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

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

SIGNIFICANT EVENT

In relation to the bonds mandatorily convertible into shares of Telefónica, S.A. that were issued by its wholly-owned subsidiary Telefónica Participaciones, S.A.U. on September 24, 2014, guaranteed by Telefónica (the "**Bonds**"), and which were referred to in the Significant Events of September 10, 2014 (registration number 210598) and of September 11, 2014 (registration number 210620), Telefónica announces that, in order to attend the mandatory conversion of the totality of the Bonds on their maturity date on September 25, 2017, and given the resulting conversion price of EUR 9.7174 per share:

- It has issued 154,326,696 new shares (the "**New Shares**"), representing 2.9723% of its share capital following the capital increase, and
- It will deliver 14,973 existing shares held as treasury stock.

As a result of the conversion and the aforementioned capital increase, Telefónica's share capital is set at 5,192,131,686 euros, divided into 5,192,131,686 ordinary shares of the same class and series, with a nominal value of 1 euro, and the Bonds will be fully amortized.

The public deed of conversion of obligations, capital increase and amortization of obligations has been registered with the Mercantile Registry of Madrid today.

It is expected that the New Shares will be admitted to trading on the four Spanish Stock Exchanges and will be tradable through the Spanish Automated Quotation System (*Sistema de Interconexión Bursátil Español*) on September 25, 2017. The admission to trading of the New Shares in the remaining foreign Stock Exchanges where Telefónica is listed will also be requested.

Madrid, September 20, 2017

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