



RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES

*General Secretary and
Secretary to the Board of Directors*
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

Following the Significant Event published on January 23, 2015, (under registration number 217502) in relation to the exclusive negotiations between Telefónica and Hutchison Whampoa Group for the potential acquisition by the latter of Telefónica's operations in the UK (O2 UK), Telefónica informs that a definitive agreement has been reached after completion of due diligence over O2 UK.

The parties agreed on a purchase price (firm value) of £10,250 million. The equivalent value in euros amounts to approximately €14,000 million at current exchange rate. The price is composed of: i) an initial amount of £9,250 million (approximately € 12,640 million) and ii) an additional deferred payment of £1,000 million (approximately € 1,360 million) to be paid once the cumulative cash flow of the combined company in the UK has reached an agreed threshold. The company intends to allocate a substantial part of the proceeds to achieve a leverage ratio of Net Debt / OIBDA lower than 2.35x.

After the execution of the definitive agreement, O2 UK will be reported as a discontinued operation within Telefónica Group, and its assets and liabilities as "held for sale", in accordance with IFRS.

Completion of the transaction is subject, among other usual conditions, to the approval of the applicable regulatory authorities and the obtaining of waivers to certain change of control provisions.

The Conditions must be satisfied by no later than June 30, 2016, save that in specified circumstances as set out in the share purchase agreement this date may be extended to 30 September 2016.

Madrid, March 24, 2015

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