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*General Secretary and
Secretary to the Board of Directors*
TELEFÓNICA, S.A.

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

SIGNIFICANT EVENT

Following the Significant Event published on May 11, 2016 (under registration number 238477) in relation to the European Commission decision to prohibit the sale of Telefónica's subsidiary in the UK (O2 UK) to Hutchison Whampoa Group, Telefónica informs that upon the publication of its 2016 first half results, Telefónica's operations in the UK will no longer be reported as discontinued operations within Telefónica Group and all its assets and liabilities will cease to be reported as "held for sale", and will be reclassified back into full consolidation within Telefónica Group financial statements, according to IFRS. The comparative results will be reported accordingly.

O2 UK is a leading company in the UK telecommunications market, leader in customer satisfaction and brand recognition, with very positive financial results showing y-o-y growth at OIBDA and OpCF level, and, at the same time, OIBDA margin expansion⁽¹⁾.

Telefónica continues to explore different strategic alternatives for O2 UK, to be implemented when market conditions are deemed appropriate.

Madrid, June 29, 2016

(1) According to O2 UK first quarter 2016 results published by Telefónica S.A. on April 29, 2016

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