



Telefónica Insurance

ANNUAL
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Telefónica

1 **Head Office** 04

2 **Board of Directors** 05

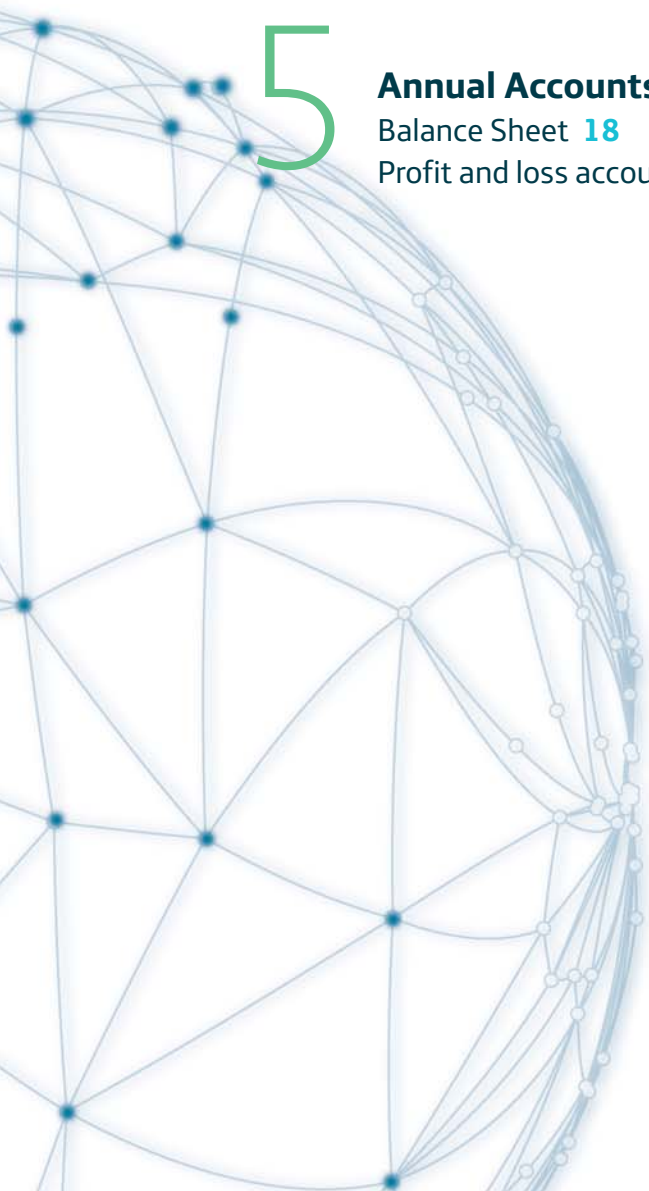
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1 head office

23 Avenue Monterey
L - 2163 LUXEMBOURG

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2 board of directors

Chairman

Mr. José Fermín Álvarez Carril

Director

Mr. Carlos Rodríguez Cocina

Director

Mr. Augusto Pérez Arbizu

Director

Mr. Pierre Perrenoud

Director

Mr. Arnaud Bierry

Chief Executive

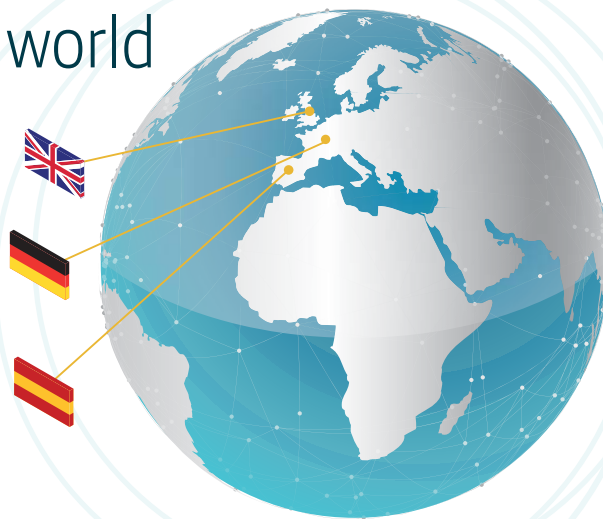
Mr. Alvaro Villamor García

3 notable milestones

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Telefonica Insurance in the world

Telefónica Insurance is a company domiciled in Luxembourg, which operates as an insurer (non-life) under the principle of freedom to provide services in the European Union. And it currently has several branches in Europe, located in: Germany • United Kingdom • Spain



Notable Milestones

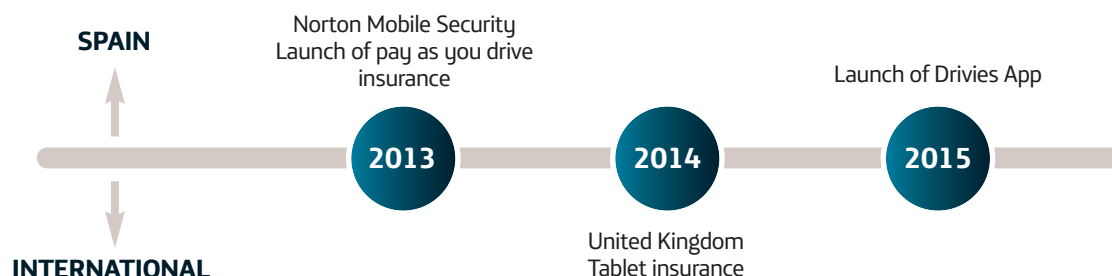
■ Main Operations

Telefónica Insurance (TI) is an insurance company that specialises in innovative products (*) that link digital services and insurance, both for individuals and companies.

At present, it has insurance programmes for mobile phones and tablets for customers in Spain, Ireland, Germany and the UK.



■ New Developments



■ Quality/Complaints

In the 2015 financial year, Telefónica Insurance received a total of 12,854 complaints, including those from countries where Telefónica Insurance has branches, with the exception of Ireland, which operates under the principle of freedom to provide services.

See:

■ **TELEFONICA INSURANCE BRANCH IN SPAIN:** A total of 4,076 complaints were received, of which, in accordance with Order ECO/734/2004 of 11 March regarding customer service departments and the customer ombudsman for financial entities, 184 complaints were dealt with by the Customer Service Department whose duty it is to respond to and resolve any complaints that their customers may submit, related to their interests and legally recognised rights.

■ **TELEFONICA INSURANCE S.A. UK BRANCH:** There were a total of 5,702 complaints.

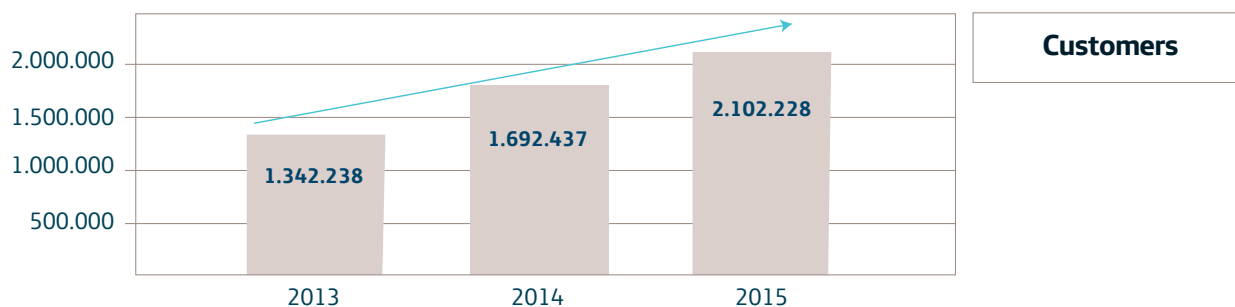
■ **TELEFONICA INSURANCE S.A. DIREKTION FÜR DEUTSCHLAND:** There were a total of 2,591 complaints.

■ **TELEFONICA INSURANCE FOR IRELAND:** There were a total of 485 complaints.

2013-2015 Data

■ Customers

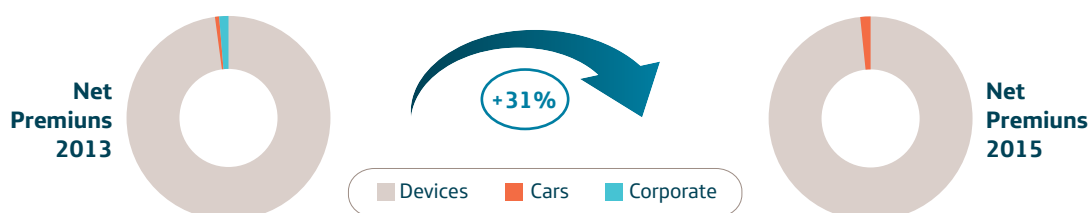
As can be seen in the following graph, the volume of customers throughout this period (2013-2015) has grown significantly.



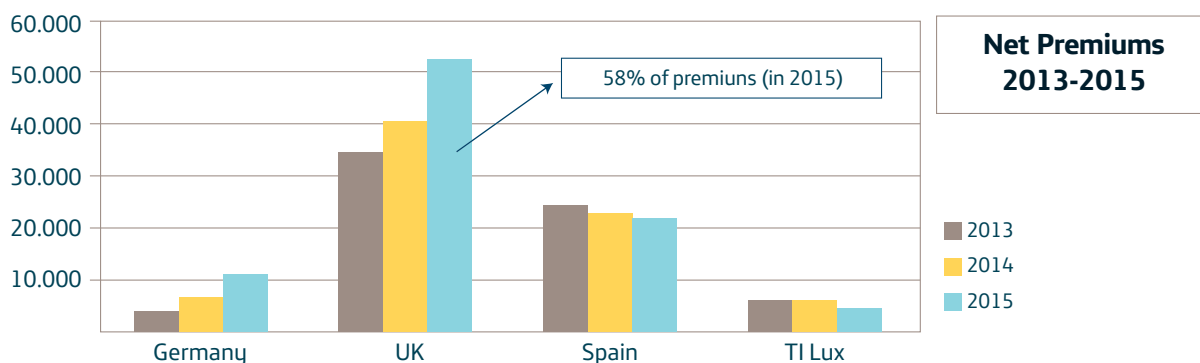
■ Business Development

Given the activity of the company, non-life insurance, its results are directly affected by the behaviour of the market and by the loss levels that impact on this type of insurance.

Throughout this period, the volume of premiums evolved, tending towards growth, and at the same time it adapted to the strategic plan implemented by the company, as can be seen in the following charts:



Net premiums during the three-year period (2013 to 2015): 236 million euros.



In this period, the core business of Telefónica Insurance has developed, and has moved towards the provision of insurance to customers.

■ Premiums acquired per country

In Germany

Activity: mobile phone insurance for customers.
Increased from 3 million euros in 2013 to 11 million. €s in 2015.

In the UK

Type of insurance: mobile phone insurance for customers.
Increased from €35 million in 2013 to €52 million. €s in 2015.

In Spain

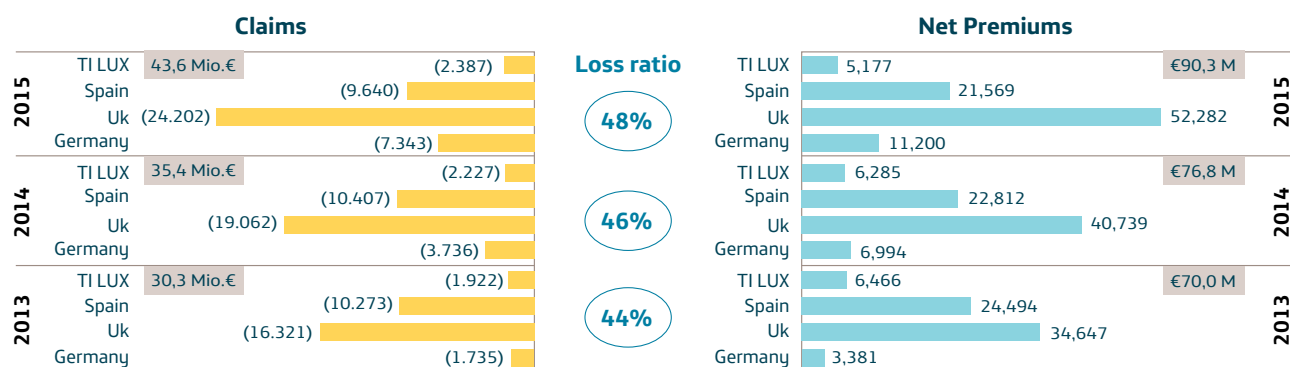
Insurance aimed at customers: including mobile phone and pay as you drive insurance.
This constituted 24% of the business in 2015.
With an average of €23 million.

In Luxembourg

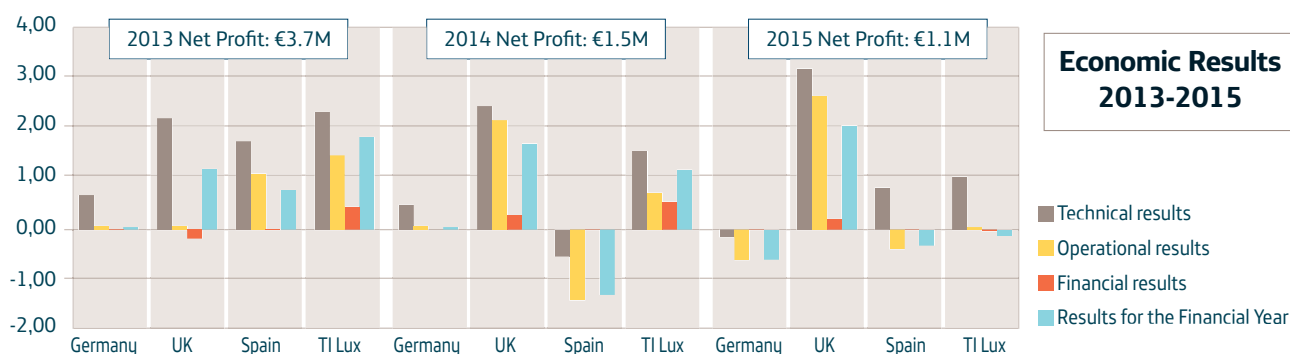
Includes the issuance of corporate insurance and mobile phone insurance to customers.
€18 million for the sum of the three annuities.

■ Variation of financial results

As was explained above, the issuance of premiums increased in this period. There was an average loss ratio of 46% and a combined average technical ratio of 93%. In addition, there was average loss expenditure of €36 million, details of which, per year and branch, are shown below.



In this three-year period, the results achieved were irregular, which was a direct effect of the origins of revenue or expenditure in each year, as shown in the chart, which shows the technical, operational, financial and net profit or loss per branch and the total net profit.



The average net profit achieved by Telefónica Insurance over these three years is €2 million.

4 auditor's report



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Rapport du réviseur d'entreprises agréé

Aux actionnaires de
TELEFÓNICA INSURANCE S.A.
Société Anonyme
Luxembourg

Rapport sur les comptes annuels

Conformément au mandat donné par l'Assemblée Générale des actionnaires du 15 avril 2015, nous avons effectué l'audit des comptes annuels ci-joints de TELEFÓNICA INSURANCE S.A., comprenant le bilan au 31 décembre 2015 ainsi que le compte de profits et pertes pour l'exercice clos à cette date, et l'annexe contenant un résumé des principales méthodes comptables et d'autres notes explicatives.

Responsabilité du Conseil d'Administration dans l'établissement et la présentation des comptes annuels

Le Conseil d'Administration est responsable de l'établissement et de la présentation sincère de ces comptes annuels, conformément aux obligations légales et réglementaires relatives à l'établissement et la présentation des comptes annuels en vigueur au Luxembourg ainsi que d'un contrôle interne qu'il juge nécessaire pour permettre l'établissement et la présentation de comptes annuels ne comportant pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs.

Responsabilité du réviseur d'entreprises agréé

Notre responsabilité est d'exprimer une opinion sur ces comptes annuels sur la base de notre audit. Nous avons effectué notre audit selon les Normes Internationales d'Audit telles qu'adoptées pour le Luxembourg par la Commission de Surveillance du Secteur Financier. Ces normes requièrent de notre part de nous conformer aux règles d'éthique ainsi que de planifier et de réaliser l'audit pour obtenir une assurance raisonnable que les comptes annuels ne comportent pas d'anomalies significatives.

Un audit implique la mise en œuvre de procédures en vue de recueillir des éléments probants concernant les montants et les informations fournis dans les comptes annuels. Le choix des procédures relève du jugement du réviseur d'entreprises agréé, de même que l'évaluation des risques que les comptes annuels comportent des anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs. En procédant à cette évaluation, le réviseur d'entreprises agréé prend en compte le contrôle interne en vigueur dans l'entité relatif à l'établissement et la présentation sincère des comptes annuels afin de définir des procédures d'audit appropriées en la circonstance, et non dans le but d'exprimer une opinion sur le fonctionnement efficace du contrôle interne de l'entité. Un audit comporte également l'appréciation du caractère approprié des méthodes comptables retenues et du caractère raisonnable des estimations comptables faites par le Conseil d'Administration, de même que l'appréciation de la présentation d'ensemble des comptes annuels.

Nous estimons que les éléments probants recueillis sont suffisants et appropriés pour fonder notre opinion.

Opinion

À notre avis, les comptes annuels donnent une image fidèle du patrimoine et de la situation financière de TELEFÓNICA INSURANCE S.A. au 31 décembre 2015, ainsi que des résultats pour l'exercice clos à cette date, conformément aux obligations légales et réglementaires relatives à l'établissement et à la présentation des comptes annuels en vigueur au Luxembourg.

Rapport sur d'autres obligations légales ou réglementaires

Le rapport de gestion, qui relève de la responsabilité du Conseil d'Administration, est en concordance avec les comptes annuels.

Ernst & Young
Société anonyme
Cabinet de révision agréé



Jean-Michel Pacaud

Luxembourg, le 15 avril 2016

Independent auditor's report

To the Shareholders of
TELEFONICA INSURANCE S.A.
Société Anonyme
Luxembourg

Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated 15 April 2015, we have audited the accompanying annual accounts of TELEFONICA INSURANCE S.A., which comprise the balance sheet as at 31 December 2015 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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 annual accounts give a true and fair view of the financial position of TELEFONICA INSURANCE S.A. as of 31 December 2015, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG
Société anonyme
Cabinet de révision agréé

Jean-Michel PACAUD

Luxembourg, 15 April 2016

5 annual accounts

31 December 2015
(expressed in Euro)

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Balance Sheet 31 December 2015

Expressed in Euro

ASSETS	2015	2014
Intangible assets (Note 3)	253.056	246.329
Investments		
Other financial investments		
Shares and other variable yield transferable securities (Note 4)	15.659.553	15.433.572
Debt securities and other fixed-income securities (Note 5)	7.958.278	4.776.434
Others	21.641	34.421
	23.639.472	20.244.427
Deposits with ceding undertakings	91.000	91.000
	23.730.472	20.335.427
Reinsurer's share of technical provisions		
Provision for unearned premiums and unexpired risks	14.499.759	13.096.750
Provision for claims	5.413.095	10.079.946
	19.912.854	23.176.696
Debtors (Note 6)		
Debtors arising out of direct insurance operations with policy holders	34.242.506	27.738.623
Debtors arising out of reinsurance operations	2.717.832	147.343
Other debtors, of which taxes (2015 : EUR 388.450, 2014 : EUR 785.250)	434.234	787.765
	37.394.572	28.673.731
Other assets		
Cash at bank	15.772.584	12.691.431
Tangible Assets	134.601	153.538
	15.907.185	12.844.969
Prepayments and accrued income		
Accrued interest and rent	144.539	121.781
Deferred acquisition costs	7.963.114	5.832.237
Other prepayments and accrued income (Note 14)	5.000.000	6.666.667
	13.107.653	12.620.685
	110.305.792	97.897.837

The accompanying notes form an integral part of these annual accounts

This document is an English translation of the original French version. In the case of any differences between this translation and the original French version, the French version shall prevail.

Balance Sheet 31 December 2015

Expressed in Euro

LIABILITIES	2015	2014
Capital and reserves (Note 7)		
Subscribed capital	8.250.000	8.250.000
Share premium account	12.525.000	12.525.000
Reserve		
Legal reserve (Note 8)	806.732	730.486
Other reserves	596.807	722.263
Result brought forward	10.456.091	8.881.961
Profit for the financial year	1.072.438	1.524.921
	33.707.068	32.634.631
Technical provisions		
Provision for unearned premiums	29.066.811	25.711.838
Claims outstanding	7.611.853	12.319.971
	36.678.664	38.031.809
Provisions for other risks and charges		
Provisions for taxation	2.991.035	2.541.574
Other provisions	224.868	99.108
	3.215.903	2.640.682
Creditors		
Creditors arising out of direct insurance operations (Note 9)	13.800.688	5.968.056
Creditors arising out of reinsurance operations (Note 9)	15.133.415	11.816.166
Other creditors, of which taxes and social security (2015 : EUR 3.165.042 2014 : EUR 2.305.076)	3.236.312	2.406.309
	32.170.415	20.190.531
Accruals and deferred income	4.533.742	4.400.184
	110.305.792	97.897.837

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Profit and loss account 31 December 2015

Expressed in Euro

	2015	2014
Technical account - Non-life-insurance business		
Earned premiums, net of reinsurance		
Gross premiums written (Note 10)	182.796.367	172.781.622
Outward reinsurance premiums	(90.616.791)	(87.458.796)
Change in the gross provision for unearned premiums and unexpired risks	(3.354.973)	(16.979.961)
Change in the provision for unearned premiums, reinsurers' share	1.403.009	8.487.383
	90.227.612	76.830.248
Allocated investment return transferred from the non-technical account (Note 11)	106.473	504.064
Other technical income	---	104.334
Claims incurred, net of reinsurance		
Claims paid		
Gross amount	(88.876.681)	(73.663.660)
Reinsurers' share	45.027.411	38.726.513
	(43.849.270)	(34.937.147)
Change in the provision for claims		
Gross amount	4.708.118	2.948.258
Reinsurers' share	(4.666.851)	(3.651.889)
	41.267	(703.631)
	(43.808.003)	(35.640.778)
Net operating expenses		
Acquisition costs (Note 15)	(85.228.499)	(74.079.734)
Change in deferred acquisition costs	2.130.877	3.852.857
Administrative expenses (Note 12)	(2.517.453)	(2.115.695)
Reinsurance commissions	42.882.522	34.361.752
	(42.732.553)	(37.980.820)
Other technical charges (Note 14)	(1.666.667)	(1.666.667)
Balance on the technical account for non-life-insurance business	2.126.862	2.150.381

The accompanying notes form an integral part of these annual accounts.

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Profit and loss account 31 December 2015

Expressed in Euro

	2015	2014
Non-technical account		
Balance on the technical account for non-life-insurance business	2.126.862	2.150.381
Investment income		
Income from other investments	1.468.582	1.115.493
Value re-adjustments on investments	88.000	89.199
Gain on the realisation of investments	552.887	666.817
	2.109.469	1.871.509
Investment charges		
Investment management charges, including interest	(1.692.113)	(837.767)
Value adjustments on investments	(189.376)	(88.000)
Losses on the realization of investments	(294.101)	(372.476)
	(2.175.590)	(1.298.243)
Allocated investment return transferred to the non-life-insurance technical account (Note 11)	(106.473)	(504.064)
Tax on profit or loss on ordinary activities	(881.829)	(694.662)
Profit on ordinary activities after tax	1.072.439	1.524.921
Other taxes not shown under the preceding items	---	---
Profit for the financial year	1.072.439	1.524.921

The accompanying notes form an integral part of these annual accounts.

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6 notes to the accounts

31 December 2015
(expressed in Euro)

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Note 1. General

TELEFONICA INSURANCE S.A. "The Company" was incorporated in the Grand Duchy of Luxembourg on 15 December 2004 as Société Anonyme under Luxembourgish law.

As at 31 December 2015, the subscribed capital of EUR 8.250.000 is represented by 8.250 shares of EUR 1.000, each fully subscribed and paid up.

The object of the Company is to carry out insurance and reinsurance operations for all type of risk excepted life-insurance.

The annual accounts of the company are included in the consolidated financial statements of Telefonica S.A. Copies of the consolidated financial statements of Telefonica S.A. are available at its registered office in Gran Via 28, 28013 Madrid, Spain.

In accordance with the deed of incorporation, the financial year begins on 1 January and ends on 31 December.

Note 2. Significant accounting policies

(a) General principles

The annual accounts are prepared in accordance with the legal and regulatory requirements in force and the accounting principles generally accepted for insurance companies in the Grand Duchy of Luxembourg.

The annual accounts are expressed in euros (EUR).

(b) Translation of currencies

The company maintains its accounting records in the original currency and the annual accounts are expressed in EUR. Transactions in another currency than EUR are recorded in their original currency and are translated into EUR at the exchange rates prevailing at the last day of the month. Assets and Liabilities in another currency than EUR are recorded in their original currency and are translated into EUR at the exchange rates prevailing at balance sheet date. The unrealized exchange losses resulting from the application of these principles are included in the result for the financial period. The unrealized exchange gains on assets are recorded as differed income therefore they are not included in the result for the financial period.

The realized exchange gains are recorded in the profit and loss account at the moment of their realization.

(c) Investments

Assets included under the item "Investments" are valued as follows:

Nature of investments	Method of evaluation
Shares and other variable income securities and units in unit trusts	lower between cost and market value
Debt securities and other fixed income securities	Amortization of agios and disagios
Debt securities and other fixed-income securities are recorded at acquisition cost. Where the acquisition cost exceeds the amount repayable at maturity the difference is charged to the profit and loss account in instalments over the period remaining until repayment. Where the acquisition cost is lower than the amount repayable at maturity the difference is released to the profit and loss account in instalments over the period remaining until repayment.	
Deposits with ceding undertakings	Nominal value
If Management expects the value adjustment to be permanent in nature, debt securities and other fixed income transferable securities are valued at the lower value to be attributed to them at the balance sheet date. These value adjustments may not be carried when the reasons for which they were made cease to apply.	

(d) Debtors

Debtors are shown at their nominal value. Value adjustments are made where the realizable value of debtors is uncertain.

(e) Tangible assets

Tangible assets are recorded at acquisition cost.

Tangible assets are depreciated on a straight line basis over their estimated useful lives.

(f) Intangible assets

Intangible assets which are mainly composed of research and development expenses and software are valued at production cost.

Intangible assets are depreciated on a straight line basis at a rate of 20% per year (except the R&D expenses).

(g) Provision for unearned premiums and unexpired risks

Premiums received are allocated over the period of treaties or policies to which they apply.

The part of premiums received which relate to the unexpired period of treaties or policies in force is determined on a pro-rata basis.

The amount relating to reinsurance, if any, is recorded separately under assets.

(h) Provision for claims

The provision for claims is established on the basis of reports and estimations individually received from ceding companies.

It also includes the provision for claims incurred but not reported (IBNR), as at the balance sheet date.

The amount relating to reinsurance, if any, is recorded separately under assets.

(i) Income and expenses

Income and expenses comprise mainly technical operations of reinsurance, administrative expenses, investments income and charges, for the financial year regardless of the date of payment or collection of these revenue and expenses.

Note 3. Intangible assets

In EUR	Software
Gross book value as at 1 January 2015	323.672
Reclassifications and Additions for the year	68.888
Gross book value as at 31 December 2015	392.560
Accumulated value adjustment as at 1 January 2015	77.343
Value adjustment for the year	62.161
Accumulated value adjustment as at 31 December 2015	139.504
Net book value as at 31 December 2015	253.056
Net book value as at 31 December 2014	246.329

Note 4. Shares and other variable yield transferable securities

In EUR	2015	2014
Net book value as at 1 January 2015	15.433.572	10.108.747
Additions for the year	6.659.406	22.378.107
Disposals for the year	(6.342.747)	(17.041.092)
Accumulated depreciation as at 1 January 2015	(174.517)	(83.839)
Reversals for the year	83.839	71.649
Net book value	15.659.553	15.433.572
Fair value	16.114.600	15.750.441

Note 5. Debt securities and other fixed-income securities

In EUR	2015	2014
Net book value	7.958.278	4.776.434
Fair value	7.972.902	4.798.863

Acquisition costs higher than redemption values

The unamortized part of the positive difference between the booked value and the redemption value of debt securities and other fixed income securities amounts to EUR 234.137 (2014: EUR 82.595).

The amount of premiums booked in the profit and loss account is EUR 167.927 (2014: EUR 103.779).

Note 6. Debtors

In EUR	2015	2014
Debtors arising out of direct insurance operations with policyholders (of which EUR 29.919.880 with affiliated undertakings)(2014: EUR 1.502.762))	34.242.506	27.738.623
Debtors arising out of reinsurance operations (of which EUR 18.842 with affiliated undertakings (2014: EUR 0))	2.717.832	147.343
Others debtors, of which fiscal debtors (2015: EUR 388.450; 2014: EUR 785.250)	434.234	787.765
	37.394.572	28.673.731

Note 7. Subscribed capital

As at 31 December 2015, the subscribed capital amounts to EUR 8.250.000 represented by 8.250 shares of EUR 1.000 each, fully subscribed and paid up.

In EUR	Subscribed capital	Share premium account	Legal reserve	Other reserves	Result brought forward	Result of the year
As at 31 December 2014	8.250.000	12.525.000	730.486	722.263	8.881.961	1.524.921
Capital increase						
Allocation of result 2014	---	---	76.246	(125.456)	1.574.130	(1.524.921)
Result 2015	---	---	---	---	---	1.072.438
As at 31 December 2015	8.250.000	12.525.000	806.732	596.807	10.456.091	1.072.438

The allocation of the 2014 result was made after the approval of the accounts by the shareholders at the ordinary general meeting of 15 April 2015.

Note 8. Legal reserve

The Company must allocate 5 % of its net profit to the legal reserve for each financial year in order to comply with Luxembourg Company law requirements. This allocation ceases to be compulsory once the legal reserve balance reaches 10 % of the issued share capital. The legal reserve is not available for distribution to shareholders, except upon the dissolution of the Company.

Note 9. Creditors arising out of insurance and reinsurance operations

In EUR	2015	2014
Creditors out of direct insurance companies (of which EUR 5.782.289 with affiliated undertakings; 2014 : EUR 4.304.894)	13.800.688	5.968.056
Debtors arising out of reinsurance operations (of which EUR 0 with affiliated undertakings; 2014 : EUR 135.124)	15.133.415	11.816.166

Note 10. Gross premiums written

The gross premiums were written in Member States of the European Union other than the Grand Duchy of Luxembourg. The analysis by country of origin is as follows:

Gross premiums written	EUR
Germany	28.961.573
Spain	42.574.716
Ireland	6.724.360
Slovakia	(3.891)
Czech Republic	2.240
UK	104.537.369
Total	182.796.367

The allocation of the result of the activity of insurance of the company by groups of branches can be presented as follows:

In EUR	Public liability	Fire	Miscellaneous financial losses	Total
	Automobile	Other	Fire	
Gross premiums written	471.272	392.894	272.521	182.796.367
Gross premiums earned	765.837	536.851	2.094.001	179.441.394
Gross claims incurred	791.392	392.978	3.037.195	88.876.681
Gross operating expenses	349.990	480.241	463.637	85.615.075
Reinsurance's balance	---	170.013	(3.492.033)	(2.648.679)
			(2.648.679)	(5.970.699)

Note 11. Allocated investment return transferred to the non-life insurance technical account

The share of the net financial income assigned to the technical account is calculated by dividing the amount of gross technical provisions at the end of the period by the total amount of own funds before result of the period and the amount of gross technical provisions at the end of the period.

Note 12. Employees

The average number of persons employed during the financial year 2015 amounts to 14,54 (2014: 13,57) and can be broken down as follows:

		Social securities costs	Social securities costs		
	Number	Wages and salaries	Pensions	Others	Illness
2015 Employees	14,54	1.199.638	49.863	132.847	150.811
2014 Employees	13,57	1.041.244	46.546	141.417	131.604

Note 13. Options

For purposes of hedging of portfolio of shares, the company has implemented hedging strategies. These strategies allow reducing the impact of market fluctuations on the portfolio. As at 31 December 2015 commitments related to derivatives are:

		Maturity: 16/09/2016		
		Quantity	Strike	Nominal
TOTAL SA	Buy Put TOTAL	5.848	40,1	234.504,80
TOTAL SA	Sell Put TOTAL	5.848	35,88	209.826,24
TOTAL SA	Sell Call TOTAL	5.848	46,54	272.165,92
Quantity of shares in portfolio		5.848 shares TOTAL		
BASF AG	Buy Put BASF	3.614	66,93	241.885,02
BASF AG	Sell Put BASF	3.614	59,88	216.406,32
BASF AG	Sell Call BASF	3.614	74,68	269.893,52
Quantity of shares in portfolio		3.614 shares BASF		
METRO AG	Buy Put METRO	10.400	27,55	286.520,00
METRO AG	Sell Put METRO	10.400	24,65	256.360,00
METRO AG	Sell Call METRO	10.400	31,97	332.488,00
Quantity of shares in portfolio		10.400 shares METRO		
UNILEVER	Buy Put UNILEVER	8.200	33,39	273.806,20
UNILEVER	Sell Put UNILEVER	8.200	29,86	244.983,20
UNILEVER	Sell Call UNILEVER	8.200	38,66	317.036,60
Quantity of shares in portfolio		8.200 shares UNILEVER		

Note 14. Other prepayments and accrued income. Other technical charges

The Company signed in December 2012 an agreement with mobile operator of group Telefonica «Telefónica Móviles España S.A.U. ». As a result of this commitment the company has obtained the exclusive marketing of its program for customers of Telefonica in Spain for a period of 6 years, from 1 January 2013.

The program fee Movistar amounted to EUR 10.000.000. These costs are amortized over a period of 6 years from 2013.

In EUR	Exclusive marketing fee
Gross value as at 1 January 2015	10.000.000
Fee for the year	---
Gross value as at 31 December 2015	10.000.000
Cumulated amortisation as at 1 January 2014	3.333.334
Amortisation of the year	1.660.667
Cumulated amortisation as at 31 December 2015	5.000.001
Net value as at 31 December 2015	5.000.000
Net value as at 31 December 2014	6.666.667

Amortisation of the year is recorded in caption « Other technical charges ».

Note 15. Acquisition costs

During 2015, the Company paid EUR 85.228.499 commissions to various intermediaries (of which EUR 640 from the distribution of overheads - acquisition costs) (2014: EUR 74.079.734)

Note 16. Fees charged by the audit firm

Categories of fees related to the year of account (VAT included).

In EUR	2015	2014
Legal audit of financial statements	16.294	16.532

7 management report

31 December 2015
(expressed in Euro)

ANNUAL
REPORT
2015

RAPPORT DE GESTION 2015

Au cours de l'exercice 2015, le volume des primes émises par la Société s'est élevé à 182,78 millions d'euros, ce qui représente une augmentation de 5,8% par rapport à l'exercice antérieur.

Les affaires de la Société, dans le domaine d'assurance de la téléphonie mobile, ont continué à se développer d'une manière très satisfaisante : ainsi au 31 décembre 2015, la compagnie dépassait les 2 millions de téléphones portables assurés, commercialisés au Royaume-Uni, en Allemagne, en Espagne et en Irlande.

Le résultat technique, atteint 4,77 millions d'euros. Les frais généraux et administratifs encourus en 2015 se sont maintenus à un niveau légèrement inférieur aux prévisions budgétaires. Le « combined ratio » de l'exercice est de 97,5%.

Le bénéfice, après impôts, atteint le montant de 1.072.439 Euros. Le Conseil d'Administration propose à l'Assemblée Générale d'affecter le résultat de la manière suivante :

Bénéfice Net :	1.072.439 Euros
Réserve légale :	18.268 Euros
Report à nouveau :	1.054.171 Euros

La Société a employé en moyenne 14,54 personnes en 2015.

La Société respecte les exigences réglementaires de Marge de Solvabilité, la couverture des Provisions Techniques et le Fonds de Garantie.

Conformément aux dispositions de la politique d'investissement de la société, la priorité en matière de gestion financière est :

- ✓ la couverture des engagements liés aux contrats d'assurance souscrits,
- ✓ l'adéquation des instruments financiers destinés à la couverture des provisions techniques, conformément à la législation luxembourgeoise.



Comme votre Conseil s'y était engagé, la Société a mis en place une politique d'investissement qui s'applique aux actifs financiers non soumis à la couverture des provisions techniques. La stratégie suivie par le Comité d'Investissement est de sécuriser les actifs financiers et de déployer des allocations sur des supports avec une volatilité et un risque limités.

Outre les risques inhérents à l'objet social de la Société d'assurance, nous n'avons pas connaissance d'une quelconque exposition anormale tant en ce qui concerne les risques souscrits par la Société d'assurance que les choix de ses investissements financiers.

La Société dispose de succursales au Royaume-Uni, en Allemagne et en Espagne. Les activités, dans ses succursales, consistent principalement en l'émission des programmes de polices d'assurances relatives aux téléphones portables pour les clients du Groupe Telefónica. Au 31 décembre 2015, les succursales employaient 9 personnes en Espagne, une personne en Allemagne, et une personne au Royaume-Uni.

L'entreprise poursuivra, au cours de l'année 2016, son activité et sa politique de souscription dans les branches agréées (08-09-13-16-17), et la branche automobile (y compris les branches 1-3-7-10-18) en Espagne.

La nouvelle loi, sur le secteur des assurances intégrant les dispositions Solvabilité 2 au 1er janvier 2016, a été publiée au Mémorial le 9 décembre 2015. La société a continué sa mise en conformité à ces dispositions. Dans le cadre des exigences du SCR du 1er pilier, une demande a été faite auprès du Commissariat Aux Assurances, pour l'application des mesures transitoires suite aux dispositions prévues dans l'article 319 de ladite loi. Cette décision permettra une adaptation progressive aux exigences de capital adéquate aux conditions spécifiques des affaires de la Société.

Dans le cadre du Système de Gouvernance et de gestion des risques, la Société a constitué le Comité de Gouvernance (« Governance Board »), qui veillera sur la mise en œuvre des fonctions clés de la Société (gestion des risques, vérification de la conformité, audit interne et actuarielle), en cohérence avec la stratégie, les politiques et les procédures de l'entreprise. En outre, la société a effectué en Décembre son premier exercice d'évaluation prospective des risques et d'adéquation des fonds propres aux besoins de capital (exercice ORSA).

A notre connaissance, TELEFÓNICA INSURANCE S.A. n'est confrontée à aucune incertitude majeure. La Société, comme les autres Sociétés du Groupe auquel elle appartient, suit les risques susceptibles d'affecter sa situation financière et estime qu'elle n'est pas anormalement exposée aux risques de prix, de crédit, de liquidité et de trésorerie.

La Société n'a pas acquis d'actions propres ni engagé de frais en matière de recherche et de développement, outre les frais de maintenance et développement des applications informatiques qui supportent ses activités administratives. La Société n'a pas d'exposition particulière en matière environnementale.

Nous n'avons eu connaissance d'aucun événement important, après la clôture de l'exercice 2015, qui serait de nature à affecter significativement les comptes de la Société.

Le Conseil d'Administration vous propose d'approuver le Bilan et le Compte de profits et pertes ainsi que les notes aux comptes tels qu'ils vous sont présentés et de donner décharge à vos administrateurs et au représentant légal.

Fait à Luxembourg, le 18 février 2016.



José Fermín ÁLVAREZ CARRIL



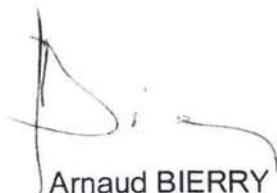
Augusto PÉREZ ARBIZU



Pierre PERRENOUD



Carlos Alberto RODRÍGUEZ COCINA



Arnaud BIERRY

2015 MANAGEMENT REPORT

Along the 2015 corporate year the volume of premiums issued by the Company reached 182.78 million Euros, which represents an increase of 5.8% compared with the previous financial year.

The business of the Company in the area of mobile telephony insurance has continued to develop in a highly satisfactory way : as at 31st December 2015 for example, the Company exceeded 2 million insured mobile phones marketed in the United Kingdom, Germany, Spain and Ireland.

The technical result reaches 4.77 million Euros. Overhead and administrative costs incurred in 2015 held at a level slightly lower than the budget previsions. The combined ratio for the corporate year is at 97.5%.

Profit after taxes is at an amount of 1,072,439.- Euros. The Board of Directors proposes to the General Meeting to allocate that result as follows :

Net corporate profit :	€ 1,072,439.-
Legal reserve :	€ 18,268.-
Balance to next account :	€ 1,054,171.-

In 2015 the Company employed an average staff of some 14.54 persons.

The Company respects the Solvency Margin regulatory requirements, the coverage of Technical Provisions and the Guaranty Fund.

In accordance with the investment policy provisions of the Company the priority in terms of financial management is as follows :

the coverage of commitments linked to underwritten insurance contracts ;
the adequation of financial instruments intended for the coverage of technical provisions pursuant to Luxembourg law.

As your Board had undertaken, the Company has implemented an investment policy applying to those financial assets not subject to the coverage of technical provisions. The strategy followed by the Investment Committee is to secure the financial assets and to deploy allocations over instruments offering limited volatility and risks.

Outside of those risks inherent in the corporate purpose of an insurance company, we have no cognizance of any abnormal exposure as regards either the risks underwritten by the insurance Company or the choices of its financial investments.

The Company has branches in the United Kingdom, Germany and Spain. Activities in those branches mainly consist in the issue of the insurance policies programme pertaining to mobile phones for the clients of the Telefónica Group. As at 31st December 2015 the branches employed 9 persons in Spain, one person in Germany and one person in the United Kingdom.

The Company will along 2016 pursue its activity and subscription policy in the authorised branches (08-09-13-16-17) and the automobile branch (inclusive of branches 1-3-7-10-18) in Spain.

The new law on the insurance sector integrating the Solvency 2 provisions as at 1st January 2016 was published in the *Mémorial* on 9 December 2015. The Company has continued ensuring compliance with those provisions. Within the framework of the requirements of the SCR of the 1st pillar, a request has been forwarded to the Commissariat aux Assurances regarding the application of transitional measures following the provisions provided for by Article 319 of said law. That decision will allow for a progressive adaptation to the requirements of capital according to the specific conditions of the Company's affairs.

Within the framework of the Governance System and risks management, the Company has set up the Governance Board which will ensure the implementation of the key functions of the Company (risks management, compliance check, internal and actuarial audit), on a par with the strategy, policies and procedures of the enterprise. In December, the Company has moreover carried out its first exercise of the prospective evaluation of risks and the adequation of equity to capital needs (ORSA exercise).

TELEFÓNICA INSURANCE S.A. is not to our knowledge facing any major uncertainty. The Company, as the other companies of the corporate group to which it belongs, follows up on the risks susceptible of altering its financial situation and deems that it is not abnormally exposed to price, credit, liquidity and treasury risks.

The Company has not acquired any equity shares or committed costs in research and development matters over and above maintenance and development costs relating to data-processing applications supporting its administrative activities. The Company does not have any special exposure in environmental matters.

We have had no knowledge of any important event following the close of the 2015 financial year of such a nature as to significantly impinge on the corporate accounts of the Company.

The Board of Directors proposes that you approve the balance sheet and the profit and loss account as well as the notes to the accounts as they have been presented before you, and grant full discharge to your Directors and legal representative.

Made in Luxembourg on 18 February 2016.

José Fermin ALVAREZ CARRIL

Augusto PÉREZ ARBIZU

Pierre PERRENOUD

Carlos Alberto RODRIGUEZ COCINA

Arnaud BIERRY (*five illegible signatures*)

Telefonica

Telefónica Insurance

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