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Secretario General y
del Consejo de Administración
TELEFÓNICA, S.A.

TELEFÓNICA, S.A., as provided in article 82 of the Spanish Securities Market Act (Ley del Mercado de Valores), hereby reports the following

SIGNIFICANT EVENT

In furtherance of their already existing strategic alliance, on January 23, 2011, TELEFÓNICA, S.A. (“TELEFÓNICA”) and CHINA UNICOM (HONG KONG) LIMITED (“CHINA UNICOM”) have entered into the Enhanced Strategic Alliance Agreement in which both companies have agreed to strengthen and deepen their strategic cooperation in certain business areas and through which, upon the terms and conditions set out thereof, each party has agreed to invest the equivalent of USD 500 million in ordinary shares of the other party in the following manner:

- a) TELEFÓNICA will purchase such number of CHINA UNICOM shares for the aggregate consideration of USD 500 million through acquisitions from third parties to be completed within the nine-month period following the execution of the aforesaid agreement; and
- b) CHINA UNICOM will acquire in the following days 21,827,499 TELEFÓNICA shares to be sold by TELEFÓNICA at an agreed value of 17.16 Euros per share (being the arithmetic average of the closing price of the TELEFÓNICA shares as quoted on the Madrid Stock Exchange for the thirty consecutive trading days ending on January 14, 2011—utilizing an analogous formula as the one used in their initial share exchange agreement dated September 6, 2009-), which represent a value of USD 500 million.

Furthermore, in view of CHINA UNICOM’s interest in TELEFÓNICA’s share capital, TELEFÓNICA undertakes, to the extent permitted under the applicable laws and its by-laws, to propose at its next General Shareholders' Meeting the appointment of a director nominated by CHINA UNICOM.



Following completion of the transaction, TELEFÓNICA will own approximately a 9.7% of CHINA UNICOM's voting share capital, assuming current price of the shares, and CHINA UNICOM will own approximately 1.37% of TELEFÓNICA's voting share capital.

Madrid, January 23rd, 2011.

**COMISIÓN NACIONAL DEL MERCADO DE VALORES
- MADRID -**