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General Secretary and
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TELEFÓNICA, S.A.

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

SIGNIFICANT EVENT

Following the Significant Event published on October 15th, 2013, (under registration number 193892) Telefónica announces that it has reached an agreement to sell 65.9% of Telefónica Czech Republic, a.s. (hereinafter Telefonica Czech Republic) to PPF Group N.V. (hereinafter PPF) for, approximately, 2,467 million euro in cash (Czk306 per share). The aforementioned consideration will be paid in two tranches:

- (i) 2,063 million euro in cash up front at closing of the transaction; and
- (ii) 404 million euro in cash as deferred payments over a 4 year period.

Additionally, Telefonica will receive, prior to delivering the shares, an amount of 260 million euro, corresponding to the distribution to shareholders approved by the General Shareholders Meeting of Telefonica Czech Republic, to be paid on November 11th, 2013.

As a result of this transaction, Telefónica will maintain a 4.9% equity stake in Telefónica Czech Republic and will remain as a Company's industrial and commercial partner for 4 years:

- Telefonica Czech Republic will be renamed but will continue using the O2 brand for up to four years.
- In addition, the Company will become part of Telefonica's Business Partners Program.

In connection with this transaction, PPF will launch a mandatory tender offer. Telefónica will maintain its 4.9% but may dispose of the shares upon completion, subject to certain restrictions.



Furthermore, the agreement establishes a put/call option structure in relation to the Telefónica Czech Republic shares which Telefónica holds after 4 years. In addition, the agreement includes tag along/drag along clauses.

Closing of the transaction is subject to obtaining the relevant regulatory authorisations.

Among the accounting impacts arising from the transaction, it is worth mentioning the positive effect of the reduction of Telefónica Group indebtedness estimated in, approximately 2,685 million euro, due to the present value of the amount to be paid by PPF and the amount to be received as a result of the distribution to shareholders. Furthermore, the transaction will generate a capital loss of about 56 million euros in its third quarterly financial information for the year 2013.

With this transaction, Telefónica continues executing on its strategy of focusing on its core markets and optimizing financial flexibility.

Madrid, November 5, 2013

**SPANISH NATIONAL SECURITIES MARKET COMMISSION
- MADRID -**