



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

TELEFÓNICA, S.A. (hereinafter "Telefónica"), as provided in article 228 of the Spanish Stock Market Act (*Ley del Mercado de Valores*), hereby reports the following

### SIGNIFICANT EVENT

TELEFÓNICA has decided to carry out an issue of cash-settled equity-linked bonds (the "**Bonds**") for placement among qualified investors on the international market (the "**Issue**"). The Bonds will be issued by Telefónica Participaciones, S.A.U. (the "**Issuer**"), and guaranteed by TELEFÓNICA. The main terms and conditions of the Bonds, which will be subject to English law (the "**Conditions**"), are the following:

1. The Bonds will be unsubordinated and in the denomination of 100,000 euros.
2. The maturity date of the Bonds will be on the fifth anniversary of the date of issue. The Bonds may be redeemed by the Issuer in advance upon the occurrence of certain circumstances envisaged in the Conditions.
3. The Bonds will include a cash-settled conversion option (the "**Cash-Settlement Option**"), which may be exercised by holders within a limited time period prior to their maturity, or earlier in certain circumstances. Upon conversion the holders will receive a cash payment to be determined in part by reference to the trading price of the shares of TELEFÓNICA. Neither TELEFÓNICA nor any of its group companies will be required to issue or deliver shares upon exercise of this option or upon redemption of the Bonds.

The accelerated bookbuild will begin upon publication of this relevant event notice and it is envisaged that it will conclude today and in any event no later than at opening of the stock exchange tomorrow. The nominal amount of the Issue and the issue price will be announced upon conclusion of said process by means of a relevant event notice. The issue of the Bonds is being led by BNP Paribas, Citigroup Global Markets Limited and Goldman Sachs International as placement entities (jointly, the "**Joint Bookrunners**").

Concurrently with the issue of the Bonds, TELEFÓNICA will purchase cash-settled call options on TELEFÓNICA's shares from one or several financial institutions in order to hedge the Issuer and TELEFÓNICA's exposure to any payments to be made under the Cash-Settlement Option. The financial institutions have informed TELEFÓNICA that they anticipate entering into transactions in TELEFÓNICA shares to hedge their exposure under such call options, including during the averaging period for the determination of the Reference Price of the TELEFÓNICA shares and at or around the conversion or redemption of the Bonds. These transactions may affect the market price of TELEFÓNICA shares, the value of the Bonds and the amount received by holders on exercise of the Cash-Settlement Option.



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Given that TELEFÓNICA shares will not be issued or delivered, the combination of the Issue and the purchase of cash-settled call options will not have a dilutive effect on the TELEFÓNICA share.

The proceeds of the Issue will be used for general corporate purposes and for the purchase of cash-settled call options.

Telefónica intends to apply for the Bonds to be admitted to trading on a regulated market, multilateral trading facility or other organised market.

Madrid, March 2, 2016.

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

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