



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

TELEFÓNICA, S.A., pursuant to the provisions of article 82 of the Securities Market Act, hereby notifies the following

RELEVANT EVENT

Further to Relevant Event n° 208539 published yesterday in relation to the issue by TELEFÓNICA, S.A. (the "**Company**") of mandatory exchangeable bonds (the "**Bonds**") exchangeable into ordinary shares of Telecom Italia S.p.A ("**Telecom Italia**"), we hereby announce that, upon conclusion of the bookbuilding process carried out by the joint bookrunners, the final terms for the Bonds have been fixed as set out below:

1. The final amount of the issue totalled 750 million euros.
2. The Bonds, which have been issued at par value, will mature on 24 July 2017, unless exchanged or redeemed in advance.
3. The Bonds will accrue a nominal fixed interest rate of 6.0% per annum, payable annually in arrears, as of the settlement and closing date.
4. The minimum exchange price of the Bonds has been set at 0.8600 euros and the maximum exchange price at 1.0320 euros per ordinary share of Telecom Italia, which represents a premium of 20% over said minimum exchange price.
5. The Bonds would be exchanged for a maximum number of Telecom Italia ordinary shares representing 6.5% of its current voting share capital.
6. It is envisaged that the closing and settlement of the Bonds will take place on 24 July 2014, provided that the conditions foreseen in the subscription agreement that the Company has signed yesterday with the joint bookrunners are fulfilled.

As a result of this transaction, Telefónica would retain after the Telco S.p.A. demerger and the transfer of the underlying shares of the Bonds, a stake between 8.3% and 9.4% in Telecom Italia's current voting share capital. Therefore, Telefónica would reduce its indirect stake in Telecom Italia to levels below the stake held prior to Telco S.p.A.'s recapitalization of September 2013.

The transaction allows Telefónica to capture a significant part of the strong revaluation of its indirect stake in Telecom Italia since then, while keeping exposure to its future upside potential up to the maximum exchange price.

In addition, the partial divestment of the stake through this issue allows Telefónica to pre-emptively neutralize approximately half of the net debt increase which would eventually follow Telco S.p.A.'s demerger.

We also remind you that the Company will be applying for the listing of the Bonds on the unregulated secondary market (multilateral trading platform) *Freiverkehr* of the Frankfurt Stock Exchange, which is expected to take place within 90 days following the settlement date.

Madrid, 17 July 2014

**THE SPANISH SECURITIES MARKET COMMISSION (COMISIÓN NACIONAL DEL MERCADO DE VALORES)
- MADRID -**

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