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Creating a consortium, now the largest shareholder in the Italian operator with 23.6% of the capital

TELEFÓNICA, MEDIOBANCA, GENERALI, INTESA SANPAOLO AND BENETTON UNITE TO TAKE A STAKE IN TELECOM ITALIA

- **The company, presided over by César Alierta, will have two board members and an indirect participation of 10% in Telecom Italia**

Madrid, 28 April 2007.- The Board of Directors of Pirelli, in an extraordinary meeting held today, and Edizione (Benetton Group), have agreed to sell their stakes in Olimpia, principal shareholder of Telecom Italia, to a consortium made up of Telefónica, the group's industrial partner, the insurance company Generali, the banks Mediobanca and Intesa Sanpaolo, and Benetton (partially reinvesting in the consortium). The operation is subject to the mandatory authorisations.

The new consortium, in which Telefónica holds 42.3% of the shares, will have a 23.6% participation in Telecom Italia's capital (18% indirectly through Olimpia and 5.6% directly), thus becoming the largest shareholder of the Italian operator. The other members of the consortium have the following shareholdings: Generali (28.1%), Mediobanca (10.7%), Intesa Sanpaolo (10.7%) and Benetton (8.2%).

The new company starts out with a capital structure of 5,145 million euro, representing a 2,314 million euro investment for Telefónica. An additional capital increase of 900 million euro is foreseen in which Telefónica will have the right to subscribe for new shares on a pro-rata basis, in accordance with its current participation.

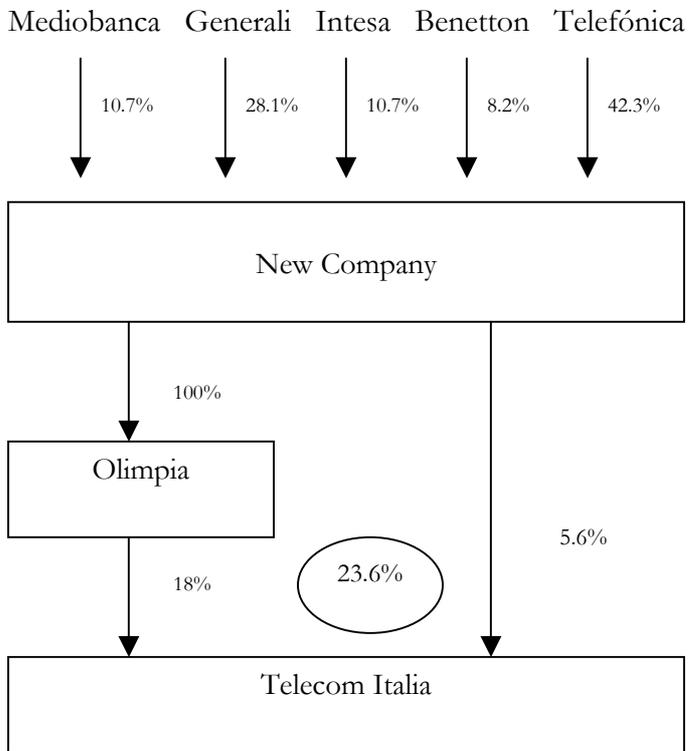
The agreement enables Telefónica to enter Telecom Italia's Board with two members, a number proportionate to its 10% economic interest in the company. In the new company, Telefónica will have the right of first refusal on the sale of shares, as well as veto rights in certain decisions related to share ownership changes, dividend policy and divestitures.

This operation enables Telefónica to both strengthen its relationship with Telecom Italia, with whom it has entered into cooperation agreements in Germany, and to reinforce its position in Europe and Latin America. Nonetheless, the two companies (Telefónica and Telecom Italia) will be managed separately and independently and it is foreseen that both Telefónica and the board members it appoints will abstain from participating and voting in meetings of the relevant corporate bodies whose purpose is to consider business decisions related to countries in which both companies have a presence.

As a result of meetings with the Italian operator, Telefónica and Telecom Italia foresee the generation of synergies which would give rise to costs savings for both companies.

This investment in no way alters Telefónica's commitment to the markets with respect to limiting its financial investments this year to a net total of 1,500 million euro.

Shareholder Structure



ANNEX:

Newco investment:

100% Olimpia (2.82 euros/share)	4,118 Million euros
<u>5.6% in TI (2.53 euros/share)</u>	<u>1,897 Million euros</u>
Total	6,015 Million euros

Newco sources of funds:

Telefónica	2,314 Million euros
Mediobanca (in kind)	522 Million euros
Generali (in kind)	1,375 Million euros
Intesa	522 Million euros
<u>Benetton</u>	<u>412 Million euros</u>
Total equity	5,145 Million euros
<u>Net debt ¹</u>	<u>870 Million euros</u>
Total sources	6,015 Million euros

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¹ To be reduced through a potential capital increase of up to 900 Million Euros to be executed in the 6 months following the completion of the deal .