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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 February 21, 2017, (under registration number 248301) related to the agreement (the "**Agreement**") reached between Telefónica and Taurus Bidco S.à.r.l. (hereinafter "**KKR**", an entity managed by Kohlberg Kravis Roberts & Co. L.P.) for the sale of up to 40% of the share capital of Telxius Telecom, S.A.U. ("**Telxius**"), Telefónica announces that, after obtaining all the relevant regulatory approvals, it has transferred to KKR today 62 million shares of Telxius (representing 24.8% of its share capital) in exchange for 790.5 million euros (12.75 euros per share).

As it was stated in the above-mentioned Significant Event, the exchange of the remainder 15.2% of the share capital of Telxius is expected to take place in the fourth quarter of 2017 for a price of at least 484.5 million euros.

Furthermore, following the execution of the sale, a shareholder's agreement among Telefónica, KKR and Telxius has become effective today, which regulates the relationships between Telefónica and KKR as shareholders of Telxius.

This transaction has no impact on the consolidated results of the Telefónica Group as it consists on the sale of a minority interest, with Telefónica retaining control over Telxius.

This transaction is part of the Telefónica Group's asset portfolio management policy, based on a strategy of value creation and strategic positioning. It also complements the objective of organically reducing debt in a growing cash flow scenario.

Madrid, October 24, 2017

SPANISH NATIONAL SECURITIES MARKET COMMISSION
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