



RAMIRO SÁNCHEZ DE LERÍNGARCÍA-OVIES
*General Secretary and
Secretary to the Board of Directors*
TELEFÓNICA, S.A.

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

SIGNIFICANT EVENT

OFFER TO PURCHASE PREFERRED SECURITIES OF TELEFÓNICA FINANCE USA LLC, AND CONCURRENTLY AND IN CONNECTION THEREWITH, OFFER TO SELL TREASURY SHARES AND TO SUBSCRIBE NEWLY ISSUED UNSECURED DEBENTURES OF TELEFÓNICA, S.A

Telefónica reports the launch of an offer to purchase the preferred securities of Telefónica Finance USA LLC, ISIN code USU87942AA33, having a nominal value of 1,000 euros each (the "**Preferred Securities**") and, concurrently and in connection therewith, an offer to sell ordinary shares of Telefónica, having a nominal value of 1 euro each, currently held as treasury stock (the "**Shares**") and to subscribe for newly issued unsecured debentures of Telefónica, with a nominal value of 600 euros each (the "**Debentures**"), on the terms and conditions detailed below:

- (i) The offer to purchase the Preferred Securities and to sell the Shares and to subscribe for the Debentures (collectively, the "**Offer**") will be addressed exclusively to the holders of Preferred Securities that are not and do not reside in the United States of America.
- (ii) The price offered for the purchase of the Preferred Securities is a price equal to 100% of their nominal value, i.e., 1,000 euros per Preferred Security, in cash, and such amount is subject, unconditionally and irrevocably, to its simultaneous reinvestment in Shares and Debentures as described below. Also, the accrued interest on the Preferred Securities in respect of which the Offer is accepted, since the last coupon payment until the date of the operation (on November 29, 2012), will be paid.
- (iii) The purchase price of the Preferred Securities (1,000 euros per Preferred Security) is subject, unconditionally and irrevocably, to its simultaneous reinvestment in the acquisition of Shares and subscription and payment of Debentures in the following proportion:
 - a) 40% of that price (i.e., 400 euros per Preferred Security) will be assigned to the purchase of Shares at a price equal to the arithmetic mean of the average weighted prices of Telefónica shares during the five trading days preceding the end of the acceptance period of the Offer (such day inclusive) (i.e., from November 19 until November, 23, 2012, both inclusive), with a minimum price of 9.75 euros and a maximum price of 11.05 euros per Share.



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- b) The remaining 60% (i.e., 600 euros per Preferred Security) will be assigned to the subscription and payment of Debentures at 100% of their nominal value. Consequently, an investor accepting the Offer will have to subscribe and pay one Debenture for each Preferred Security.

The Debentures are newly issued unsecured debentures of Telefónica with a nominal value of 600 euros each, with a fixed annual interest rate of 4.184%, payable quarterly on February 28, May 29, August 29, and November 29 of each year, and maturity date on November 29, 2022 (however, Telefónica may make an early repayment, in full or in part, of the Debentures on any interest payment date). Application for admission of the Debentures to trading on the AIAF Fixed Income Market, for trading on the Electronic Debt Trading System (*Sistema Electrónico de Negociación de Deuda*) ("SEND") will be requested.

Holders of Preferred Securities who wish to accept the Offer should contact the institution where they have the Preferred Securities deposited and fill out the corresponding order of acceptance. Orders of acceptance must encompass all Preferred Securities owned by any such holder.

The schedule for the Offer is the following:

- November 5, 2012: Start of the acceptance period of the Offer.
- November 23, 2012: Ending of the acceptance period of the Offer.
- November 19, 20, 21, 22 and 23, 2012: Reference dates for determining the price of Shares in the Offer.
- November 29, 2012 (date of transaction): Purchase of the Preferred Securities, sale of Shares and subscription and payment of the Debentures.
- November 30, 2012: Admission to trading of the Debentures.
- December 4, 2012: Settlement date of the purchase of the Shares.

The securities note (prospectus) relating to the Offer has been registered as of today in the official registers of the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores, CNMV*). The securities note and the summary are available, along with the registration document of Telefónica, on the website of the CNMV (www.cnmv.es) and on the Company website (www.telefonica.com) containing the full description of the terms, conditions and procedure of the Offer.

Madrid, October 31st, 2012



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Disclaimer

This announcement is not a prospectus and investors should not accept the Offer except on the basis of the information contained in the prospectus (securities note).

The publication of this information and/or prospectus (securities note) in jurisdictions other than Spain may be restricted by applicable law. People who have access to this communication should enquire about restrictions and comply with them. Any breach of these restrictions can constitute an infringement on securities markets legislation in any such jurisdictions.

In particular, this announcement does not constitute an offer in the United States of America, Canada, United Kingdom, South Africa, Australia, Portugal, Italy, Mexico, Argentina or Japan, and in general in any other jurisdiction other than the Spanish.

The information contained herein should not be published, distributed or transmitted to residents in the United States of America or any other country in which the distribution of this information is restricted by law. The Offer is not subject to registration in any other jurisdiction different than Spain, and therefore, it is not intended to investors resident in jurisdictions which securities law requires an authorization or registration of a prospectus or any other document, therefore these holders of Preferred Securities cannot accept this Offer. The Offer is not being made and will not be made, directly or indirectly, in or through the United States of America, or by using e-mail or any other means of interstate or foreign commerce, nor to the benefit of U.S. persons, as such term is defined in Regulation S under the U.S. Securities Act of 1933 (the "Securities Act").

The information contained herein does not constitute an offer to sell in the United States of America. The Shares and Debentures have not been and will not be registered under the Securities Act or under any other securities laws of any State of the United States of America and cannot be offered, sold or delivered, directly or indirectly, in the United States of America or to U.S. persons without previous registration, or under an exemption for registration under the Securities Act. The Shares and Debentures of Telefónica will only be offered and sold outside the United States of America, under Regulation S of the Securities Act.

Under this document, no money, securities or other compensation is being solicited and, if sent in response to the information contained herein, they will not be accepted.

SPANISH NATIONAL SECURITIES MARKET COMMISSION
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