



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

TELEFÓNICA S.A., (TELEFÓNICA) pursuant to article 228 of the Spanish Securities Market Act (*Ley del Mercado de Valores*), hereby reports the following

SIGNIFICANT EVENT

TELEFÓNICA EUROPE B.V., the Dutch subsidiary of TELEFÓNICA, has today finalised the pricing and the terms and conditions of an issuance of Undated Deeply Subordinated Guaranteed Fixed Rate Reset Securities, with the subordinated guarantee of TELEFÓNICA, for an aggregate nominal amount of 1,000 million euros, subject to a call option exercisable by the issuer from the fifth year and a half from the issuance date (the "**Securities**").

The main terms and conditions of the issuance are as follows:

The issue price is established at 100% of the face value of the Securities. The Securities will accrue interest at a rate of 3.75% annually as from (and including) the issue date up to 15 March 2022.

From (and including) 15 March 2022, the Securities will accrue a fixed rate of interest equal to the applicable 5.5 year interpolated Swap Rate plus a margin of:

- (i) 3.858% per year as from 15 March 2022 up to (but excluding) 15 March 2027;
- (ii) 4.108% per year as from 15 March 2027 up to (but excluding) 15 March 2042; and
- (iii) 4.858% per year as from (and including) 15 March 2042.

The Securities will have a face value per unit of 100,000 euros and will be perpetual, although they will be subject to a call option exercisable by the issuer from 15 March 2022, and at any time upon the occurrence of certain circumstances as set out in the terms and conditions of the Securities. The issuer may defer payment of the interest accrued on the Securities at its sole discretion (the "**Deferred Interest**") without triggering an event of default. The Deferred Interest will in turn accrue interest and will be payable at the option of the issuer at any time or on an obligatory basis in certain circumstances as set out in the terms and conditions of the Securities.

The Securities are governed by English Law, and it is envisaged that they will be listed and admitted to trading on the London Stock Exchange.

The issue is addressed exclusively at qualified investors.

The Securities will be subscribed for and paid up on the closing date, which is envisaged to take place on or about 15 September 2016, subject to the signing of the Subscription Agreement by the Joint Bookrunners and the rest of the agreements relating to the issue, and subject to compliance with the conditions set out in the Subscription Agreement.



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

Madrid, 8 September 2016.

**SPANISH NATIONAL SECURITIES MARKET COMMISSION
MADRID**

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of the securities referred to herein and shall not constitute an offer, solicitation nor sale in any jurisdiction in which such offer, solicitation or sale is unlawful - including but not limited to the United States, Australia, Canada or Japan.

*The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933 ("**Securities Act**"), as amended, or any state securities laws, and may not be offered or sold in the United States absent registration or pursuant to an exemption from the registration requirements of the Securities Act and in accordance with applicable state securities laws.*