.

This Opinion has been approved by the Opinion Review Committee of Duff & Phelps.

Respectfully submitted,

Duff & Phelps

Duff & Phelps, LLC
Duff & Phelps, S.L.



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The Board of Directors of
Telxius Telecom S.A.
Distrito Telefónica
Ronda de la Comunicación s/n
28050 – Madrid

August 4, 2016

Dear Sirs,

Telxius Telecom, S.A. ("Telxius") has reached an agreement with Telefónica S.A. ("Telefónica") to acquire 100% of the share representative of the equity of Telxius Torres España, S.L. ("TTE", the acquisition herein referred to as the "Transaction"). TTE is a subsidiary of Telefónica focused on the management of telecom tower infrastructure in Spain. As of the announcement of the Transaction Telefónica owned 100% of Telxius.

Pursuant to the terms of the Transaction as set forth in the sale and purchase agreement dated 31/03/2016 (the "Agreement"), the total aggregate consideration for the shares acquired was EUR 1,210,000,000.00 (one thousand two hundred and ten million euros in cash (the "Consideration"). The Consideration assumes TTE was acquired debt and cash free.

The Board of Directors of Telxius has requested for Banco Santander, S.A., ("Santander") to issue an opinion as to the fairness, from a financial point of view, of the Consideration to its shareholders, as per the engagement letter signed on 28 June 2016.

In arriving at our opinion, we have:

1. reviewed certain non-public internal business and unaudited financial information relating to TTE, including estimates and financial forecasts prepared by the management of Telxius, that were provided to us by Telxius for the purposes of this analysis;

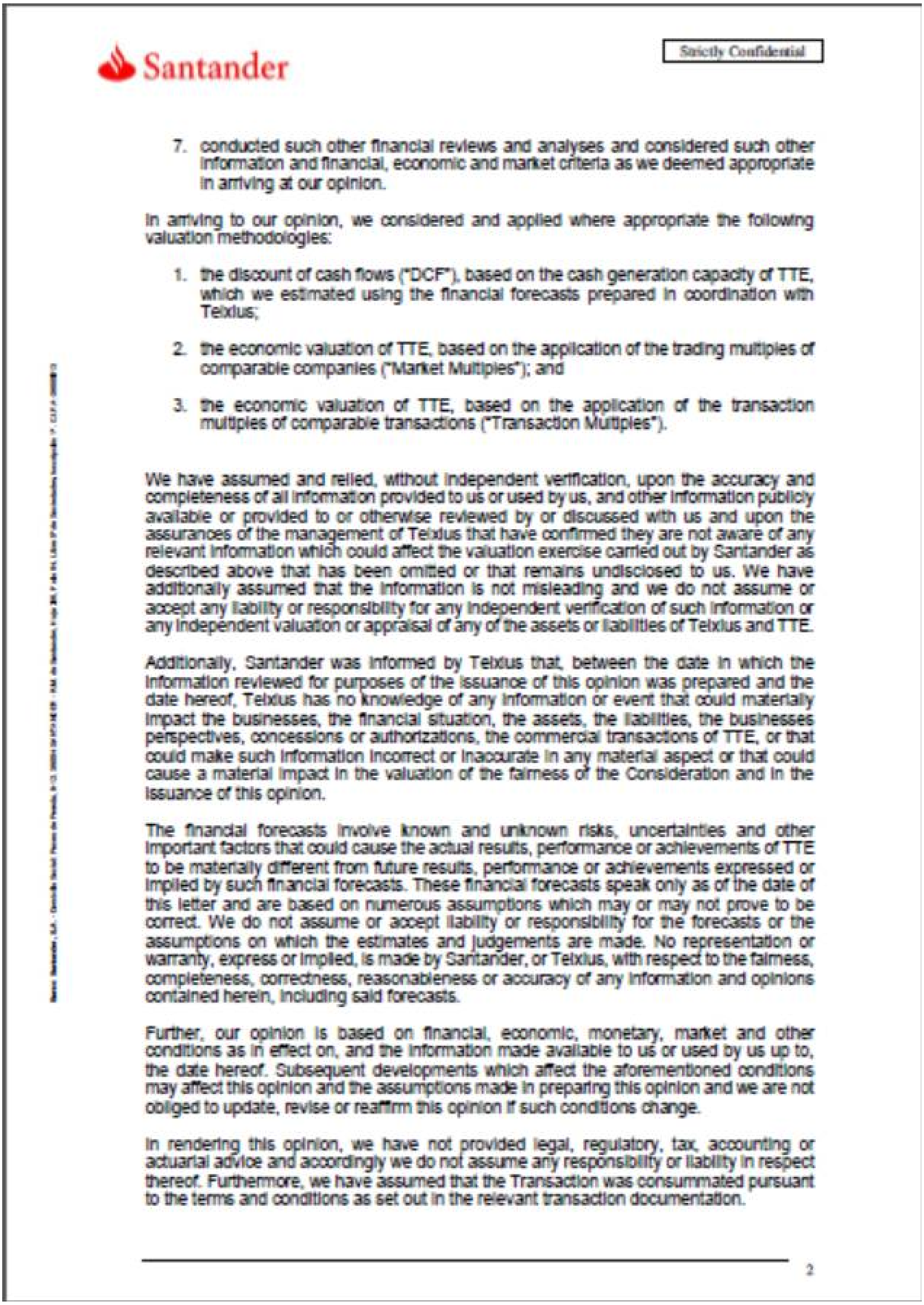
2. executed a benchmarking analysis of the key estimates and financial forecasts prepared by the management of Telxius, based on comparable data from companies that Santander believes to be relevant and comparable to TTE;

3. participated in discussions with, and relied on statements by the management of Telxius with respect to the business and financial prospects of TTE;

4. reviewed public information with respect to certain other companies Santander believes to be relevant and comparable to TTE, analysing among other issues the multiples implied in their current and historical share prices;

5. reviewed the financial terms of certain other transactions which we considered relevant in evaluating the Transaction, analysing among other issues the multiples implied in the agreed transaction prices;

6. reviewed those parts of the Agreement and certain other related documents, which Santander deemed relevant for purposes of providing this opinion; and



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7. conducted such other financial reviews and analyses and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In arriving to our opinion, we considered and applied where appropriate the following valuation methodologies:

1. the discount of cash flows ("DCF"), based on the cash generation capacity of TTE, which we estimated using the financial forecasts prepared in coordination with Telxius;

2. the economic valuation of TTE, based on the application of the trading multiples of comparable companies ("Market Multiples"); and

3. the economic valuation of TTE, based on the application of the transaction multiples of comparable transactions ("Transaction Multiples").

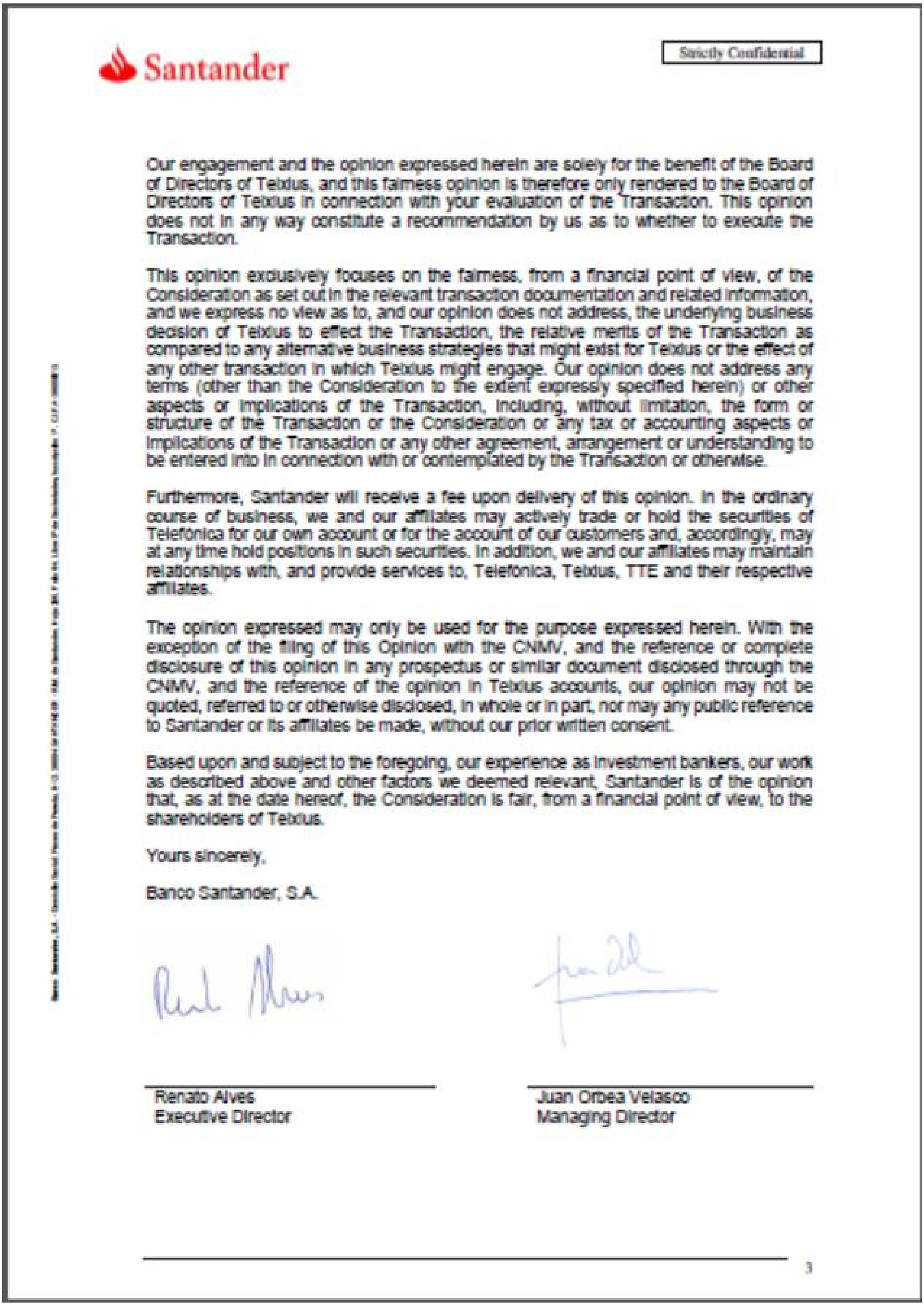
We have assumed and relied, without independent verification, upon the accuracy and completeness of all information provided to us or used by us, and other information publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the management of Telxius that have confirmed they are not aware of any relevant information which could affect the valuation exercise carried out by Santander as described above that has been omitted or that remains undisclosed to us. We have additionally assumed that the information is not misleading and we do not assume or accept any liability or responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Telxius and TTE.

Additionally, Santander was informed by Telxius that, between the date in which the information reviewed for purposes of the issuance of this opinion was prepared and the date hereof, Telxius has no knowledge of any information or event that could materially impact the businesses, the financial situation, the assets, the liabilities, the businesses perspectives, concessions or authorizations, the commercial transactions of TTE, or that could make such information incorrect or inaccurate in any material aspect or that could cause a material impact in the valuation of the fairness of the Consideration and in the issuance of this opinion.

The financial forecasts involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of TTE to be materially different from future results, performance or achievements expressed or implied by such financial forecasts. These financial forecasts speak only as of the date of this letter and are based on numerous assumptions which may or may not prove to be correct. We do not assume or accept liability or responsibility for the forecasts or the assumptions on which the estimates and judgements are made. No representation or warranty, express or implied, is made by Santander, or Telxius, with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein, including said forecasts.

Further, our opinion is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. Subsequent developments which affect the aforementioned conditions may affect this opinion and the assumptions made in preparing this opinion and we are not obliged to update, revise or reaffirm this opinion if such conditions change.

In rendering this opinion, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. Furthermore, we have assumed that the Transaction was consummated pursuant to the terms and conditions as set out in the relevant transaction documentation.



Santander

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Our engagement and the opinion expressed herein are solely for the benefit of the Board of Directors of Telxius, and this fairness opinion is therefore only rendered to the Board of Directors of Telxius in connection with your evaluation of the Transaction. This opinion does not in any way constitute a recommendation by us as to whether to execute the Transaction.

This opinion exclusively focuses on the fairness, from a financial point of view, of the Consideration as set out in the relevant transaction documentation and related information, and we express no view as to, and our opinion does not address, the underlying business decision of Telxius to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for Telxius or the effect of any other transaction in which Telxius might engage. Our opinion does not address any terms (other than the Consideration to the extent expressly specified herein) or other aspects or implications of the Transaction, including, without limitation, the form or structure of the Transaction or the Consideration or any tax or accounting aspects or implications of the Transaction or any other agreement, arrangement or understanding to be entered into in connection with or contemplated by the Transaction or otherwise.

Furthermore, Santander will receive a fee upon delivery of this opinion. In the ordinary course of business, we and our affiliates may actively trade or hold the securities of Telefónica for our own account or for the account of our customers and, accordingly, may at any time hold positions in such securities. In addition, we and our affiliates may maintain relationships with, and provide services to, Telefónica, Telxius, TTE and their respective affiliates.

The opinion expressed may only be used for the purpose expressed herein. With the exception of the filing of this Opinion with the CNMV, and the reference or complete disclosure of this opinion in any prospectus or similar document disclosed through the CNMV, and the reference of the opinion in Telxius accounts, our opinion may not be quoted, referred to or otherwise disclosed, in whole or in part, nor may any public reference to Santander or its affiliates be made, without our prior written consent.

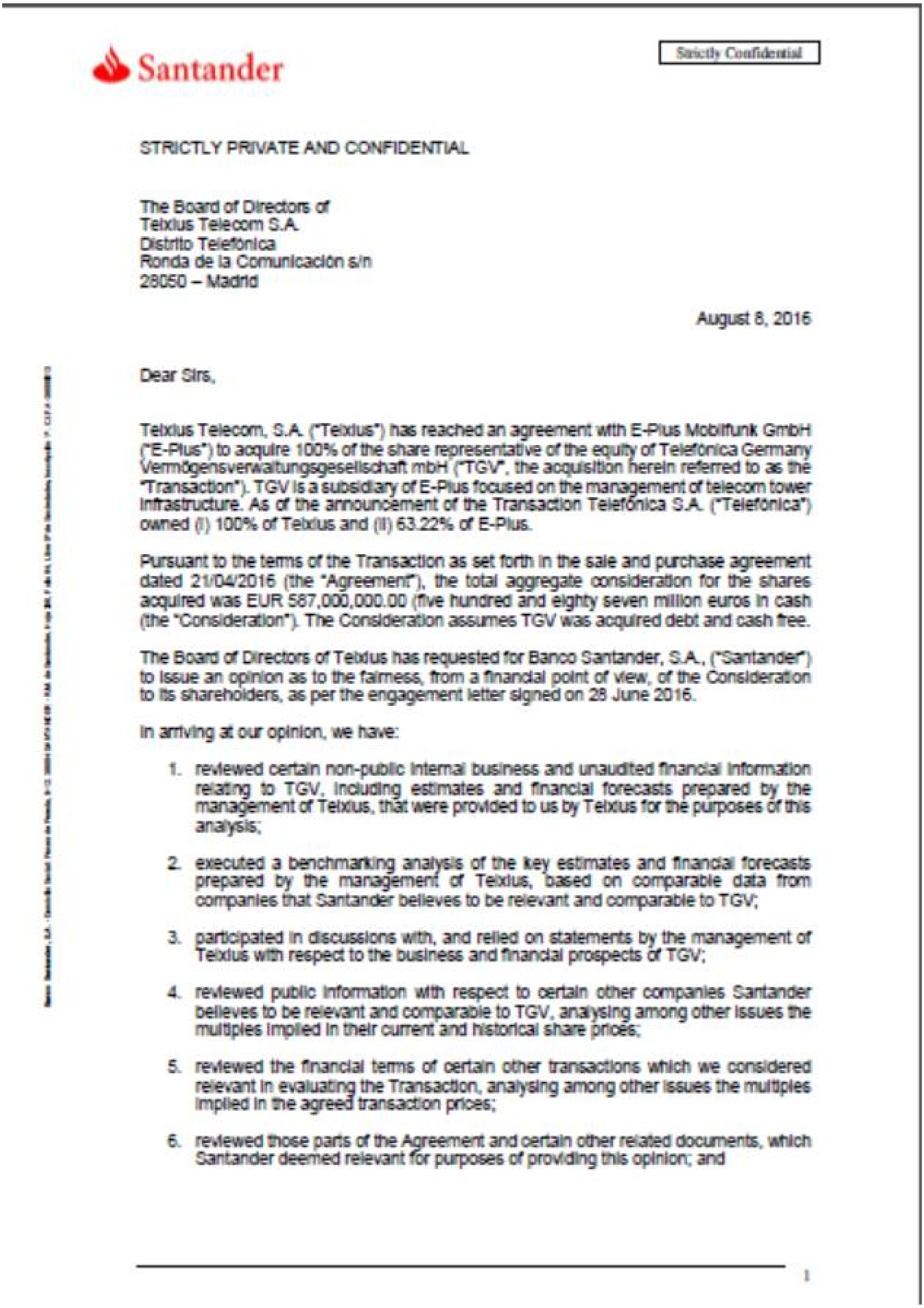
Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, Santander is of the opinion that, as at the date hereof, the Consideration is fair, from a financial point of view, to the shareholders of Telxius.

Yours sincerely,

Banco Santander, S.A.

Renato Alves
Executive Director

Juan Orbea Velasco
Managing Director



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The Board of Directors of
Telxius Telecom S.A.
Distrito Telefónica
Ronda de la Comunicación s/n
28050 – Madrid

August 8, 2016

Dear Sirs,

Telxius Telecom, S.A. ("Telxius") has reached an agreement with E-Plus Mobilfunk GmbH ("E-Plus") to acquire 100% of the share representative of the equity of Telefónica Germany Vermögensverwaltungsgesellschaft mbH ("TGV", the acquisition herein referred to as the "Transaction"). TGV is a subsidiary of E-Plus focused on the management of telecom tower infrastructure. As of the announcement of the Transaction Telefónica S.A. ("Telefónica") owned (i) 100% of Telxius and (ii) 63.22% of E-Plus.

Pursuant to the terms of the Transaction as set forth in the sale and purchase agreement dated 21/04/2016 (the "Agreement"), the total aggregate consideration for the shares acquired was EUR 587,000,000.00 (five hundred and eighty seven million euros in cash (the "Consideration"). The Consideration assumes TGV was acquired debt and cash free.

The Board of Directors of Telxius has requested for Banco Santander, S.A., ("Santander") to issue an opinion as to the fairness, from a financial point of view, of the Consideration to its shareholders, as per the engagement letter signed on 28 June 2016.

In arriving at our opinion, we have:

1. reviewed certain non-public internal business and unaudited financial information relating to TGV, including estimates and financial forecasts prepared by the management of Telxius, that were provided to us by Telxius for the purposes of this analysis;

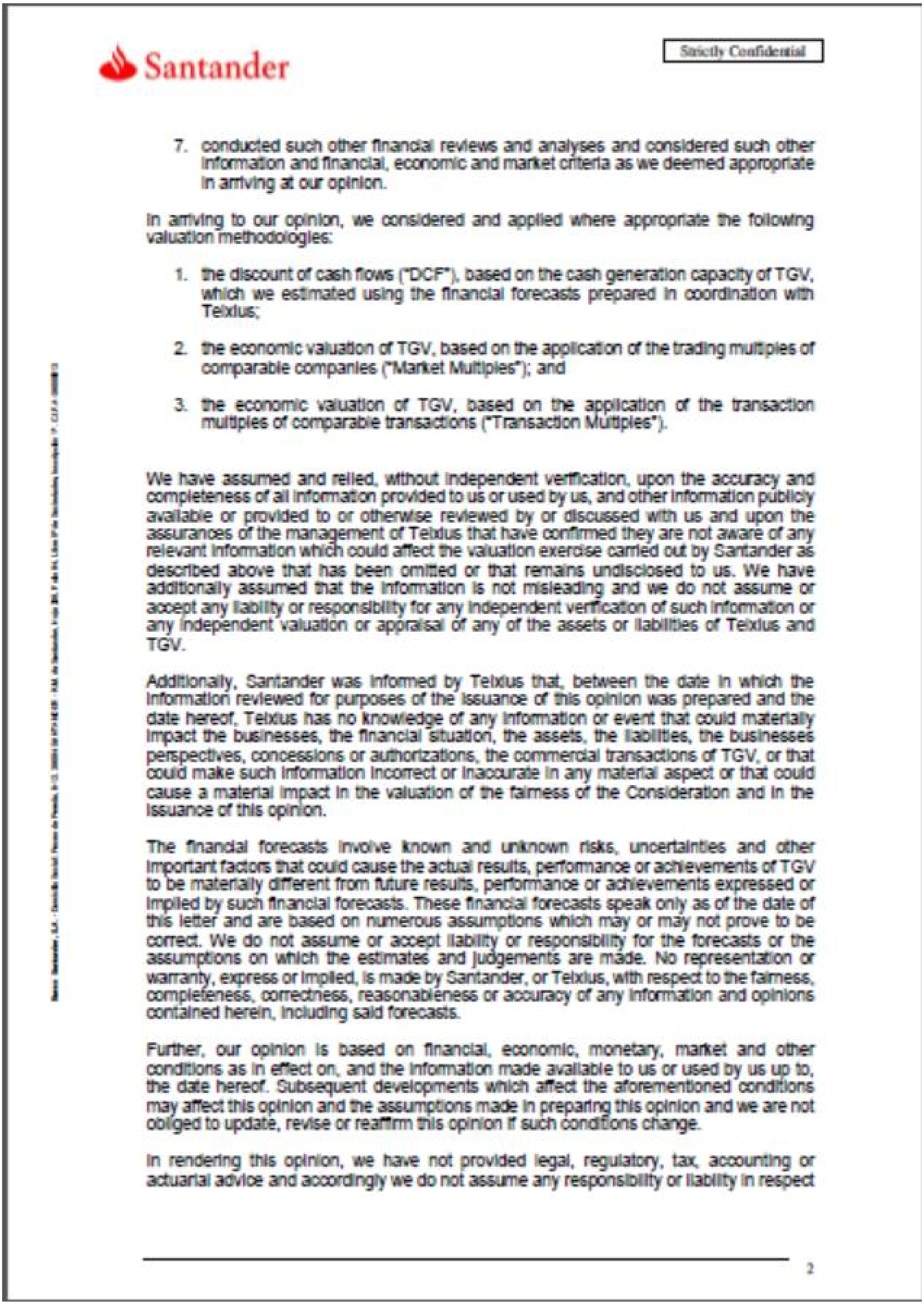
2. executed a benchmarking analysis of the key estimates and financial forecasts prepared by the management of Telxius, based on comparable data from companies that Santander believes to be relevant and comparable to TGV;

3. participated in discussions with, and relied on statements by the management of Telxius with respect to the business and financial prospects of TGV;

4. reviewed public information with respect to certain other companies Santander believes to be relevant and comparable to TGV, analysing among other issues the multiples implied in their current and historical share prices;

5. reviewed the financial terms of certain other transactions which we considered relevant in evaluating the Transaction, analysing among other issues the multiples implied in the agreed transaction prices;

6. reviewed those parts of the Agreement and certain other related documents, which Santander deemed relevant for purposes of providing this opinion; and



7. conducted such other financial reviews and analyses and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In arriving to our opinion, we considered and applied where appropriate the following valuation methodologies:

1. the discount of cash flows ("DCF"), based on the cash generation capacity of TGV, which we estimated using the financial forecasts prepared in coordination with Teixius;

2. the economic valuation of TGV, based on the application of the trading multiples of comparable companies ("Market Multiples"); and

3. the economic valuation of TGV, based on the application of the transaction multiples of comparable transactions ("Transaction Multiples").

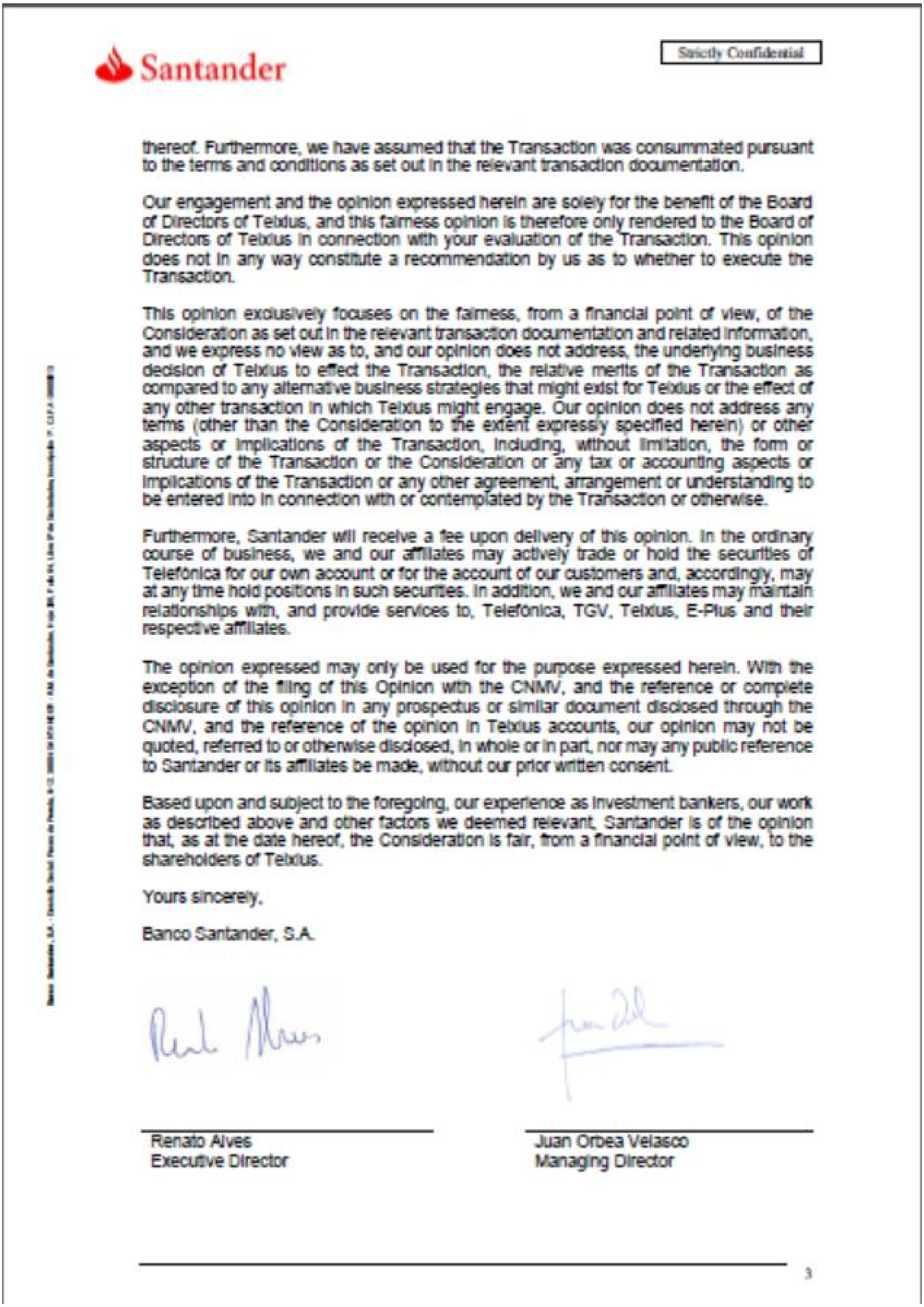
We have assumed and relied, without independent verification, upon the accuracy and completeness of all information provided to us or used by us, and other information publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the management of Teixius that have confirmed they are not aware of any relevant information which could affect the valuation exercise carried out by Santander as described above that has been omitted or that remains undisclosed to us. We have additionally assumed that the information is not misleading and we do not assume or accept any liability or responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Teixius and TGV.

Additionally, Santander was informed by Teixius that, between the date in which the information reviewed for purposes of the issuance of this opinion was prepared and the date hereof, Teixius has no knowledge of any information or event that could materially impact the businesses, the financial situation, the assets, the liabilities, the businesses perspectives, concessions or authorizations, the commercial transactions of TGV, or that could make such information incorrect or inaccurate in any material aspect or that could cause a material impact in the valuation of the fairness of the Consideration and in the issuance of this opinion.

The financial forecasts involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of TGV to be materially different from future results, performance or achievements expressed or implied by such financial forecasts. These financial forecasts speak only as of the date of this letter and are based on numerous assumptions which may or may not prove to be correct. We do not assume or accept liability or responsibility for the forecasts or the assumptions on which the estimates and judgements are made. No representation or warranty, express or implied, is made by Santander, or Teixius, with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein, including said forecasts.

Further, our opinion is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. Subsequent developments which affect the aforementioned conditions may affect this opinion and the assumptions made in preparing this opinion and we are not obliged to update, revise or reaffirm this opinion if such conditions change.

In rendering this opinion, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect



thereof. Furthermore, we have assumed that the Transaction was consummated pursuant to the terms and conditions as set out in the relevant transaction documentation.

Our engagement and the opinion expressed herein are solely for the benefit of the Board of Directors of Telxius, and this fairness opinion is therefore only rendered to the Board of Directors of Telxius in connection with your evaluation of the Transaction. This opinion does not in any way constitute a recommendation by us as to whether to execute the Transaction.

This opinion exclusively focuses on the fairness, from a financial point of view, of the Consideration as set out in the relevant transaction documentation and related information, and we express no view as to, and our opinion does not address, the underlying business decision of Telxius to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for Telxius or the effect of any other transaction in which Telxius might engage. Our opinion does not address any terms (other than the Consideration to the extent expressly specified herein) or other aspects or implications of the Transaction, including, without limitation, the form or structure of the Transaction or the Consideration or any tax or accounting aspects or implications of the Transaction or any other agreement, arrangement or understanding to be entered into in connection with or contemplated by the Transaction or otherwise.

Furthermore, Santander will receive a fee upon delivery of this opinion. In the ordinary course of business, we and our affiliates may actively trade or hold the securities of Telefónica for our own account or for the account of our customers and, accordingly, may at any time hold positions in such securities. In addition, we and our affiliates may maintain relationships with, and provide services to, Telefónica, TGV, Telxius, E-Plus and their respective affiliates.

The opinion expressed may only be used for the purpose expressed herein. With the exception of the filing of this Opinion with the CNMV, and the reference or complete disclosure of this opinion in any prospectus or similar document disclosed through the CNMV, and the reference of the opinion in Telxius accounts, our opinion may not be quoted, referred to or otherwise disclosed, in whole or in part, nor may any public reference to Santander or its affiliates be made, without our prior written consent.

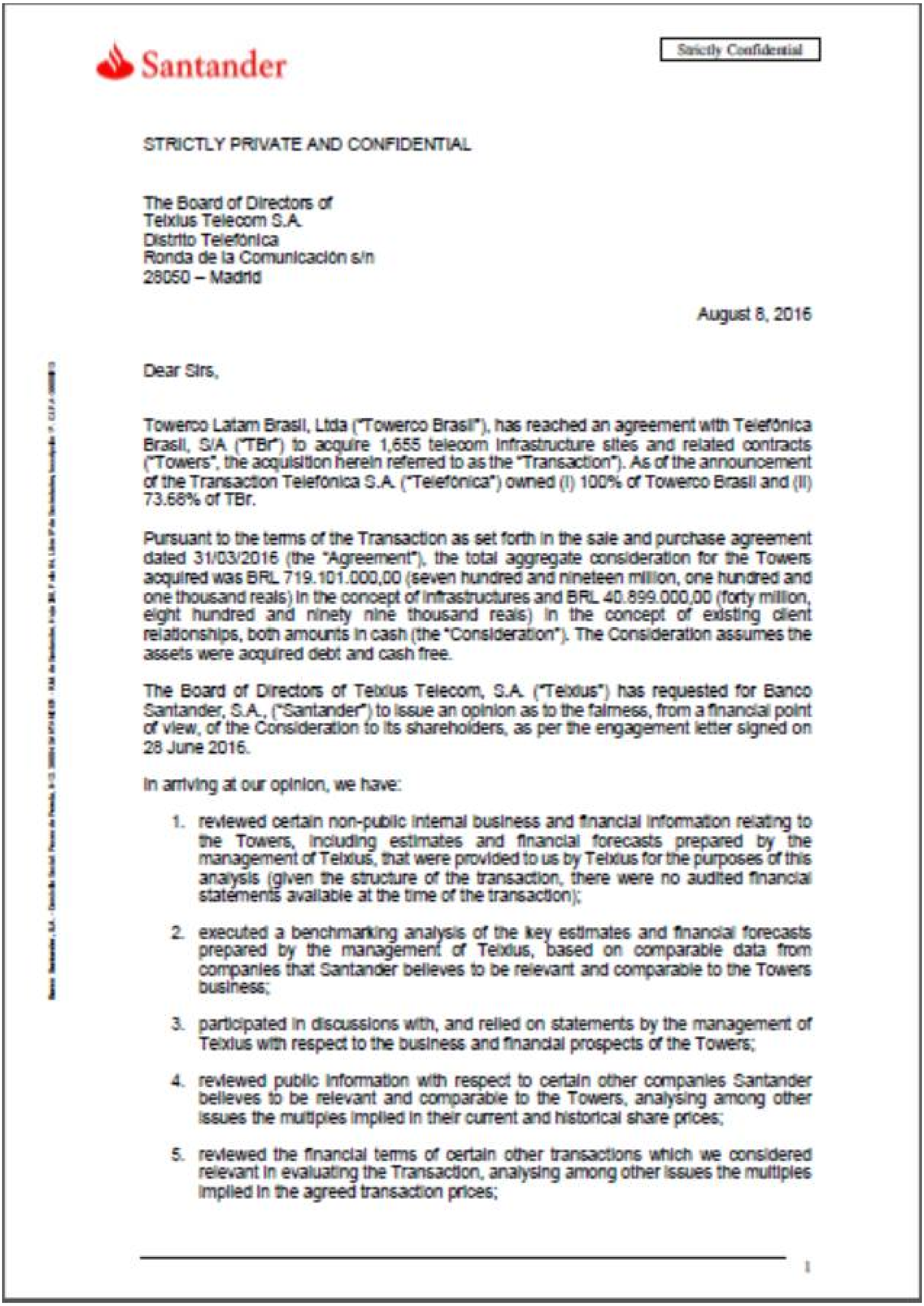
Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, Santander is of the opinion that, as at the date hereof, the Consideration is fair, from a financial point of view, to the shareholders of Telxius.

Yours sincerely,

Banco Santander, S.A.

Renato Alves
Executive Director

Juan Orbea Velasco
Managing Director



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The Board of Directors of
Telxius Telecom S.A.
Distrito Telefônica
Ronda de la Comunicación s/n
28050 – Madrid

August 8, 2016

Dear Sirs,

Towerco Latam Brasil, Ltda ("Towerco Brasil"), has reached an agreement with Telefônica Brasil, S/A ("TBr") to acquire 1,655 telecom infrastructure sites and related contracts ("Towers", the acquisition herein referred to as the "Transaction"). As of the announcement of the Transaction Telefónica S.A. ("Telefónica") owned (i) 100% of Towerco Brasil and (ii) 73.68% of TBr.

Pursuant to the terms of the Transaction as set forth in the sale and purchase agreement dated 31/03/2016 (the "Agreement"), the total aggregate consideration for the Towers acquired was BRL 719.101.000,00 (seven hundred and nineteen million, one hundred and one thousand reals) in the concept of infrastructures and BRL 40.899.000,00 (forty million, eight hundred and ninety nine thousand reals) in the concept of existing client relationships, both amounts in cash (the "Consideration"). The Consideration assumes the assets were acquired debt and cash free.

The Board of Directors of Telxius Telecom, S.A. ("Telxius") has requested for Banco Santander, S.A., ("Santander") to issue an opinion as to the fairness, from a financial point of view, of the Consideration to its shareholders, as per the engagement letter signed on 28 June 2016.

In arriving at our opinion, we have:

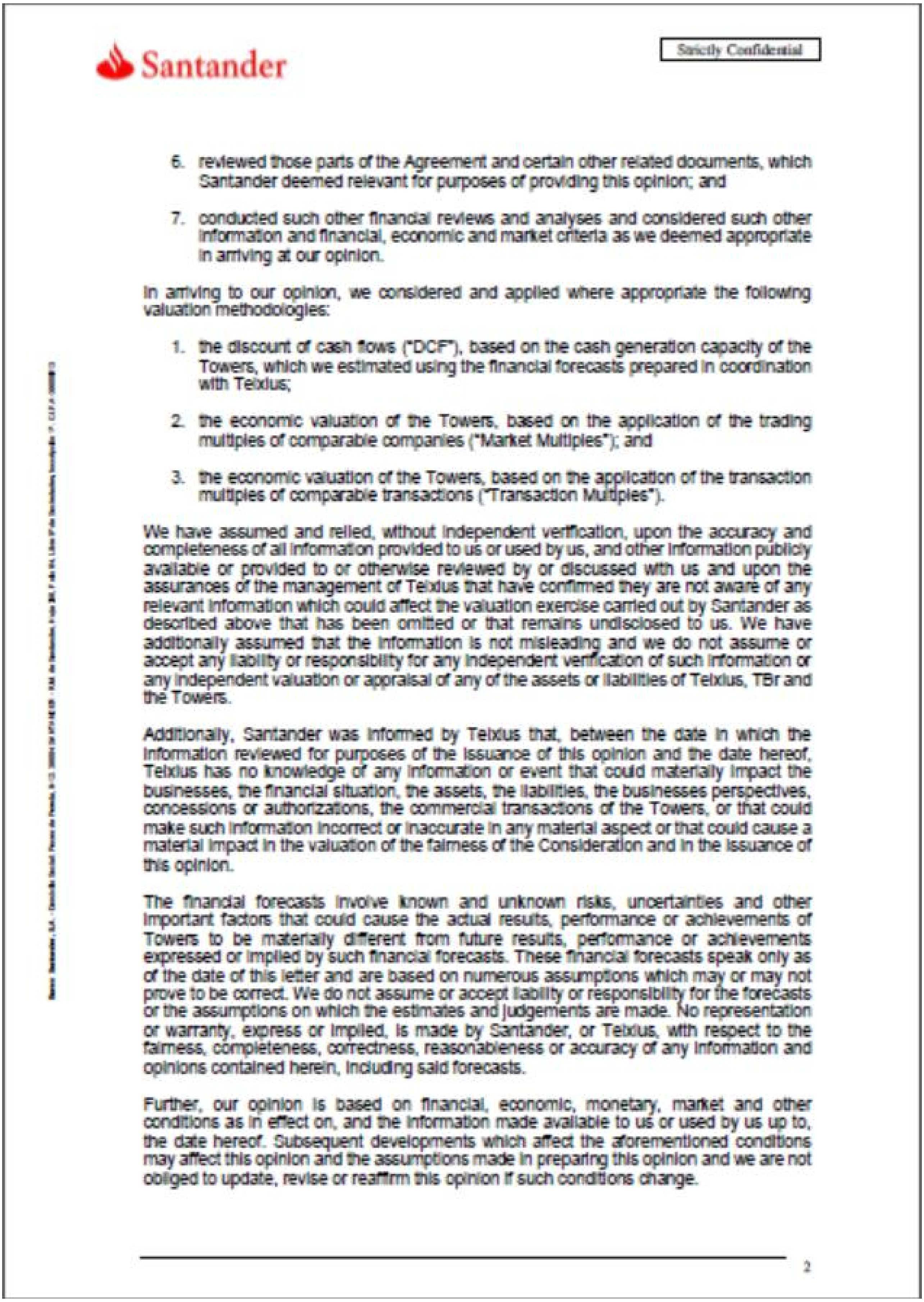
1. reviewed certain non-public internal business and financial information relating to the Towers, including estimates and financial forecasts prepared by the management of Telxius, that were provided to us by Telxius for the purposes of this analysis (given the structure of the transaction, there were no audited financial statements available at the time of the transaction);

2. executed a benchmarking analysis of the key estimates and financial forecasts prepared by the management of Telxius, based on comparable data from companies that Santander believes to be relevant and comparable to the Towers business;

3. participated in discussions with, and relied on statements by the management of Telxius with respect to the business and financial prospects of the Towers;

4. reviewed public information with respect to certain other companies Santander believes to be relevant and comparable to the Towers, analysing among other issues the multiples implied in their current and historical share prices;

5. reviewed the financial terms of certain other transactions which we considered relevant in evaluating the Transaction, analysing among other issues the multiples implied in the agreed transaction prices;



6. reviewed those parts of the Agreement and certain other related documents, which Santander deemed relevant for purposes of providing this opinion; and

7. conducted such other financial reviews and analyses and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In arriving to our opinion, we considered and applied where appropriate the following valuation methodologies:

1. the discount of cash flows ("DCF"), based on the cash generation capacity of the Towers, which we estimated using the financial forecasts prepared in coordination with Telxius;

2. the economic valuation of the Towers, based on the application of the trading multiples of comparable companies ("Market Multiples"); and

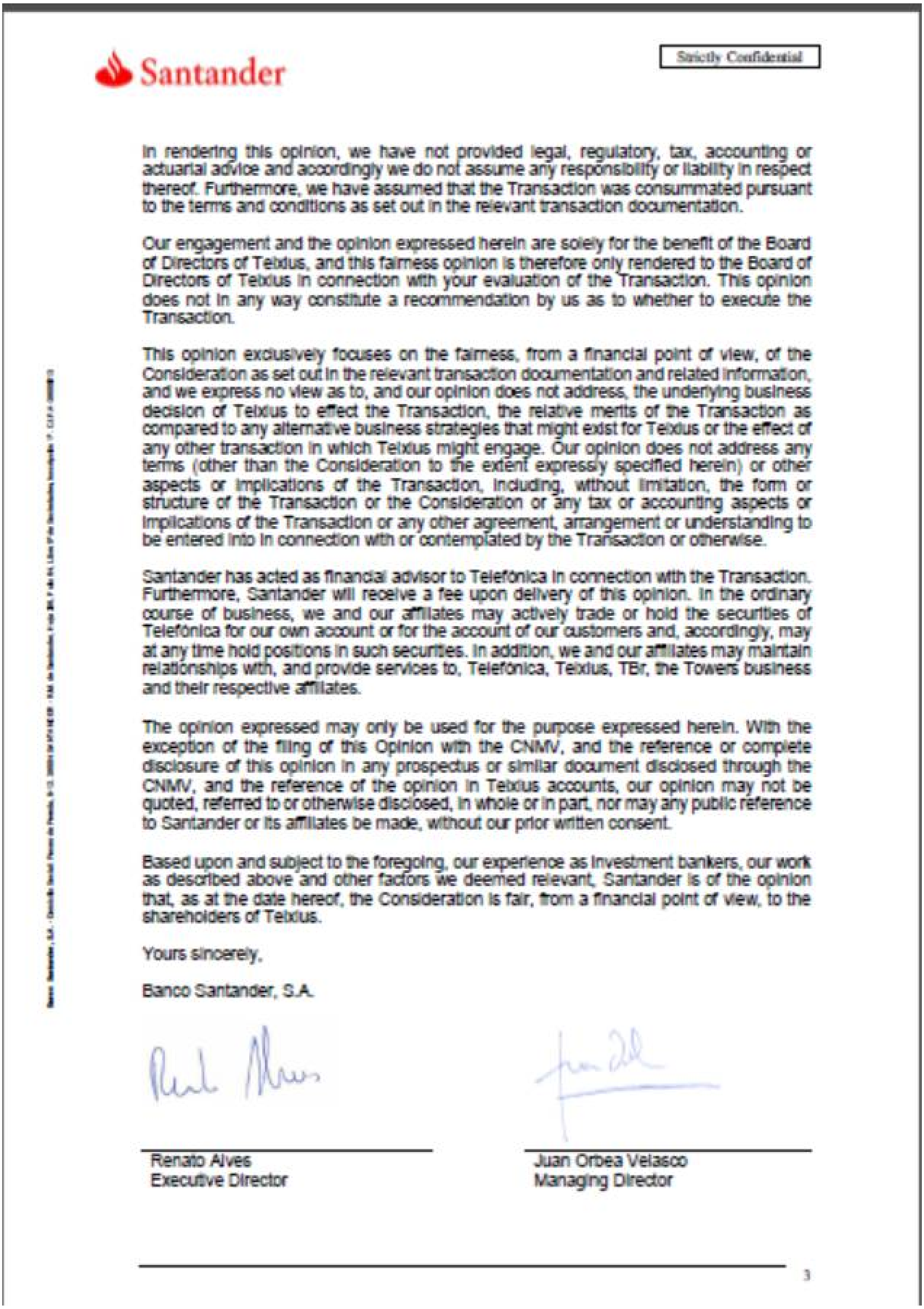
3. the economic valuation of the Towers, based on the application of the transaction multiples of comparable transactions ("Transaction Multiples").

We have assumed and relied, without independent verification, upon the accuracy and completeness of all information provided to us or used by us, and other information publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the management of Telxius that have confirmed they are not aware of any relevant information which could affect the valuation exercise carried out by Santander as described above that has been omitted or that remains undisclosed to us. We have additionally assumed that the information is not misleading and we do not assume or accept any liability or responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Telxius, TBr and the Towers.

Additionally, Santander was informed by Telxius that, between the date in which the information reviewed for purposes of the issuance of this opinion and the date hereof, Telxius has no knowledge of any information or event that could materially impact the businesses, the financial situation, the assets, the liabilities, the businesses perspectives, concessions or authorizations, the commercial transactions of the Towers, or that could make such information incorrect or inaccurate in any material aspect or that could cause a material impact in the valuation of the fairness of the Consideration and in the issuance of this opinion.

The financial forecasts involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Towers to be materially different from future results, performance or achievements expressed or implied by such financial forecasts. These financial forecasts speak only as of the date of this letter and are based on numerous assumptions which may or may not prove to be correct. We do not assume or accept liability or responsibility for the forecasts or the assumptions on which the estimates and judgements are made. No representation or warranty, express or implied, is made by Santander, or Telxius, with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein, including said forecasts.

Further, our opinion is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. Subsequent developments which affect the aforementioned conditions may affect this opinion and the assumptions made in preparing this opinion and we are not obliged to update, revise or reaffirm this opinion if such conditions change.



In rendering this opinion, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. Furthermore, we have assumed that the Transaction was consummated pursuant to the terms and conditions as set out in the relevant transaction documentation.

Our engagement and the opinion expressed herein are solely for the benefit of the Board of Directors of Telxius, and this fairness opinion is therefore only rendered to the Board of Directors of Telxius in connection with your evaluation of the Transaction. This opinion does not in any way constitute a recommendation by us as to whether to execute the Transaction.

This opinion exclusively focuses on the fairness, from a financial point of view, of the Consideration as set out in the relevant transaction documentation and related information, and we express no view as to, and our opinion does not address, the underlying business decision of Telxius to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for Telxius or the effect of any other transaction in which Telxius might engage. Our opinion does not address any terms (other than the Consideration to the extent expressly specified herein) or other aspects or implications of the Transaction, including, without limitation, the form or structure of the Transaction or the Consideration or any tax or accounting aspects or implications of the Transaction or any other agreement, arrangement or understanding to be entered into in connection with or contemplated by the Transaction or otherwise.

Santander has acted as financial advisor to Telefónica in connection with the Transaction. Furthermore, Santander will receive a fee upon delivery of this opinion. In the ordinary course of business, we and our affiliates may actively trade or hold the securities of Telefónica for our own account or for the account of our customers and, accordingly, may at any time hold positions in such securities. In addition, we and our affiliates may maintain relationships with, and provide services to, Telefónica, Telxius, TBr, the Towers business and their respective affiliates.

The opinion expressed may only be used for the purpose expressed herein. With the exception of the filing of this Opinion with the CNMV, and the reference or complete disclosure of this opinion in any prospectus or similar document disclosed through the CNMV, and the reference of the opinion in Telxius accounts, our opinion may not be quoted, referred to or otherwise disclosed, in whole or in part, nor may any public reference to Santander or its affiliates be made, without our prior written consent.

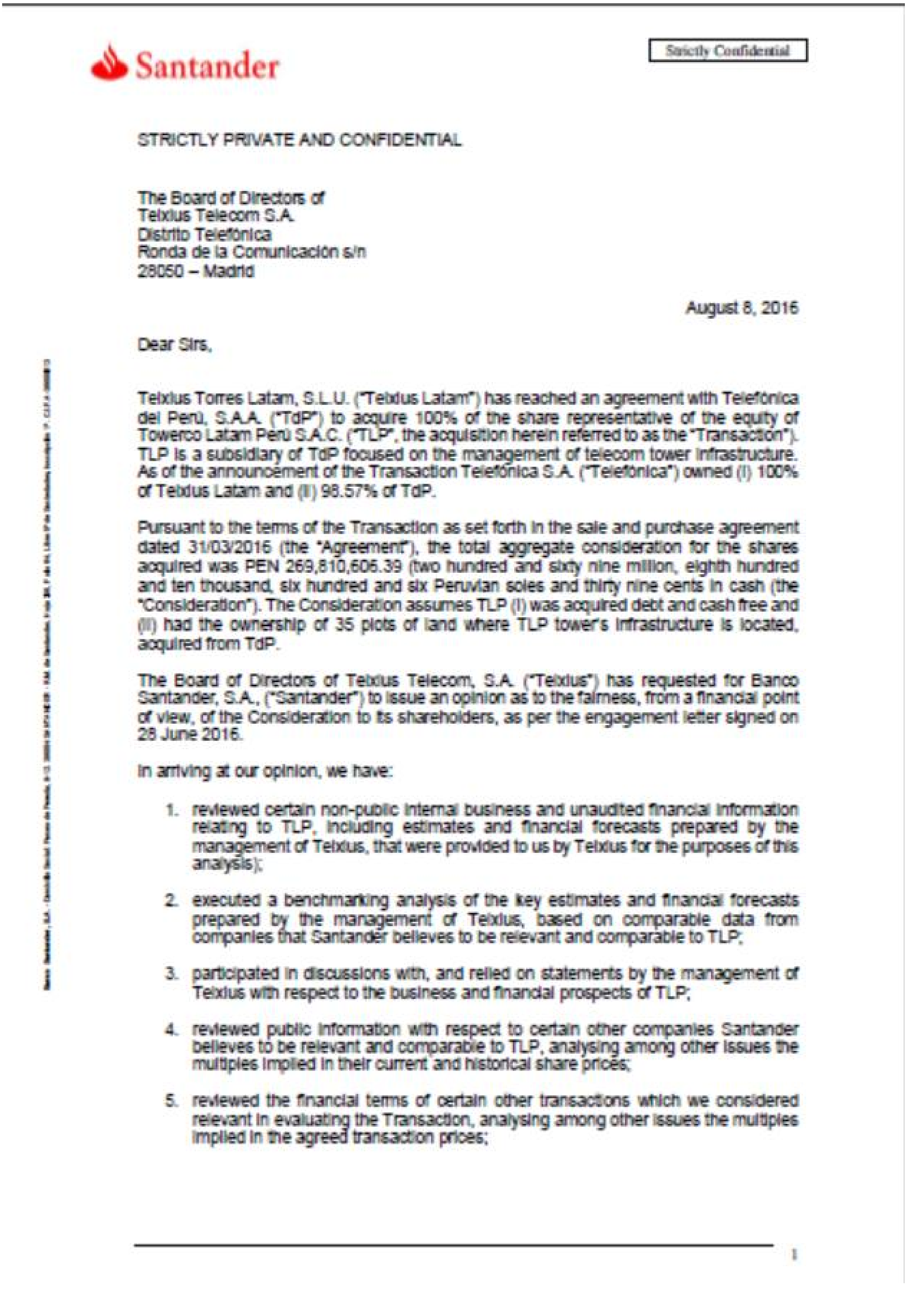
Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, Santander is of the opinion that, as at the date hereof, the Consideration is fair, from a financial point of view, to the shareholders of Telxius.

Yours sincerely,

Banco Santander, S.A.

Renato Alves
Executive Director

Juan Orbea Velasco
Managing Director



Santander

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The Board of Directors of
Telxius Telecom S.A.
Distrito Telefónica
Ronda de la Comunicación s/n
28050 – Madrid

August 8, 2016

Dear Sirs,

Telxius Torres Latam, S.L.U. ("Telxius Latam") has reached an agreement with Telefónica del Perú, S.A.A. ("TdP") to acquire 100% of the share representative of the equity of Towerco Latam Perú S.A.C. ("TLP", the acquisition herein referred to as the "Transaction"). TLP is a subsidiary of TdP focused on the management of telecom tower infrastructure. As of the announcement of the Transaction Telefónica S.A. ("Telefónica") owned (i) 100% of Telxius Latam and (ii) 98.57% of TdP.

Pursuant to the terms of the Transaction as set forth in the sale and purchase agreement dated 31/03/2016 (the "Agreement"), the total aggregate consideration for the shares acquired was PEN 269,810,606.39 (two hundred and sixty nine million, eighth hundred and ten thousand, six hundred and six Peruvian soles and thirty nine cents in cash (the "Consideration"). The Consideration assumes TLP (i) was acquired debt and cash free and (ii) had the ownership of 35 plots of land where TLP tower's infrastructure is located, acquired from TdP.

The Board of Directors of Telxius Telecom, S.A. ("Telxius") has requested for Banco Santander, S.A., ("Santander") to issue an opinion as to the fairness, from a financial point of view, of the Consideration to its shareholders, as per the engagement letter signed on 28 June 2016.

In arriving at our opinion, we have:

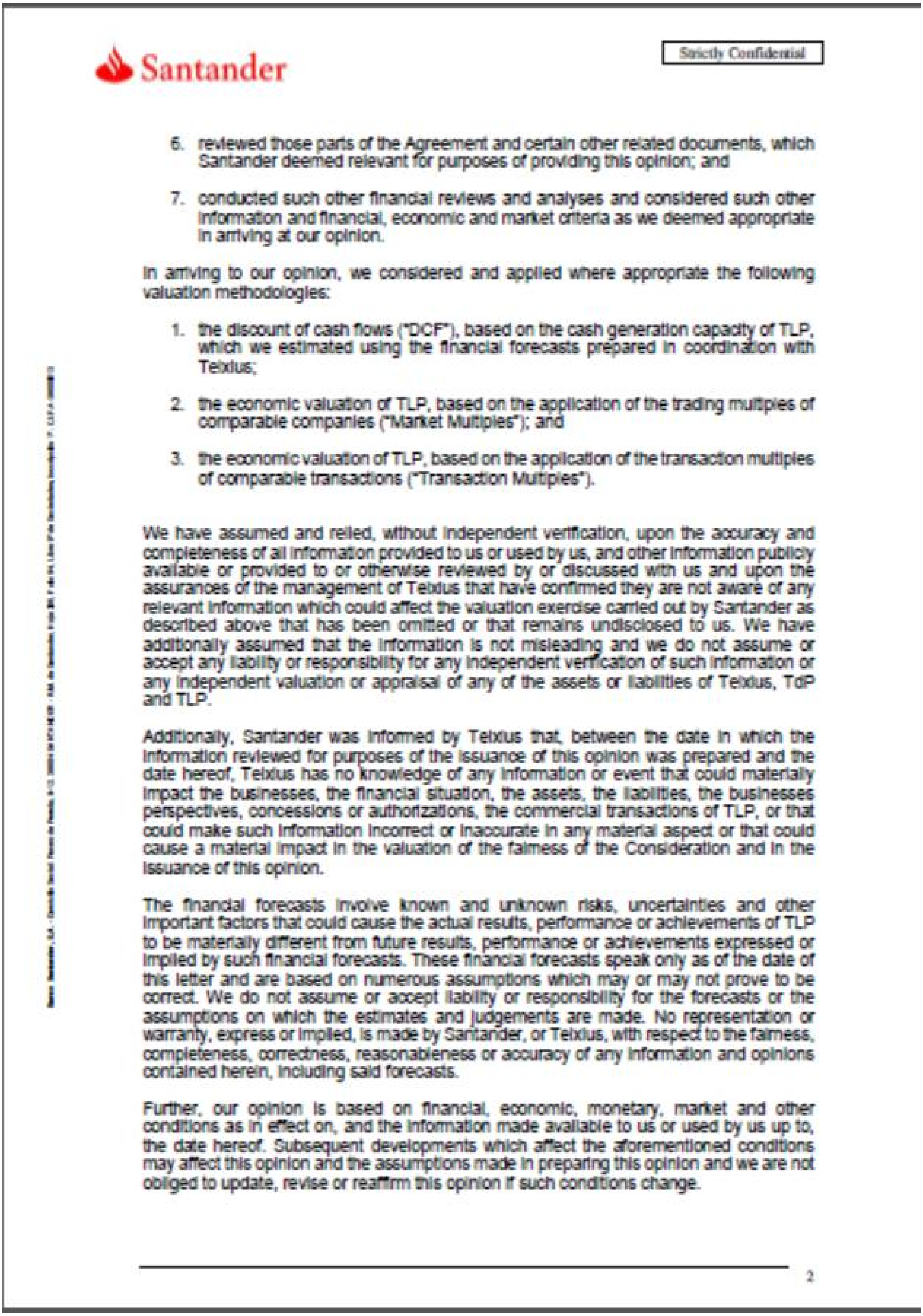
1. reviewed certain non-public internal business and unaudited financial information relating to TLP, including estimates and financial forecasts prepared by the management of Telxius, that were provided to us by Telxius for the purposes of this analysis);

2. executed a benchmarking analysis of the key estimates and financial forecasts prepared by the management of Telxius, based on comparable data from companies that Santander believes to be relevant and comparable to TLP;

3. participated in discussions with, and relied on statements by the management of Telxius with respect to the business and financial prospects of TLP;

4. reviewed public information with respect to certain other companies Santander believes to be relevant and comparable to TLP, analysing among other issues the multiples implied in their current and historical share prices;

5. reviewed the financial terms of certain other transactions which we considered relevant in evaluating the Transaction, analysing among other issues the multiples implied in the agreed transaction prices;



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6. reviewed those parts of the Agreement and certain other related documents, which Santander deemed relevant for purposes of providing this opinion; and

7. conducted such other financial reviews and analyses and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion.

In arriving to our opinion, we considered and applied where appropriate the following valuation methodologies:

1. the discount of cash flows ("DCF"), based on the cash generation capacity of TLP, which we estimated using the financial forecasts prepared in coordination with Telxius;

2. the economic valuation of TLP, based on the application of the trading multiples of comparable companies ("Market Multiples"); and

3. the economic valuation of TLP, based on the application of the transaction multiples of comparable transactions ("Transaction Multiples").

We have assumed and relied, without independent verification, upon the accuracy and completeness of all information provided to us or used by us, and other information publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the management of Telxius that have confirmed they are not aware of any relevant information which could affect the valuation exercise carried out by Santander as described above that has been omitted or that remains undisclosed to us. We have additionally assumed that the information is not misleading and we do not assume or accept any liability or responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Telxius, TdP and TLP.

Additionally, Santander was informed by Telxius that, between the date in which the information reviewed for purposes of the issuance of this opinion was prepared and the date hereof, Telxius has no knowledge of any information or event that could materially impact the businesses, the financial situation, the assets, the liabilities, the businesses perspectives, concessions or authorizations, the commercial transactions of TLP, or that could make such information incorrect or inaccurate in any material aspect or that could cause a material impact in the valuation of the fairness of the Consideration and in the issuance of this opinion.

The financial forecasts involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of TLP to be materially different from future results, performance or achievements expressed or implied by such financial forecasts. These financial forecasts speak only as of the date of this letter and are based on numerous assumptions which may or may not prove to be correct. We do not assume or accept liability or responsibility for the forecasts or the assumptions on which the estimates and judgements are made. No representation or warranty, express or implied, is made by Santander, or Telxius, with respect to the fairness, completeness, correctness, reasonableness or accuracy of any information and opinions contained herein, including said forecasts.

Further, our opinion is based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us or used by us up to, the date hereof. Subsequent developments which affect the aforementioned conditions may affect this opinion and the assumptions made in preparing this opinion and we are not obliged to update, revise or reaffirm this opinion if such conditions change.

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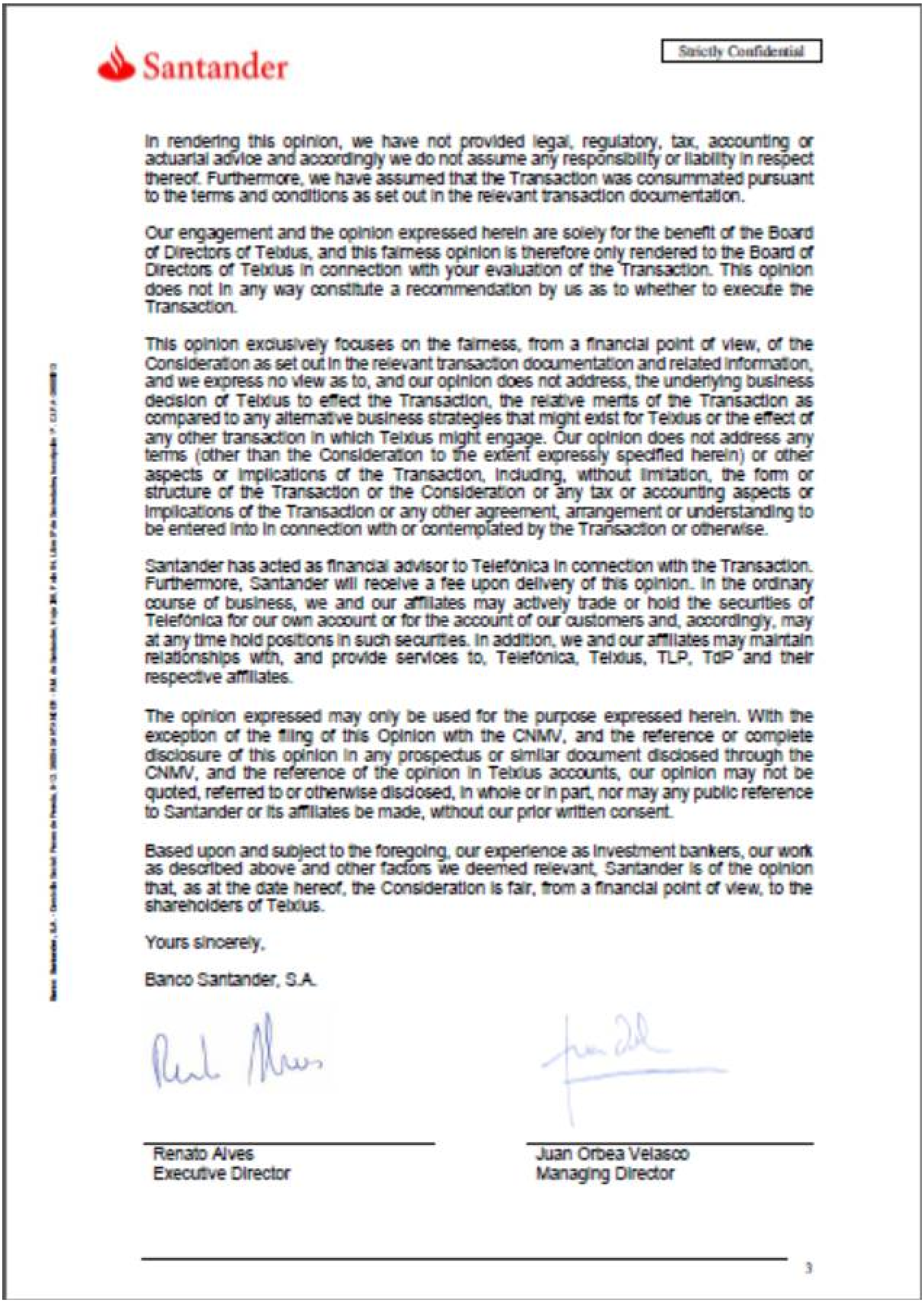

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In rendering this opinion, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. Furthermore, we have assumed that the Transaction was consummated pursuant to the terms and conditions as set out in the relevant transaction documentation.

Our engagement and the opinion expressed herein are solely for the benefit of the Board of Directors of Telxius, and this fairness opinion is therefore only rendered to the Board of Directors of Telxius in connection with your evaluation of the Transaction. This opinion does not in any way constitute a recommendation by us as to whether to execute the Transaction.

This opinion exclusively focuses on the fairness, from a financial point of view, of the Consideration as set out in the relevant transaction documentation and related information, and we express no view as to, and our opinion does not address, the underlying business decision of Telxius to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for Telxius or the effect of any other transaction in which Telxius might engage. Our opinion does not address any terms (other than the Consideration to the extent expressly specified herein) or other aspects or implications of the Transaction, including, without limitation, the form or structure of the Transaction or the Consideration or any tax or accounting aspects or implications of the Transaction or any other agreement, arrangement or understanding to be entered into in connection with or contemplated by the Transaction or otherwise.

Santander has acted as financial advisor to Telefónica in connection with the Transaction. Furthermore, Santander will receive a fee upon delivery of this opinion. In the ordinary course of business, we and our affiliates may actively trade or hold the securities of Telefónica for our own account or for the account of our customers and, accordingly, may at any time hold positions in such securities. In addition, we and our affiliates may maintain relationships with, and provide services to, Telefónica, Telxius, TLP, TdP and their respective affiliates.

The opinion expressed may only be used for the purpose expressed herein. With the exception of the filing of this Opinion with the CNMV, and the reference or complete disclosure of this opinion in any prospectus or similar document disclosed through the CNMV, and the reference of the opinion in Telxius accounts, our opinion may not be quoted, referred to or otherwise disclosed, in whole or in part, nor may any public reference to Santander or its affiliates be made, without our prior written consent.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, Santander is of the opinion that, as at the date hereof, the Consideration is fair, from a financial point of view, to the shareholders of Telxius.

Yours sincerely,

Banco Santander, S.A.

Renato Alves Executive Director	Juan Orbea Velasco Managing Director

SPANISH TRANSLATION OF THE SUMMARY

Los resúmenes se componen de los requisitos de información denominados "Elementos". Dichos Elementos se encuentran numerados en las secciones de la A a la E (A.1-E.7).

Este resumen contiene todos los Elementos que deben incluirse en un resumen teniendo en cuenta el tipo de valores y el tipo de sociedad. Puesto que los Elementos no tienen todos ellos carácter obligatorio, pueden existir secciones vacías en la secuencia de numeración de los Elementos.

Aunque un Elemento deba incluirse obligatoriamente en el presente resumen teniendo en cuenta el tipo de valores y el tipo de sociedad, es posible que no pueda ofrecerse información relevante sobre dicho Elemento. En ese caso se incluye en el resumen la mención de "no aplicable".

Los términos en mayúsculas y los acrónimos empleados en este resumen están definidos en la sección "*Certain Terms and Conventions*" del Folleto.

SECCIÓN A- INTRODUCCIÓN Y ADVERTENCIAS		
A.1	**Advertencia a los inversores**	Este resumen debe leerse como introducción al Folleto. Toda decisión de invertir en las acciones de Telxius Telecom, S.A. (las "**Acciones**" y la "**Sociedad**", respectivamente) deberá estar basada en la consideración por parte del inversor del Folleto en su conjunto. Cuando se interponga una demanda ante un tribunal sobre la información contenida en el Folleto, el inversor demandante podría, en virtud del derecho nacional de un Estado Miembro del Espacio Económico Europeo (EEE), tener que soportar los gastos de traducción del Folleto antes de que se dé comienzo al procedimiento judicial. Solo se exigirá responsabilidad civil a aquellos que hayan presentado este resumen incluyendo cualquier traducción del mismo, y únicamente cuando el resumen resultase engañoso, inexacto o incoherente en relación con las demás partes del Folleto o cuando, al ser leído junto con las demás partes del Folleto, no aporte información fundamental que sirva de ayuda a los inversores a la hora de determinar si invertir o no en las Acciones.
A.2	**Información sobre intermediarios financieros**	No aplicable. Ni la Sociedad ni las personas encargadas de redactar este Folleto han dado consentimiento alguno para usar el presente documento en posteriores ventas o colocaciones de valores por parte de intermediarios financieros.

SECCIÓN B- LA SOCIEDAD		
B.1	**Razón social y nombre comercial**	La razón social de la Sociedad es Telxius Telecom, S.A. y la Sociedad y sus filiales ("**Telxius**" o el "**Grupo**") operan comercialmente con el nombre de Telxius.

B.2	**Domicilio / forma jurídica / legislación / país de constitución**	La Sociedad es una sociedad anónima constituida y sujeta a la legislación española. Su domicilio social está sito en Distrito Telefónica, Ronda de la Comunicación s/n, 28050, Madrid.
B.3	**Operaciones en curso / principales actividades y mercados**	La Sociedad posee una cartera de activos única formada por una combinación de cables de fibra óptica submarinos y torres de telecomunicación. Estos dos tipos de infraestructuras reflejan los actuales segmentos de negocio de Telxius: el Segmento de Cable y el Segmento de Torres. Por medio de su Segmento de Cable, Telxius ofrece a sus clientes de todo el mundo acceso global a Internet a través de la infraestructura submarina y circuitos internacionales de Telxius, formados por más de 65.000 km de líneas de fibra óptica por todo el mundo (de los cuales unos 31.265 km son cables submarinos de su propiedad). El Segmento de Cable ofrece dos productos principales: Servicios IP y de Capacidad. • Los servicios IP consisten en la venta mayorista de acceso a internet a operadores y proveedores OTT (*over-the-top*, término que engloba a proveedores de contenidos y a redes de distribución de contenidos) facilitado en la medida de lo posible según criterios de máxima diligencia y con tarifa adaptada al tipo de cliente. Los operadores habitualmente necesitan tránsito de internet para proveer de acceso total a internet a sus usuarios finales; en cambio, los proveedores OTT necesitan tener acceso a internet para distribuir contenidos a los usuarios finales de determinada operadora. Este servicio depende de equipos de transmisión y encaminamiento (*routing*). • Los servicios de Capacidad ofrecen, al por mayor, ancho de banda especializado punto a punto a clientes finales tales como operadores y grandes proveedores OTT. Se venden servicios de Capacidad con sujeción a distintos tipos de contrato (por ejemplo, arrendamientos y derechos de uso irrevocables). En este tipo de servicios solamente intervienen equipos de transmisión. El cuadro inferior muestra las principales características de la red de cable de Telxius:

Cable (65.000 km)	Área geográfica	Entrada en servicio	Operador	Tipo de propiedad	Capacidad potencial
SAM-1 (25.000 km).....................	Florida, Puerto Rico, Brasil, Argentina, Chile, Perú, Ecuador, Colombia, Guatemala.	2001	Telxius	Propiedad de Telxius	19,2 Tbps
PCCS (6.000 km).........................	Ecuador, Panamá, Colombia, Curaçao, Tortola, Puerto Rico, Florida, Aruba.	2015	Telxius	Consorcio. Telxius ostenta el 29,1%.	80 Tbps
Unisur (265 km)..........................	Argentina, Uruguay.	1995	Telxius	Propiedad compartida con Antel Uruguay. Telxius ostenta el 50%.	2 Tbps
Otros cables submarinos..............	Estados Unidos, Europa.	N/A	Multivendor	Arrendado por Telxius	N/A
Enlaces terrestres.........................	Estados Unidos, Brasil, Argentina, Chile, Perú, Ecuador, Guatemala, Colombia, Panamá, Europe.	N/A	Multivendor	Arrendado por Telxius	N/A

Con respecto a su Segmento de Torres, Telxius ofrece espacio para arrendar en torres de telecomunicación a operadores de red móviles, tanto a compañías del Grupo Telefónica como a terceros, a través de su amplia cartera de torres de telecomunicación. Con aproximadamente 16.000 torres en España, Alemania y América Latina (Brasil, Perú y Chile), Telxius posee una de las mayores carteras de torres entre las compañías independientes que ofrecen espacio en torres (fuente: información de sociedades cotizadas, TeleGeography). Telxius posee y gestiona la infraestructura pasiva de las torres (es decir, la base, el mástil/torre, los armarios contenedores y el espacio en tierra/azoteas), y la infraestructura activa de la torre pertenece a los arrendatarios (es decir, los operadores de red móviles).

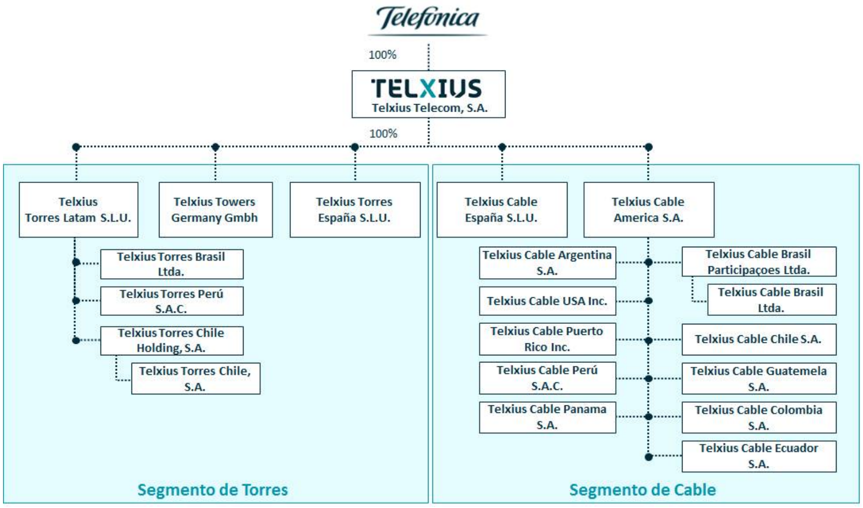
El cuadro inferior muestra las principales características del negocio de torres de Telxius:

		Tipo (%)[1]		Localización (%)		Arrendatarios (%)					Altura (%)	
País de las Torres	Nº Total	Sobre tejado	Sobre terreno	Urbana [(1)]	Rural	1	2	3	4	Ratio de arrenda-tarios	<30 m	>30 m
España	10,741	40	60	40	60	81	14	4	1	1.24	64	36
Alemania	2,359	0	100	16	84	69	19	8	4	1.37	35	65
Brasil	1,655	3	97	62	38	61	27	9	3	1.55	23	77
Perú	849	37	63	73	27	100	0	0	0	1	73	27
Chile	327	4	96	59	41	80	15	4	1	1.13	59	41
Total	15,931	32	68	41	59	78	15	5	2	1.28	56	44

(1) Los criterios utilizados por la Sociedad para determinar si un espacio está localizado en un área urbana o rural varían dependiendo del país, del siguiente modo:

País:	Criterio:
España..	Urbano si está localizado en un municipio con más de 25.000 habitantes
Alemania y Brasil	En función de la distancia entre el espacio y el edificio más cercano
Perú..	De acuerdo con la definición de áreas rurales/ urbanas del Instituto Nacional de Estadística e Informática
Chile...	De acuerdo con la definición regulatoria de áreas rurales/ urbanas

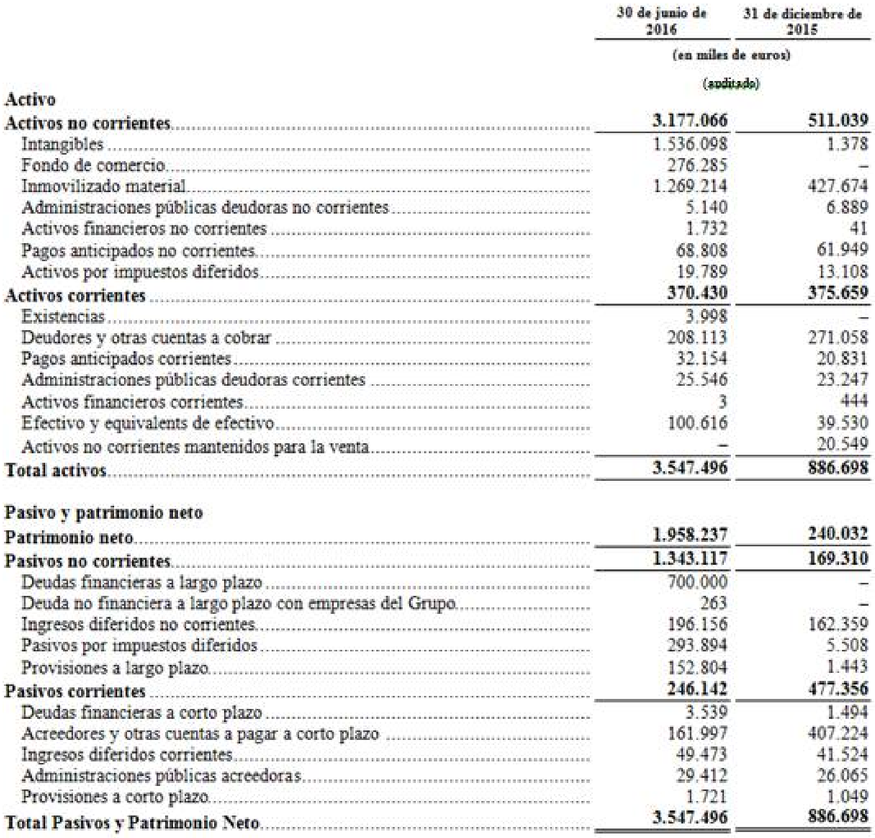
En el semestre finalizado el 30 de junio de 2016 y en el ejercicio finalizado el 31 de diciembre de 2015, los ingresos consolidados proforma de la Sociedad ascendieron, respectivamente, a 338.484 miles de euros y a 691.039 miles de euros, de los cuales en torno a un 58% y un 57% fueron generados por el Segmento de Cable, y en torno a un 42% y 43%, por el Segmento de Torres.

B.4a	**Tendencias significativas que afectan al grupo y a los sectores en los que opera**	La Sociedad no tiene conocimiento de ninguna tendencia significativa reciente que influya en el Telxius y en el sector en el que opera, al margen de los factores de riesgo descritos en otras secciones de este Resumen.
B.5	**Estructura del grupo**	El cuadro siguiente muestra a la Sociedad y sus filiales significativas antes de la Oferta:  Telefónica 100% TELXIUS Telxius Telecom, S.A. 100% Telxius Torres Latam S.L.U. Telxius Towers Germany Gmbh Telxius Torres España S.L.U. Telxius Cable España S.L.U. Telxius Cable America S.A. Telxius Torres Brasil Ltda. Telxius Torres Perú S.A.C. Telxius Torres Chile Holding, S.A. Telxius Torres Chile, S.A. Telxius Cable Argentina S.A. Telxius Cable USA Inc. Telxius Cable Puerto Rico Inc. Telxius Cable Perú S.A.C. Telxius Cable Panama S.A. Telxius Cable Brasil Participaçoes Ltda. Telxius Cable Brasil Ltda. Telxius Cable Chile S.A. Telxius Cable Guatemela S.A. Telxius Cable Colombia S.A. Telxius Cable Ecuador S.A. Segmento de Torres Segmento de Cable Nota: En la fecha de este Folleto, algunas de las sociedades del cuadro anterior están en proceso de modificar su denominación social. El cuadro anterior muestra los nombres esperados de las sociedades una vez finalicen tales procesos.
B.6	**Accionista vendedor**	En la fecha de este Folleto, Telefónica, S.A. es el accionista único de la Sociedad. Tras la Oferta, se espera que el Accionista Vendedor mantenga hasta 159.090.909 Acciones, representativas del 63,64% del capital social de la Sociedad, asumiendo que no se ejerce la Opción de Sobre-Asignación, y 150.000.000 Acciones, representativas del 60% del capital social de la Sociedad, asumiendo que se ejerce por completo la Opción de Sobre-Asignación.
B.7	**Información financiera histórica seleccionada**	Las siguientes tablas presentan (i) información financiera seleccionada de la Sociedad consistente en el estado de situación financiera consolidado auditado de Telxius a 30 de junio de 2016 y 31 de diciembre de 2015, y la cuenta de pérdidas y ganancias consolidada y el estado de flujos de efectivo consolidado para los semestres finalizados a 30 de junio de 2016 (auditados) y de 2015 (no auditados), y (ii) información financiera seleccionada de Telefónica International Wholesale Services América, S.A. ("**TIWS América**") consistente en el estado de situación financiera consolidado auditado de TIWS América a 31 de diciembre de 2015 y de 2014 (y respecto al estado de situación financiera consolidado, datos no auditados a 1 de enero de 2014) y la cuenta de pérdidas y ganancias consolidada y el estado de flujos de efectivo consolidado auditados para los ejercicios finalizados a 31 de diciembre de 2015 y de 2014. La información financiera seleccionada de la Sociedad mencionada

en el punto (i) del párrafo anterior proviene de las Cuentas Intermedias Auditadas Consolidadas 1S 2016 de Telxius, que fueron preparadas de acuerdo con EU-IFRS, y que se incluyen en este Folleto.

La información financiera seleccionada de Telefónica International Wholesale Services América, S.A. (TIWS América) mencionada en el punto (ii) del primer párrafo proviene de las Cuentas Anuales Auditadas Consolidadas 2015 de TIWS América, que fueron preparados de acuerdo con EU-IFRS, y que se incluyen en este Folleto. La información financiera relativa a Telefónica International Wholesale Services América, S.A. está incluida en el Folleto porque, a efectos contables, esta sociedad fue considerada como la "entidad adquirente" en la Reorganización, y toda vez que ésta comprende una parte significativa del Segmento de Cable.

Estado de situación financiera de Telxius



	30 de junio de 2016	31 de diciembre de 2015
	(en miles de euros)	
	(auditado)	
Activo		
Activos no corrientes	**3.177.066**	**511.039**
Intangibles	1.536.098	1.378
Fondo de comercio	276.285	–
Inmovilizado material	1.269.214	427.674
Administraciones públicas deudoras no corrientes	5.140	6.889
Activos financieros no corrientes	1.732	41
Pagos anticipados no corrientes	68.808	61.949
Activos por impuestos diferidos	19.789	13.108
Activos corrientes	**370.430**	**375.659**
Existencias	3.998	–
Deudores y otras cuentas a cobrar	208.113	271.058
Pagos anticipados corrientes	32.154	20.831
Administraciones públicas deudoras corrientes	25.546	23.247
Activos financieros corrientes	3	444
Efectivo y equivalents de efectivo	100.616	39.530
Activos no corrientes mantenidos para la venta	–	20.549
Total activos	**3.547.496**	**886.698**
Pasivo y patrimonio neto		
Patrimonio neto	**1.958.237**	**240.032**
Pasivos no corrientes	**1.343.117**	**169.310**
Deudas financieras a largo plazo	700.000	–
Deuda no financiera a largo plazo con empresas del Grupo	263	–
Ingresos diferidos no corrientes	196.156	162.359
Pasivos por impuestos diferidos	293.894	5.508
Provisiones a largo plazo	152.804	1.443
Pasivos corrientes	**246.142**	**477.356**
Deudas financieras a corto plazo	3.539	1.494
Acreedores y otras cuentas a pagar a corto plazo	161.997	407.224
Ingresos diferidos corrientes	49.473	41.524
Administraciones públicas acreedoras	29.412	26.065
Provisiones a corto plazo	1.721	1.049
Total Pasivos y Patrimonio Neto	**3.547.496**	**886.698**

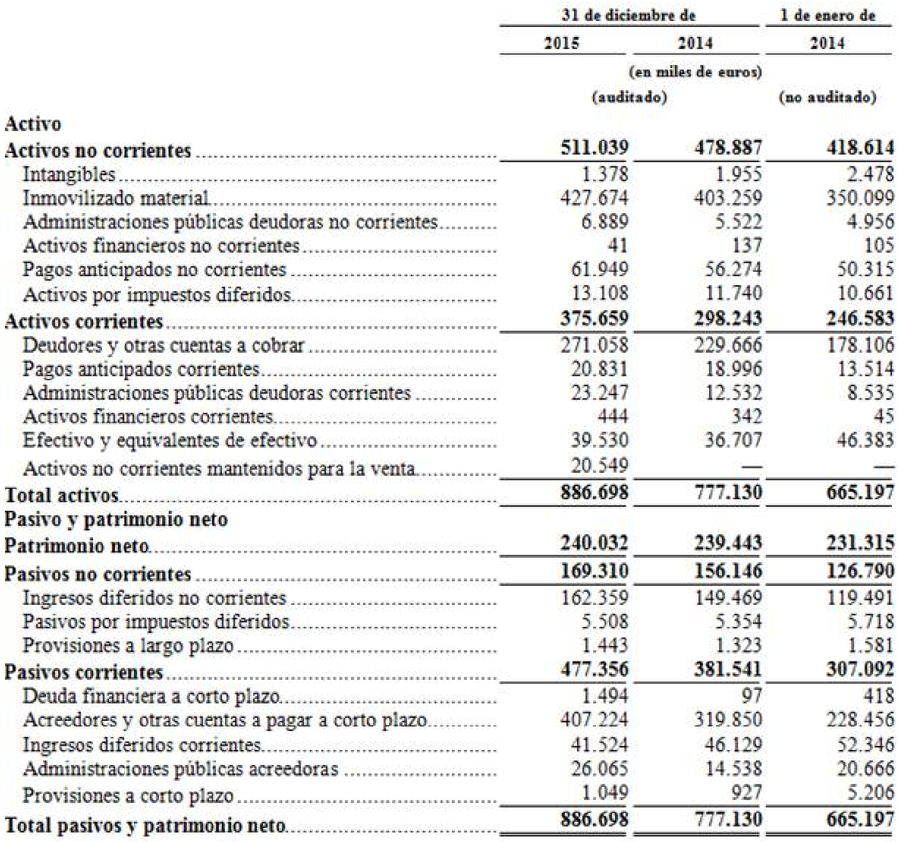
Cuenta de Resultados Consolidada de Telxius

	Período de seis meses finalizado el 30 de junio de	
	2016	2015
	(en miles de euros)	
	(auditado)	(no auditado)
Ventas netas y prestaciones de servicios	243.041	177.199
Otros ingresos operativos	3.332	129
Otros ingresos	11.942	-
Aprovisionamientos	(49.154)	(47.619)
Gastos de personal	(8.626)	(6.746)
Otros gastos	(66.041)	(18.618)
Resultado operativo antes de amortizaciones (OIBDA)	**134.494**	**104.345**
Amortizaciones	(66.496)	(29.692)
Resultado operativo	**67.998**	**74.653**
Ingresos financieros	1.193	717
Diferencias positivas de cambio	5.363	-
Gastos financieros	(3.293)	(978)
Diferencias negativas de cambio	–	(1.819)
Resultado financiero neto	**3.263**	**(2.080)**
Resultado antes de impuestos	**71.261**	**72.573**
Impuesto sobre beneficios	(13.938)	(9.435)
Resultado después de impuestos procedente de las operaciones continuadas	57.323	63.138
Resultado después de impuestos procedente de las operaciones en discontinuación	(45.170)	(50.793)
Resultado del período	**12.153**	**12.345**

Estado de Flujos de Efectivo Consolidado de Telxius

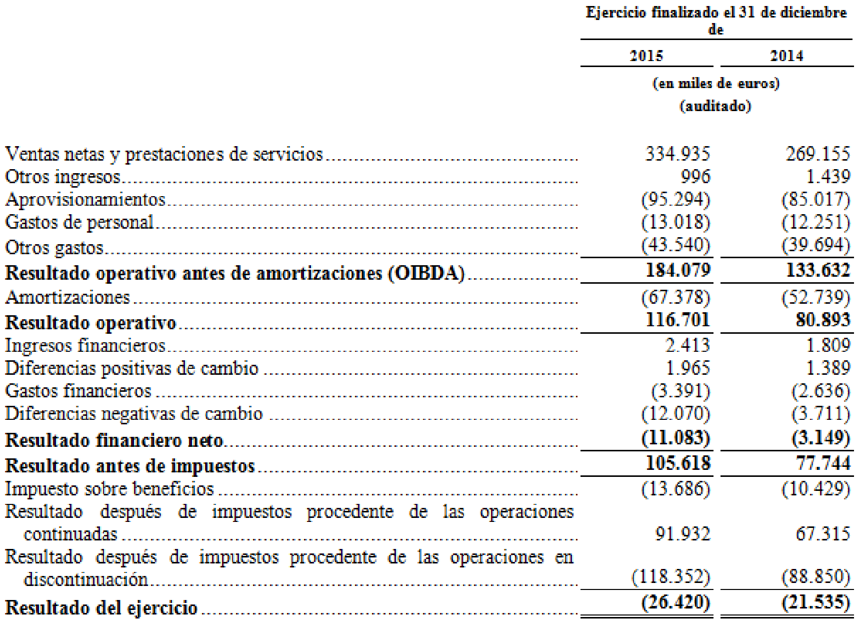
	Período de seis meses finalizado el 30 de junio de	
	2016	2015
	(en miles de euros)	
	(auditado)	(no auditado)
Flujo de efectivo procedente de las operaciones		
Cobros de explotación	259.081	144.384
Pagos a proveedores por gastos y pagos de personal	(99.339)	(64.574)
Pagos por impuestos	(6.148)	(5.361)
(Pagos)/Cobros por intereses	(4.123)	1.478
Flujo de efectivo neto procedente de las operaciones continuadas	**149.471**	**75.927**
Flujo de efectivo neto procedente de las operaciones en discontinuación	(37.663)	(48.683)
Flujo de efectivo neto procedente de las operaciones	**111.808**	**27.244**
Flujo de efectivo procedente de actividades de inversión		
Pagos por inversiones materiales e intangibles	(75.072)	(28.231)
Pagos por inversiones en empresas, netos de efectivo y equivalentes adquiridos	(2.652.750)	-
Cobros por desinversiones materiales e intangibles	84	-
Cobros procedentes de inversiones financieras no incluidas en equivalentes de efectivo	2.762	-
Cobros por subvenciones de capital	7	-
Flujo de efectivo neto procedente de actividades de inversión continuadas	**(2.724.969)**	**(28.231)**
Flujo de efectivo neto procedente de actividades de inversión en discontinuación	19.258	
Flujo de efectivo neto procedente de actividades de inversión	**(2.705.711)**	**(28.231)**
Flujo de efectivo procedente de actividades de financiación		
Cobros por acciones propias y otras operaciones con los accionistas	1.951.549	–
Emisiones de obligaciones y bonos, y otras deudas	1.903.433	–
Pagos por amortización de préstamos, créditos y pagarés	(1.201.774)	–
Flujo de efectivo neto procedente de actividades de financiación continuadas	**2.653.208**	–
Flujo de efectivo neto procedente de actividades de financiación	**2.653.208**	–
Efecto de las variaciones de los tipos de cambio	**1.781**	**3.275**
Variación neta en efectivo y equivalentes durante el periodo	**61.086**	**2.288**
Efectivo y equivalentes al inicio del periodo	**39.530**	**36.707**
Efectivo y equivalentes al final del periodo	**100.616**	**38.995**

Estado de situación financiera de TIWS América

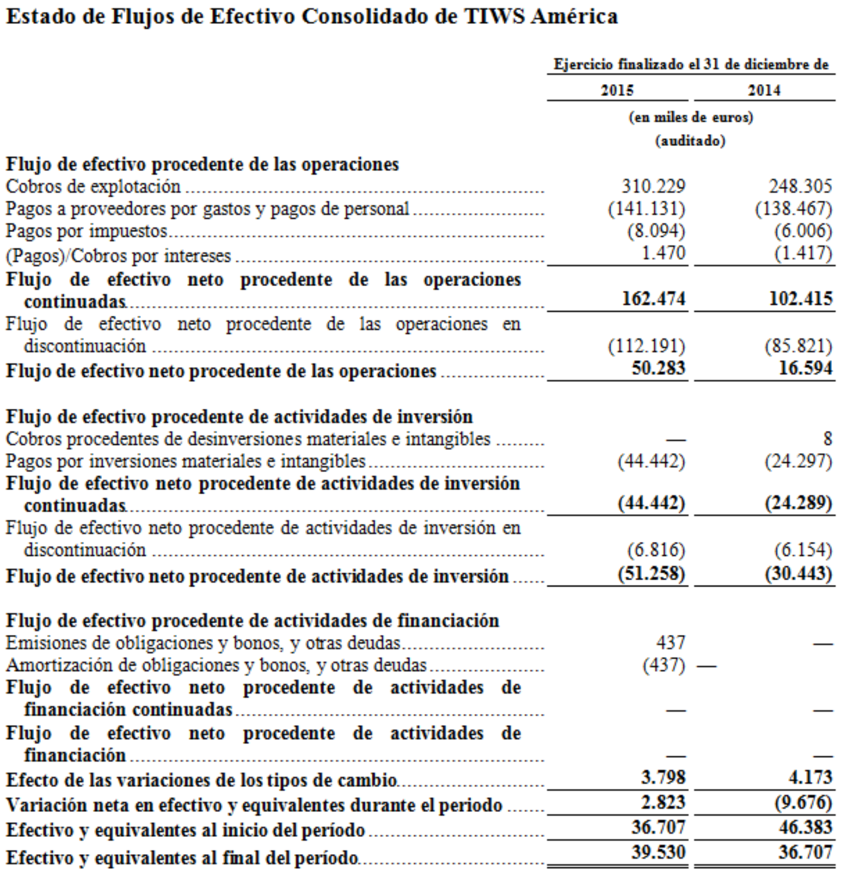


	31 de diciembre de		1 de enero de
	2015	2014	2014
	(en miles de euros)		
	(auditado)		(no auditado)
Activo			
Activos no corrientes	**511.039**	**478.887**	**418.614**
Intangibles	1.378	1.955	2.478
Inmovilizado material	427.674	403.259	350.099
Administraciones públicas deudoras no corrientes	6.889	5.522	4.956
Activos financieros no corrientes	41	137	105
Pagos anticipados no corrientes	61.949	56.274	50.315
Activos por impuestos diferidos	13.108	11.740	10.661
Activos corrientes	**375.659**	**298.243**	**246.583**
Deudores y otras cuentas a cobrar	271.058	229.666	178.106
Pagos anticipados corrientes	20.831	18.996	13.514
Administraciones públicas deudoras corrientes	23.247	12.532	8.535
Activos financieros corrientes	444	342	45
Efectivo y equivalentes de efectivo	39.530	36.707	46.383
Activos no corrientes mantenidos para la venta	20.549	—	—
Total activos	**886.698**	**777.130**	**665.197**
Pasivo y patrimonio neto			
Patrimonio neto	**240.032**	**239.443**	**231.315**
Pasivos no corrientes	**169.310**	**156.146**	**126.790**
Ingresos diferidos no corrientes	162.359	149.469	119.491
Pasivos por impuestos diferidos	5.508	5.354	5.718
Provisiones a largo plazo	1.443	1.323	1.581
Pasivos corrientes	**477.356**	**381.541**	**307.092**
Deuda financiera a corto plazo	1.494	97	418
Acreedores y otras cuentas a pagar a corto plazo	407.224	319.850	228.456
Ingresos diferidos corrientes	41.524	46.129	52.346
Administraciones públicas acreedoras	26.065	14.538	20.666
Provisiones a corto plazo	1.049	927	5.206
Total pasivos y patrimonio neto	**886.698**	**777.130**	**665.197**

Cuenta de Resultados Consolidada de TIWS América



	Ejercicio finalizado el 31 de diciembre de	
	2015	2014
	(en miles de euros)	
	(auditado)	
Ventas netas y prestaciones de servicios	334.935	269.155
Otros ingresos	996	1.439
Aprovisionamientos	(95.294)	(85.017)
Gastos de personal	(13.018)	(12.251)
Otros gastos	(43.540)	(39.694)
Resultado operativo antes de amortizaciones (OIBDA)	**184.079**	**133.632**
Amortizaciones	(67.378)	(52.739)
Resultado operativo	**116.701**	**80.893**
Ingresos financieros	2.413	1.809
Diferencias positivas de cambio	1.965	1.389
Gastos financieros	(3.391)	(2.636)
Diferencias negativas de cambio	(12.070)	(3.711)
Resultado financiero neto	**(11.083)**	**(3.149)**
Resultado antes de impuestos	**105.618**	**77.744**
Impuesto sobre beneficios	(13.686)	(10.429)
Resultado después de impuestos procedente de las operaciones continuadas	91.932	67.315
Resultado después de impuestos procedente de las operaciones en discontinuación	(118.352)	(88.850)
Resultado del ejercicio	**(26.420)**	**(21.535)**



Estado de Flujos de Efectivo Consolidado de TIWS América

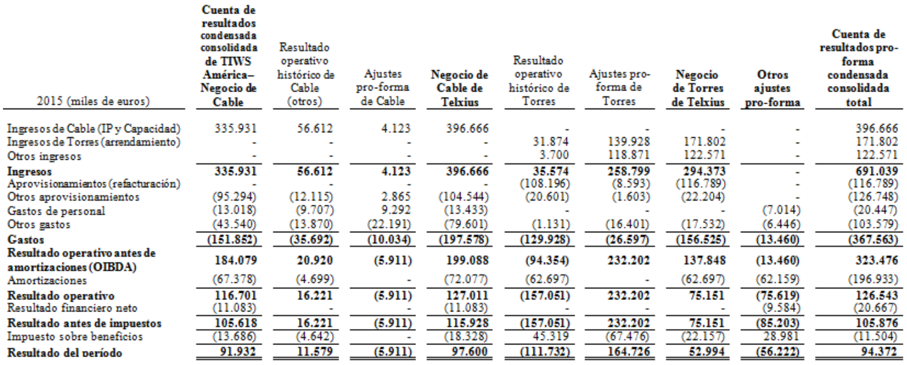
	Ejercicio finalizado el 31 de diciembre de	
	2015	2014
	(en miles de euros) (auditado)	
Flujo de efectivo procedente de las operaciones		
Cobros de explotación	310.229	248.305
Pagos a proveedores por gastos y pagos de personal	(141.131)	(138.467)
Pagos por impuestos	(8.094)	(6.006)
(Pagos)/Cobros por intereses	1.470	(1.417)
Flujo de efectivo neto procedente de las operaciones continuadas	**162.474**	**102.415**
Flujo de efectivo neto procedente de las operaciones en discontinuación	(112.191)	(85.821)
Flujo de efectivo neto procedente de las operaciones	**50.283**	**16.594**
Flujo de efectivo procedente de actividades de inversión		
Cobros procedentes de desinversiones materiales e intangibles	—	8
Pagos por inversiones materiales e intangibles	(44.442)	(24.297)
Flujo de efectivo neto procedente de actividades de inversión continuadas	**(44.442)**	**(24.289)**
Flujo de efectivo neto procedente de actividades de inversión en discontinuación	(6.816)	(6.154)
Flujo de efectivo neto procedente de actividades de inversión	**(51.258)**	**(30.443)**
Flujo de efectivo procedente de actividades de financiación		
Emisiones de obligaciones y bonos, y otras deudas	437	—
Amortización de obligaciones y bonos, y otras deudas	(437)	—
Flujo de efectivo neto procedente de actividades de financiación continuadas	—	—
Flujo de efectivo neto procedente de actividades de financiación	—	—
Efecto de las variaciones de los tipos de cambio	**3.798**	**4.173**
Variación neta en efectivo y equivalentes durante el periodo	**2.823**	**(9.676)**
Efectivo y equivalentes al inicio del período	**36.707**	**46.383**
Efectivo y equivalentes al final del período	**39.530**	**36.707**

B.8 | **Información financiera seleccionada proforma**

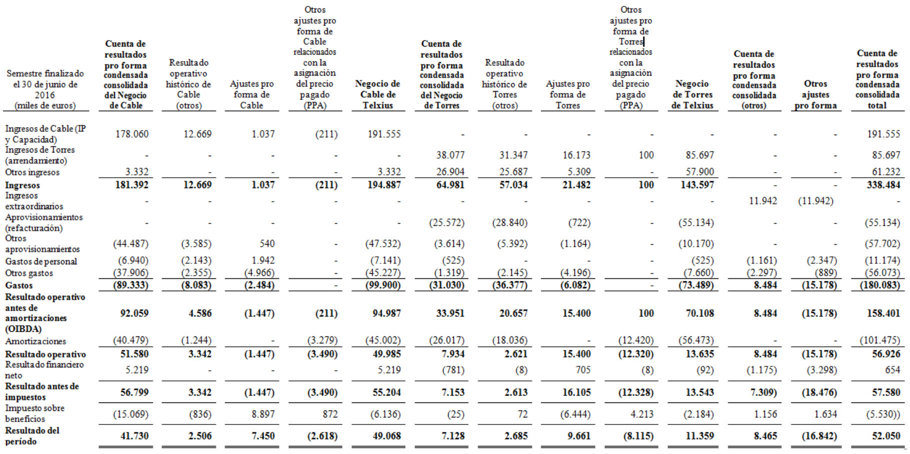
La Sociedad incluye en este Folleto Información Financiera Consolidada Pro Forma, consistente en la cuenta de pérdidas y ganancias pro forma de la Sociedad relativa a los seis meses que finalizan el 30 de junio de 2016 y al ejercicio finalizado el 31 de diciembre de 2015, los cuales se derivan, y han de leerse de manera conjunta con las Cuentas Intermedias Auditadas Consolidadas 1S 2016 de Telxius y las Cuentas Anuales Auditadas Consolidadas 2015 de TIWS América.

La Sociedad ha incorporado la Información Financiera Consolidada Pro Forma para ilustrar, de manera pro forma, el impacto en su cuenta de pérdidas y ganancias consolidada para el semestre terminado el 30 de junio de 2016 y para el ejercicio terminado el 31 de diciembre de 2015 de las operaciones descritas en dicha información financiera, como si hubieran tenido lugar el 1 de enero de 2015.

La Información Financiera Consolidada Pro Forma se presenta solamente a efectos ilustrativos, y refleja estimaciones y asunciones realizadas por los directivos de la Sociedad, que se consideran razonables en las circunstancias concurrentes y con la información existente en la fecha de preparación de dicha información financiera consolidad pro forma.



2015 (miles de euros)	Cuenta de resultados condensada consolidada de TIWS América–Negocio de Cable	Resultado operativo histórico de Cable (otros)	Ajustes pro-forma de Cable	Negocio de Cable de Telxius	Resultado operativo histórico de Torres	Ajustes pro-forma de Torres	Negocio de Torres de Telxius	Otros ajustes pro-forma	Cuenta de resultados pro-forma condensada consolidada total
Ingresos de Cable (IP y Capacidad)	335.931	56.612	4.123	396.666	-	-	-	-	396.666
Ingresos de Torres (arrendamiento)	-	-	-	-	31.874	139.928	171.802	-	171.802
Otros ingresos	-	-	-	-	3.700	118.871	122.571	-	122.571
Ingresos	**335.931**	**56.612**	**4.123**	**396.666**	**35.574**	**258.799**	**294.373**	-	**691.039**
Aprovisionamientos (refacturación)	-	-	-	-	(108.196)	(8.593)	(116.789)	-	(116.789)
Otros aprovisionamientos	(95.294)	(12.115)	2.865	(104.544)	(20.601)	(1.603)	(22.204)	-	(126.748)
Gastos de personal	(13.018)	(9.707)	9.292	(13.433)	-	-	-	(7.014)	(20.447)
Otros gastos	(43.540)	(13.870)	(22.191)	(79.601)	(1.131)	(16.401)	(17.532)	(6.446)	(103.579)
Gastos	**(151.852)**	**(35.692)**	**(10.034)**	**(197.578)**	**(129.928)**	**(26.597)**	**(156.525)**	**(13.460)**	**(367.563)**
Resultado operativo antes de amortizaciones (OIBDA)	**184.079**	**20.920**	**(5.911)**	**199.088**	**(94.354)**	**232.202**	**137.848**	**(13.460)**	**323.476**
Amortizaciones	(67.378)	(4.699)	-	(72.077)	(62.697)	-	(62.697)	(62.159)	(196.933)
Resultado operativo	**116.701**	**16.221**	**(5.911)**	**127.011**	**(157.051)**	**232.202**	**75.151**	**(75.619)**	**126.543**
Resultado financiero neto	(11.083)	-	-	(11.083)	-	-	-	(9.584)	(20.667)
Resultado antes de impuestos	**105.618**	**16.221**	**(5.911)**	**115.928**	**(157.051)**	**232.202**	**75.151**	**(85.203)**	**105.876**
Impuesto sobre beneficios	(13.686)	(4.642)	-	(18.328)	45.319	(67.476)	(22.157)	28.981	(11.504)
Resultado del período	**91.932**	**11.579**	**(5.911)**	**97.600**	**(111.732)**	**164.726**	**52.994**	**(56.222)**	**94.372**



Semestre finalizado el 30 de junio de 2016 (miles de euros)	Cuenta de resultados pro forma condensada consolidada del Negocio de Cable	Resultado operativo histórico de Cable (otros)	Ajustes pro forma de Cable	Otros ajustes pro forma de Cable relacionados con la asignación del precio pagado (PPA)	Negocio de Cable de Telxius	Cuenta de resultados pro forma condensada consolidada del Negocio de Torres	Resultado operativo histórico de Torres (otros)	Ajustes pro forma de Torres	Otros ajustes pro forma de Torres relacionados con la asignación del precio pagado (PPA)	Negocio de Torres de Telxius	Cuenta de resultados pro forma condensada consolidada (otros)	Otros ajustes pro forma	Cuenta de resultados pro forma condensada consolidada total
Ingresos de Cable (IP y Capacidad)	178.060	12.669	1.037	(211)	191.555	-	-	-	-	-	-	-	191.555
Ingresos de Torres (arrendamiento)	-	-	-	-	-	38.077	31.347	16.173	100	85.697	-	-	85.697
Otros ingresos	3.332	-	-	-	3.332	26.904	25.687	5.309	-	57.900	-	-	61.232
Ingresos	**181.392**	**12.669**	**1.037**	**(211)**	**194.887**	**64.981**	**57.034**	**21.482**	**100**	**143.597**	-	-	**338.484**
Ingresos extraordinarios	-	-	-	-	-	-	-	-	-	-	11.942	(11.942)	-
Aprovisionamientos (refacturación)	-	-	-	-	-	(25.572)	(28.840)	(722)	-	(55.134)	-	-	(55.134)
Otros aprovisionamientos	(44.487)	(3.585)	540	-	(47.532)	(3.614)	(5.392)	(1.164)	-	(10.170)	-	-	(57.702)
Gastos de personal	(6.940)	(2.143)	1.942	-	(7.141)	(525)	-	-	-	(525)	(1.161)	(2.347)	(11.174)
Otros gastos	(37.906)	(2.355)	(4.966)	-	(45.227)	(1.319)	(2.145)	(4.196)	-	(7.660)	(2.297)	(889)	(56.073)
Gastos	**(89.333)**	**(8.083)**	**(2.484)**	-	**(99.900)**	**(31.030)**	**(36.377)**	**(6.082)**	-	**(73.489)**	**8.484**	**(15.178)**	**(180.083)**
Resultado operativo antes de amortizaciones (OIBDA)	**92.059**	**4.586**	**(1.447)**	**(211)**	**94.987**	**33.951**	**20.657**	**15.400**	**100**	**70.108**	**8.484**	**(15.178)**	**158.401**
Amortizaciones	(40.479)	(1.244)	-	(3.279)	(45.002)	(26.017)	(18.036)	-	(12.420)	(56.473)	-	-	(101.475)
Resultado operativo	**51.580**	**3.342**	**(1.447)**	**(3.490)**	**49.985**	**7.934**	**2.621**	**15.400**	**(12.320)**	**13.635**	**8.484**	**(15.178)**	**56.926**
Resultado financiero neto	5.219	-	-	-	5.219	(781)	(8)	705	(8)	(92)	(1.175)	(3.298)	654
Resultado antes de impuestos	**56.799**	**3.342**	**(1.447)**	**(3.490)**	**55.204**	**7.153**	**2.613**	**16.105**	**(12.328)**	**13.543**	**7.309)**	**(18.476)**	**57.580**
Impuesto sobre beneficios	(15.069)	(836)	8.897	872	(6.136)	(25)	72	(6.444)	4.213	(2.184)	1.156	1.634	(5.530))
Resultado del período	**41.730**	**2.506**	**7.450**	**(2.618)**	**49.068**	**7.128**	**2.685**	**9.661**	**(8.115)**	**11.359**	**8.465**	**(16.842)**	**52.050**

B.9	**Previsiones o estimaciones de beneficios**	No aplicable. Este Folleto no contiene previsiones ni estimaciones de beneficios.
B.10	**Salvedades en el informe de auditoría referentes a la información histórica**	Los informes de auditoría correspondientes a las Cuentas Anuales Auditadas Consolidadas 2015 de TIWS América y a las las Cuentas Intermedias Auditadas Consolidadas 1S 2016 han sido emitidos por Ernst & Young, S.L. sin salvedades. No obstante lo anterior, el auditor señala en su párrafo de énfasis que las Cuentas Intermedias Auditadas Consolidadas 1S 2016 de Telxius no incluyen toda la información que requerirían unos estados financieros consolidados completos preparados de acuerdo con las Normas de Internacionales de Información Financiera, adoptadas por la U.E., por lo que las Cuentas Intermedias Auditadas Consolidadas 1S 2016 de Telxius deberán ser leídas junto con las Cuentas Anuales Auditadas Consolidadas 2015 de TIWS América.
B.11	**Si el capital circulante no es suficiente para los requisitos presentes del emisor, deberá incluirse una**	No aplicable. En opinión de la Sociedad, el capital circulante a su disposición es suficiente para atender a los actuales requisitos de la Sociedad, así como para como mínimo los 12 meses siguientes a la fecha de este Folleto. Este continuará siendo el caso una vez completada la Oferta.

	explicación	

	SECCIÓN C- VALORES	
C.1	**Descripción de la clase de valores**	La Oferta inicialmente será de hasta 90.909.091 acciones ordinarias, de 1,00 euros de valor nominal cada una de ellas, representativas del 36,36% del capital social total de la Sociedad (las "**Acciones Ofrecidas Iniciales**"). Este importe podrá ampliarse en el supuesto de que se ejercite la Opción de Sobre-Asignación (*Over-Allotment Option*) de hasta9.090.909 acciones ordinarias de 1,00 euros por acción de valor nominal cada una de ellas, representativas del 3,64% del capital social total de la Sociedad (esto es, hasta un 10% de las Acciones Ofrecidas Iniciales). La totalidad de las Acciones son titularidad del Accionista Vendedor y no serán ofrecidas acciones de nueva emisión. Las Acciones tienen el código ISIN ES0105146007, asignado por la Agencia Nacional de Codificación de Valores Mobiliarios, una entidad dependiente de la Comisión Nacional del Mercado de Valores (la "**CNMV**"). Se prevé que las Acciones coticen en las Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, y se negocien a través del SIBE con el *ticker* "TLX".
C.2	**Divisa de emisión de los valores**	Las Acciones están denominadas en euros.
C.3	**Número de Acciones emitidas y desembolsadas**	Existe únicamente una clase de acciones de la Sociedad y cada Acción da derecho a un voto. En el momento de Admisión, habrá 250.000.000 Acciones emitidas de 1,00 euros de valor nominal cada una y están representadas mediante anotaciones en cuenta. Todas las Acciones están íntegramente suscritas y desembolsadas.
C.4	**Derechos inherentes a las acciones**	Las Acciones tienen en todos los sentidos los mismos derechos y condiciones, incluyendo a efectos de voto y de todas las distribuciones de beneficios e ingresos derivados de la liquidación de la Sociedad. Todas las Acciones concederán a sus titulares los derechos establecidos en los estatutos y en el derecho societario español tales como, entre otros, (i) el derecho de asistir a Juntas Generales de Accionistas de la Sociedad, y de tomar la palabra y votar en tales juntas, (ii) el derecho a recibir dividendos proporcionalmente a su participación desembolsada en la Sociedad, (iii) el derecho de suscripción preferente de acciones ordinarias de nueva emisión en ampliaciones de capital (incluyendo obligaciones convertibles y ampliaciones de capital con dividendo preferente) y (iv) el derecho sobre el remanente de activos en proporción a su respectivas participaciones en caso de liquidación de la Sociedad.

C.5	**Descripción de las restricciones sobre la libre transmisibilidad de las acciones**	Además de las restricciones aplicables bajo la legislación del mercado de valores aplicable, no existen restricciones a la libre transmisibilidad de las Acciones, sin perjuicio de los pactos de no disposición (*lock-up*) acordados en relación con la Oferta.
C.6	**Solicitudes de admisión a cotización en mercados regulados**	Se solicitará la admisión a negociación de las Acciones en las Bolsas españolas y en el SIBE alrededor del 3 de octubre de 2016. No se ha efectuado ni se prevé actualmente que vaya a efectuarse ninguna solicitud para que las Acciones coticen o sean admitidas a negociación en ningún otro mercado.
C.7	**Política de dividendos**	La Sociedad tiene actualmente la intención de abonar dividendos anuales que se correspondan, como mínimo, con el 40% del Flujo de Caja Apalancado Recurrente del ejercicio anterior. El Consejo de Administración tiene actualmente la intención de proponer a la Junta General de Accionistas un dividendo en efectivo con distribución en 2017 por un importe previsto de aproximadamente 70 millones de euros, que serán abonados con cargo al resultado del ejercicio 2016 y/o con cargo a otras reservas distribuibles. El pago de dividendos, en su caso, y el importe y frecuencia de los mismos, dependerá de una serie de factores incluyendo, a título ilustrativo, requisitos legales, fiscales y regulatorios, los resultados del período atribuibles a la matriz o la disponibilidad de reservas distribuibles, la evolución económica y la estrategia de crecimiento de la Sociedad, las condiciones económicas y de negocio generales, el retorno del mercado, la solvencia crediticia y otros factores que el Consejo de Administración de la Sociedad considere relevantes. En cualquier caso, la política de dividendos de la Sociedad será aprobada por la Junta General de Accionistas, en base a la aplicación de resultados de cada ejercicio propuesta por el Consejo de Administración. El Flujo de Caja Apalancado Recurrente significa el Flujo de Caja Operativo Recurrente, más/menos activos corrientes y variación de pasivo (excluyendo la deuda financiera neta), más intereses percibidos, menos intereses pagados y menos el impuesto de sociedades pagado, ajustado por impactos significativos no recurrentes. A su vez, el Flujo de Caja Apalancado Operativo Recurrente se calcula como OIBDA (resultado operativo antes de amortizaciones y depreciaciones) menos Capex Recurrente (inversión de capital destinado al mantenimiento de infraestructuras fundamentalmente vinculado a mantener los cables submarinos y torres de la Sociedad en buen estado, siendo recurrente en el tiempo y en su propia naturaleza), incluyendo gastos de capital en el segmento de cable para mejorar la capacidad existente de cables y la red de IP invirtiendo en routers y equipos adicionales de IP. Los estados financieros consolidados de la Sociedad para el ejercicio finalizado el 31 de diciembre de 2016 reflejarán los efectos del proceso de Reorganización. Los 70 millones de euros mencionados

		anteriormente no son, y los inversores no deberían considerarlos, una estimación del desempeño de la Sociedad durante el ejercicio finalizado el 31 de diciembre de 2016.

SECCIÓN D- RIESGOS		
D.1	**Información fundamental sobre riesgos clave específicos del grupo o su sector**	Invertir en las Acciones de la Sociedad conlleva cierto grado de riesgo. Antes de tomar la decisión de invertir, es preciso analizar detenidamente los riesgos e incertidumbres descritos más abajo junto con la otra información contenida en este documento. Los riesgos e incertidumbres indicados a continuación podrían perjudicar significativamente a la actividad, la situación financiera y los resultados de operaciones de Telxius. El precio de mercado de las Acciones de Telxius podría disminuir en razón de alguno de estos riesgos e incertidumbres, y usted podría perder la totalidad o una parte de su inversión. **Riesgos relacionados con las operaciones de la Sociedad y el sector en el que opera** • La actividad de la Sociedad está supeditada a la demanda de los servicios de telecomunicación que ofrece, demanda que la Sociedad no puede controlar, por lo que una desaceleración de la demanda podría perjudicar a la Sociedad. • Un porcentaje importante de los ingresos de la Sociedad actualmente dependen, y la Sociedad prevé que sigan dependiendo, del Grupo Telefónica. • La estimación de ingresos por acuerdos existentes (*Backlog*) de la Sociedad se basa en determinadas asunciones y está sujeta a ajustes y cancelaciones imprevistas y, por tanto, puede que el *Backlog* no se convierta en ingresos en algún ejercicio en el momento oportuno, o que no se convierta en absoluto, y puede no ser un indicador preciso de las ganancias o ingresos futuros de la Sociedad. • La creciente competencia en el sector de la Sociedad puede incidir material y negativamente en la Sociedad. • La aparición de nuevas tecnologías o cambios en el modelo de negocios de los clientes de la Sociedad podrían hacer menos atractivos los servicios de la Sociedad y traducirse en mermas de ingresos. • Los ingresos de la Sociedad podrían disminuir si la Sociedad no pudiera prestar servicios ininterrumpidos o de calidad. • La Sociedad está expuesta a riesgos ligados al desarrollo, la expansión y el mantenimiento de su infraestructura, incluyéndose la necesidad de inversiones corrientes. • La imposibilidad de conservar los derechos sobre la

		infraestructura de la Sociedad podría perjudicar a su negocio. • La Sociedad encarga a Telefónica y a partes no vinculadas la construcción y la asistencia técnica de la infraestructura de la Sociedad, y servicios y equipos clave, así como determinados servicios auxiliares, lo que expone a la Sociedad al riesgo de que el trabajo o el servicio realizado no se lleve a cabo de conformidad con las condiciones acordadas. • La extinción de relaciones con proveedores fundamentales podría ocasionar retrasos y costes adicionales. • La actividad de la Sociedad puede verse afectada por circunstancias políticas y económicas generales, sobre todo en América Latina. • La actividad de la Sociedad puede verse afectada por riesgos inherentes a operaciones internacionales. • La Sociedad está expuesta a riesgos cambiarios, en razón de sus operaciones en distintas zonas geográficas. • La inflación y determinadas medidas gubernamentales para controlar la inflación en algunos países de América Latina pueden tener efectos adversos en sus economías y en la actividad y operaciones de la Sociedad en esos emplazamientos. • La infraestructura de la Sociedad puede sufrir el embate de desastres naturales y otros sucesos catastróficos no cubiertos en medida suficiente por sus aseguradoras. • Si se violara la seguridad de la Sociedad, o sus servicios fueran objeto de ataques que menoscaben o impidan la capacidad de los usuarios de acceder a sus sistemas, productos o servicios, el negocio de la Sociedad podría sufrir consecuencias negativas. • La actividad de la Sociedad necesita de sistemas eficaces de apoyo empresarial y normas, controles y políticas uniformes. • La expansión o desarrollo de la actividad de la Sociedad, incluso por medio de adquisición u otras oportunidades de crecimiento, conlleva una serie de riesgos e incertidumbres que podrían perjudicar a sus resultados de explotación o perturbar sus operaciones. • La Sociedad está sujeta a riesgos que son inherentes a la distribución, a través de su red, de contenidos por parte de clientes. • Las obligaciones por apalancamiento y deudas de la Sociedad pueden incidir material y negativamente en ella, con la posibilidad de tener que contraer deudas adicionales. • En el futuro la Sociedad puede precisar de capital adicional y otros recursos, y puede no ser capaz de obtenerlos, o de no

		obtenerlos en condiciones favorables, ni de perseguir su estrategia. • La Sociedad puede verse expuesta a responsabilidades frente a terceros en relación con las operaciones de su red. • La Sociedad depende de miembros fundamentales de su equipo directivo y de otro personal cualificado. • La Sociedad puede ser objeto de litigios u otros procedimientos legales (civil, administrativo o de otra índole), que podrían perjudicar materialmente a su negocio. • La Sociedad está supeditada a riesgos crediticios y de contrapartes. **Riesgos específicos del segmento de Cable** • El sector del cable submarino ha tenido, y puede seguir teniendo, un exceso de capacidad debido a los avances tecnológicos o a la rápida expansión de la red; situación que podría seguir traduciéndose en una disminución de los precios que la Sociedad aplica por sus servicios de IP y de capacidad, con un resultado de ingresos y márgenes menores a los previstos. • Si el aumento de la demanda de banda ancha en América Latina fuera inferior al previsto, los resultados de operaciones y la situación financiera de la Sociedad sufrirían en consecuencia. • Pueden producirse daños en elementos del sistema de cables submarinos de la Sociedad que comporten una vida útil menor a la prevista. • La Sociedad podría perder su condición de red de Nivel 1 (Tier-1) en el futuro, lo que supondría un perjuicio para el segmento de Cable. • La Sociedad podría perder la titularidad de sus direcciones IP actuales. • La necesidad de obtener, de otros proveedores, capacidad adicional para la red de la Sociedad incrementa sus costes. Además, la necesidad de interconectar su red con redes controladas por terceros puede aumentar los costes de la Sociedad. • Los acuerdos que la Sociedad mantiene con determinadas agencias de la administración estadounidense le imponen importantes requisitos. Un incumplimiento de esos contratos podría tener consecuencias graves. • El aumento en el almacenamiento en caché local y los cambios en la pólitica de *peering* podrían recortar la demanda de transmisión de datos internacional. • Retrasos en los procesos de entrega de licencias y permisos en

los Estados Unidos podrían retrasar la entrada en servicio comercial de las nuevas infraestructuras de cable sumarino.

Riesgos específicos del segmento de Torres

- La demanda de los servicios de la Sociedad podría verse perjudicada por la imposibilidad de sus clientes de mantener u obtener frecuencias para sus propios servicios.
- En el supuesto de que los clientes de la Sociedad compartieran torres en medida significativa o se consolidaran o fusionaran, el crecimiento, ingresos y capacidad de la Sociedad para generar flujos de caja positivos recibiría un impacto material adverso.
- La capacidad de la Sociedad para utilizar algunas de sus torres puede verse afectada por restricciones legales de tipo contractual o administrativo.
- Los costes de la Sociedad podrían aumentar y sus ingresos disminuir si se extendiera la percepción de un riesgo para la salud derivado de emisiones de radio y radiación electromagnética, sobre todo en el caso de que se corroborara el riesgo percibido.
- La actividad de la Sociedad en España depende de un suministro suficiente e ininterrumpido de energía eléctrica y combustible a precios razonables.

Riesgos relacionados con la Sociedad y la reorganización

- La Sociedad cuenta con muy poca trayectoria como compañía independiente en funcionamiento.
- Puede darse la posibilidad de que la Sociedad no logre implantar su estrategia y una gestión eficiente de su actividad.
- La Sociedad es una sociedad tenedora y sus únicos activos materiales son su participación en las filiales, de las que depende en términos de distribuciones con vistas a liquidar dividendos, impuestos y otros gastos.
- La reorganización puede dar lugar a reclamaciones contractuales e incumplimientos de los contratos formalizados por las entidades adquiridas por la Sociedad.

Riesgos relacionados con la relación de la Sociedad con Telefónica

- El Contrato Marco Comercial de Cable (*Cable Master Commercial Agreement*) y los Contratos Marcos de Arrendamientos de Torres (*Tower Master Lease Agreements*) suscritos con Telefónica pueden ser objeto de rescisión anticipada en algunas circunstancias o no ser renovados.
- En el supuesto de que se rescindieran los Contratos de Cable y los Contratos de Servicios de Torres o de que Telefónica no pudiera desempeñar sus obligaciones en virtud de los referidos contratos, no existe ninguna garantía de que la Sociedad

pudiera reemplazarlos con contratos con terceros no vinculados en el futuro, ni de que pudiera pactar condiciones comparables a las actuales en esos contratos de sustitución.

- La reorganización y los acuerdos existentes entre la Sociedad y Telefónica se negociaron en el contexto de una relación de entidades asociadas.
- La Sociedad depende en gran medida de Telefónica, compañía que se convertirá en accionista mayoritario de la Sociedad de forma inmediata tras la Oferta.
- Otras compañías integradas en el Grupo Telefónica podrían competir con la Sociedad.
- La estructura de propiedad y organizativa de la Sociedad puede crear conflictos de interés.
- La reputación de la Sociedad está estrechamente ligada a la de Telefónica.
- Un cambio de control en la Sociedad podría tener un efecto material adverso.

Riesgos relacionados con la regulación

- Las actividades de la Sociedad están sujetas a regulaciones, pudiendo producirse cambios en las leyes o regulaciones actuales o futuras que puedan tener un efecto material adverso sobre la actividad, los resultados de operaciones, la situación financiera y los flujos de caja de la Sociedad.
- La Sociedad está expuesta a riesgos en relación con el cumplimiento de leyes y reglamentos contra la corrupción y programas de sanciones económicas.
- Los rigurosos reglamentos en materia de salud y medioambiental imponen costes adicionales y pueden afectar a los resultados de operaciones de la Sociedad.
- Los clientes de la Sociedad están supeditados a un régimen regulatorio amplio que indirectamente incide en las operaciones de la Sociedad.

Riesgos relacionados con la información financiera incluida en el presente Folleto

- El balance de situación de la Sociedad incluye importes significativos de fondo de comercio e inmovilizados intangibles, que pueden sufrir deterioro en el futuro.
- A pesar de que la información financiera aquí incluida cumple con todos los requisitos legales aplicables, la Sociedad no tiene información financiera auditada de los últimos tres ejercicios.
- La Información Financiera Consolidada Pro Forma puede no ser representativa del resultado futuro de las operaciones y la

		situación financiera de la Sociedad, y los inversores en las Acciones pueden disponer de un recurso limitado contra los auditores independientes de la Sociedad. • La preparación y presentación de algunos estados financieros históricos incluidos en el presente Folleto no es sistemática y los ejercicios correspondientes no son directamente comparables entre sí, hecho que limita la posibilidad de analizar el resultado histórico de la Sociedad y de valorar sus perspectivas para el futuro. **Riesgos relacionados con los impuestos** • La Sociedad puede recibir, en cualquier ejercicio, la consideración de compañía extranjera pasiva de inversión a los efectos del impuesto sobre la renta estadounidense, hecho que tendría consecuencias fiscales adversas para los inversores estadounidenses. **Otros Riesgos** • La información recogida en este Folleto acerca del sector, la cuota de mercado y la posición competitiva de la Sociedad se basa en hipótesis y estimaciones que la Sociedad no puede asegurar que sean correctas o que recojan con precisión su situación de mercado.
D.2	**Información fundamental sobre riesgos clave específicos de los valores**	**Riesgos relacionados con las Acciones y la Oferta** • La Sociedad no puede garantizar que la Horquilla de Precios de la Oferta coincida con el precio futuro de las Acciones con posterioridad a la Oferta. • El precio de mercado de las Acciones podrá fluctuar ampliamente en respuesta a distintos factores. • Cabe la posibilidad de que no se desarrolle un mercado líquido para las Acciones. • No puede haber garantías de que la Sociedad vaya a ser capaz de efectuar distribuciones a sus accionistas en el futuro. • Una venta sustancial de Acciones por parte de Telefónica, o la posibilidad de que tenga lugar tal venta, puede incidir en la cotización de las Acciones. • Los que inviertan en esta Oferta pueden experimentar una dilución de su participación en caso de emisión futura de Acciones adicionales o deuda convertible. • La Oferta puede ser revocada. • Los accionistas de países con moneda distinta del euro afrontan, en relación con su tenencia de Acciones, un riesgo de inversión adicional en razón de las fluctuaciones en los tipos de cambio.

		• Cabe la posibilidad de que los accionistas de determinadas jurisdicciones no puedan ejercer sus derechos de suscripción preferente para adquirir más Acciones. • La capacidad de los accionistas residentes fuera de España de entregar diligencias de emplazamiento a la Sociedad o de exigir el cumplimiento de sentencias judiciales extranjeras contra esta puede ser limitada. • Las Acciones Ofrecidas no serán libremente transmisibles en Estados Unidos.

SECCIÓN E- ADMISIÓN Y OFERTA		
E.1	**Ingresos netos totales de la Oferta y gastos estimados**	En el marco de la Oferta, el Accionista Vendedor espera obtener unos ingresos brutos de entre 1.090.909.092 euros y 1.363.636.365 euros (en base a los precios mínimos y máximos de la Horquilla de Precios indicativa no vinculante, respectivamente) en el supuesto en que no se ejerce la Opción de Sobre-Asignación, y de entre 1.200.000.000 euros y 1.500.000.000 euros (en base a los mismos precios) en el supuesto en que se ejerce la Opción de Sobre-Asignación en su totalidad). El importe máximo de los gastos (honorarios y gastos) pagaderos por el Accionista Vendedor y la Sociedad en relación con la Oferta (sin incluir IVA, que se añadirá según corresponda) serían de aproximadamente 36.819 miles de euros y 2.430 miles de euros, respectivamente. Ni el Accionista Vendedor ni la Sociedad repercutirán gasto alguno a ningún inversor en relación con la Oferta.
E.2	**Motivos de la Oferta y destino de los ingresos**	Los principales motivos de la Oferta son los siguientes: (i) alcanzar los requisitos de difusión accioniarial necesarios para la Admisión, (ii) permitir a la Sociedad el acceso a los mercados de capitales (incluyendo los mercados de deuda), lo que eventualmente puede facilitar la financiación del crecimiento futuro de la Sociedad, (iii) mejorar la transparencia, la reputación y la imagen de marca de Telxius como sociedad cotizada, e (iv) incrementar la liquidez de las Acciones mediante la Admisión. La Sociedad no recibirá ningún ingreso de la venta de las Acciones Ofrecidas por parte del Accionista Vendedor en el marco de la Oferta.
E.3	**Descripción de los términos y condiciones de la Oferta**	El Accionista Vendedor ofrece hasta 90.909.091 Acciones Ofrecidas Iniciales al Precio de Oferta, lo que, teniendo en cuenta el punto medio de la Horquilla de Precios de la Oferta, proporcionará al Accionista Vendedor un importe bruto de 1.227.272.728,5 euros. Asimismo, el Accionista Vendedor otorgará a los Coordinadores Globales Conjuntos (*Joint Global Coordinators*), actuando en representación de los Directores de la Oferta (*Managers*), una Opción de Sobre-Asignación al Precio de Oferta de hasta 9.090.909 Acciones Adicionales, representativas de hasta un 10% de las Acciones

		Ofrecidas Iniciales totales, ejercitable no más tarde de 30 días naturales a partir de la fecha en la que las Acciones comiencen a negociarse en las Bolsas de Valores españolas a través del SIBE. En los estados miembro del Área Económica Europea, la Oferta consistirá en una oferta que no tendrá la consideración de oferta pública a los efectos de la Directiva 2003/71/EC de 4 de Noviembre de 2003 (tal y como sea modificada, la “**Directiva de Folletos**”) y solo estará dirigida a personas que tengan la consideración de inversores cualificados en el sentido del Artículo 2(1)(e) de la Directiva de Folletos. Asimismo, la Oferta consistirá en una oferta (i) en Estados Unidos, a personas que de forma razonable sean considerados compradores institucionales cualificados (*qualified institutional buyers (QIBs)*), tal y como estos se definen, y de conformidad con la *Rule 144A* bajo el *Securities Acts* y (ii) fuera de Estados Unidos de conformidad con la *Regulation S* bajo el *Securities Act*. La Horquilla de Precios indicativa y no vinculante a la que las Acciones Ofrecidas serán ofrecidas en la Oferta está entre 12 euros y 15 euros por Acción Ofrecida (esto es, alcanzando la Sociedad una capitalización de entre 3.000.000.000 euros y 3.750.000.000 euros aproximadamente), pero el Precio de Oferta podrá situarse fuera de esta horquilla. La Horquilla de Precios de la Oferta ha sido determinada en base a las discusiones y acuerdos entre el Accionista Vendedor y los Coordinadores Globales Conjuntos (*Joint Global Coordinators*), y ningún experto independiente ha sido consultado en la determinación de la Horquilla de Precios de la Oferta. El Precio de Oferta de las Acciones Ofrecidas será determinado por el Accionista Vendedor y los Coordinadores Globales Conjuntos (*Joint Global Coordinators*) tras la finalización de período de prospección de demanda (*book-building*) (que se espera que tenga lugar alrededor del 29 de septiembre de 2016) y será anunciado mediante la publicación de un hecho relevante. La fecha de fijación del Precio de Oferta puede ser retrasada o adelantada por la Sociedad como consecuencia de la extensión o reducción, según el caso, del período de prospección de demanda (*book-building*). Ningún experto independiente será consultado en la determinación del Precio de Oferta. La Oferta será llevada a cabo a través de un proceso de prospección de demanda (*book-building*), que se espera que tenga lugar entre el 20 de septiembre de 2016 tras el registro de este Folleto en la CNMV y el 29 de septiembre de 2016 a las 8:00 p.m. hora de Madrid. Durante el período de prospección de demanda (*book-building*), los Directores de la Oferta (*Managers*) ofrecerán las Acciones Ofrecidas Iniciales a inversores de conformidad con, y con sujeción a, las restricciones de venta descritas en este Folleto. Los inversores podrán enviar sus propuestas de compra durante este período, indicando el número de Acciones Ofrecidas Iniciales y el precio potencial al que estarían interesados en adquirirlas.

		El período de prospección de demanda (*book-building*) puede ser reducido o extendido por acuerdo del Accionista Vendedor y los Coordinadores Globales Conjuntos (*Joint Global Coordinators*) si, en un caso, el libro de demanda está suficientemente cubierto bajo su punto de vista antes del final del período de prospección de demanda (*book-building*) o, en el otro caso, si la extensión del período de prospección de demanda (*book-building*) es conveniente para asegurar el éxito de la Oferta. En caso de que haya una reducción o extensión del período de prospección de demanda (*book-building*), el Accionista Vendedor informará al mercado a través de la publicación de un hecho relevante y los siguientes hitos del calendario previsto de la Oferta serán retrasados o adelantados.
		Las propuestas de compra hechas por los inversores durante el período de prospección de demanda (*book-building*) solo constituirán una indicación del interés de los inversores en las Acciones Ofrecidas Iniciales y por tanto no serán vinculantes con respecto al número de Acciones Ofrecidas Iniciales ni a su precio ni para el inversor ni para el Accionista Vendedor. La confirmación de las propuestas de compra una vez fijado el Precio de Oferta será irrevocable. Los inversores deberán confirmar sus propuestas de compra a las entidades depositarias responsables de su "facturación y entrega" incluyendo en las instrucciones de liquidación los 35 dígitos correspondientes a la cuenta de liquidación de cada inversor en Iberclear y los 20 dígitos correspondientes a la cuenta de valores del inversor en un partícipe en Iberclear (la falta de instrucción a las correspondientes entidades de "facturación y entrega" tendrá como consecuencia que al inversor correspondiente no le serán asignadas Acciones Ofrecidas Iniciales y que las entidades depositarias no aceptarán la liquidación). La Sociedad soportará los gastos a pagar a las Bolsas de Valores Españolas e Iberclear derivadas del registro de las Acciones a nombre de los inversores correspondientes. La Sociedad y el Accionista Vendedor han negociado con los Coordinadores Globales Conjuntos (*Joint Global Coordinators*) los principios de asignación, los factores que entienden relevantes para la asignación y determinación del precio de las Acciones Ofrecidas y han acordado los objetivos y el proceso de asignación y determinación del precio; los Coordinadores Globales Conjuntos (*Joint Global Coordinators*) tendrán en cuenta sus responsabilidades de prudencia para gestionar sus riesgos de adecuadamente al acordar la asignación, la determinación del precio y los tiempos.
		La decisión final de asignación de las Acciones Ofrecidas será tomada por la Sociedad y el Accionista Vendedor, tras consultarlo con los Coordinadores Globales Conjuntos (*Joint Global Coordinators*), la cual se espera que tenga lugar el 30 de septiembre de 2016, y se espera que las Acciones Ofrecidas Iniciales sean entregadas contra el pago del Precio de Oferta, a través de los registros contables de Iberclear y sus entidades participantes, que se estima que ocurra en, o alrededor de, el

<table>
<tr><td></td><td></td><td>día 4 de octubre de 2016.

El Accionista Vendedor se reserva expresamente el derecho a desistir de la Oferta, postergarla, aceptarla, o suspenderla termporal o definitivamente por cualquier razón en cualquier momento antes de la determinación del Precio de Oferta. Asimismo, la Oferta podría ser revocada en caso de que ocurran determinadas circunstancias, incluyendo el acaecimiento de alguna de las causas de terminación habituales que se prevean en el Contrato de Aseguramiento.</td></tr>
<tr><td>E.4</td><td>Descripción de cualquier interés que sea importante para la Oferta</td><td>Los Directores de la Oferta (<i>Managers</i>) y las sociedades de sus respectivos grupos pueden haber llevado a cabo operaciones y prestado servicios de financiación, negociación, banca de inversión, consultoría financiera y otros servicios a la Sociedad, al Accionista Vendedor y a las sociedades de sus respectivos grupos, por los cuales han recibido remuneraciones de mercado; asimismo podrán prestar a la Sociedad, al Accionista Vendedor y a sus respectivas filiales dichos servicios en un futuro. Algunos de los Directores de la Oferta (<i>Managers</i>) son prestamistas (ya sea directamente o a través de sus filiales) de algunos de los instrumentos de deuda del Grupo Telefónica y/o han prestado garantías de cumplimento y otras garantías al Grupo Telefónica. Asimismo, en el curso de su actividad ordinaria, los Directores de la Oferta (<i>Managers</i>) y las sociedades de sus respectivos grupos podrán hacer o mantener multitud de inversiones y negociar activamente valores negociables de renta fija y de renta variable (o derivados relacionados con los mismos) e instrumentos financieros (incluyendo préstamos bancarios y/o <i>credit default swaps</i>) por cuenta propia y por cuenta de sus clientes, y podrán mantener en cualquier momento posiciones largas o cortas sobre dichos valores e instrumentos. Tales inversiones y actividades podrán afectar a valores instrumentos y valores del Grupo y del Accionista Vendedor, incluyendo a su deuda corporativa.

A 9 de septiembre de 2016, los siguientes Directores de la Oferta (<i>Managers</i>) (o las correspondientes sociedades de sus respectivos grupos) han suscrito líneas de crédito con la Sociedad por un importe total de 190.000 miles de euros para cubrir necesidades adicionales de financiación, distribuidas como sigue:

<table>
<tr><th></th><th>Importe</th></tr>
<tr><td></td><td>(en miles de euros)</td></tr>
<tr><td>Goldman Sachs</td><td>25.000</td></tr>
<tr><td>JP Morgan</td><td>25.000</td></tr>
<tr><td>CaixaBank</td><td>25.000</td></tr>
<tr><td>BBVA</td><td>25.000</td></tr>
<tr><td>Citibank</td><td>15.000</td></tr>
<tr><td>Mediobanca –Banca di Credito Finanziario</td><td>15.000</td></tr>
<tr><td>Santander</td><td>15.000</td></tr>
<tr><td>HSBC</td><td>15.000</td></tr>
<tr><td>BNP PARIBAS</td><td>15.000</td></tr>
<tr><td>UBS</td><td>15.000</td></tr>
<tr><td>Total</td><td>190.000</td></tr>
</table>
</td></tr>
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		No se ha dispuesto de ninguna cantidad con cargo a las referidas líneas de crédito a la presente fecha. A 31 de diciembre de 2015, Banco Bilbao Vizcaya Argentaria, S.A. ostentaba una participación directa en Telefónica representativa del 6,07% de su capital social (302.205.736 acciones), conforme a la información proporcionada por Banco Bilbao Vizcaya Argentaria, S.A. para el Informe Anual de Gobierno Corporativo de 2015 de Telefónica. Además, dos consejeros dominicales de Telefónica han sido nombrados a propuesta de Banco Bilbao Vizcaya Argentaria, S.A. A 31 de diciembre de 2015, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ostentaba una participación indirecta en Telefónica del 5,01% de su capital social (249.501.612 acciones), según la información proporcionada por CaixaBank, S.A. para el Informe Anual de Gobierno Corporativo de 2015 de Telefónica. A dicha fecha, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona era titular indirecto de acciones de Telefónica a través de CaixaBank, S.A. (249.482.489 acciones) y Vidacaixa, S.A. de Seguros y Reaseguros (19.123 acciones). Además, dos consejeros dominicales de Telefónica han sido nombrados a propuesta de CaixaBank, S.A.
E.5	**Entidades que ofrecen las Acciones y acuerdos de no disposición (lock-up)**	**(A) Entidades que ofrecen las Acciones Ofrecidas** El Accionista Vendedor es la entidad que ofrece las Acciones Ofrecidas. **(B) Acuerdos de no disposición (*lock-up*)** De acuerdo con el Contrato de Aseguramiento, las siguientes partes estarán sujetas a acuerdos de no disposición (*lock-up*) durante los periodos entre la fecha de firma del Contrato de Aseguramiento y la fecha en la que hayan trascurrido los siguientes días tras la fecha de este Folleto: La Sociedad: 180 días desde la fecha de este Folleto. El Accionista Vendedor: 180 días desde la fecha de este Folleto. Los acuerdos de no disposición (*lock-up*) están sujetos a las excepciones habituales.
E.6	**Dilución**	Por cuanto toda la Oferta es secundaria, no conllevará ningún efecto de dilución.
E.7	**Gastos aplicados a los inversores**	Con independencia de cualquier gasto, comisión de agencia o de cualquier otro tipo que pueda ser aplicada por las entidades que participan en Iberclear de conformidad con sus correspondientes prácticas (y que son ajenas al Accionista Vendedor y a la Sociedad), a efectos de la transmisión de las Acciones, ni el Accionista Vendedor ni los Directores de la Oferta (*Managers*) cobrarán a los inversores finales gasto alguno de forma adicional al Precio de Oferta.

		Además, los compradores de Acciones Ofrecidas pueden estar obligados a abonar el impuesto de actos jurídicos documentados y otros cargos en cumplimiento de las leyes y prácticas de su país de compra, adicionalmente al Precio de Oferta.

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