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

TELEFÓNICA, S.A. (“TELEFÓNICA”), as provided in article 82 of the Spanish Securities Market Act (*Ley del Mercado de Valores*) hereby reports the following

SIGNIFICANT EVENT

Further to the Significant Event filed on July 28, TELEFÓNICA has acquired the fifty percent (50%) of the shares of Brasilcel, N. V., (Dutch company that owns shares representing, approximately, 60% of the capital stock of the Brazilian company Vivo Participações, S.A.), owned by Portugal Telecom SG SGPS, S.A., today, having made a first payment, as agreed, of four thousand five hundred (4,500) million Euros. The rest of the price, up to seven thousand five hundred (7,500) million euros, will be satisfied under the following schedule of payments: one thousand (1,000) million Euros on 30 December 2010, and two thousand (2,000) million Euros, on 31 October 2011, although Portugal Telecom SG SGPS, S.A. will be able to request for this last payment to be executed on July 29, 2011, and therefore the price of the acquisition and the closing payment will be reduced in approximately twenty-five (25) million Euros. As a result of this acquisition, TELEFÓNICA has achieved the control of Vivo Participações, S.A.

Coinciding with the closing of the transaction, the agreements signed in year 2002 between TELEFÓNICA and Portugal Telecom SGPS SG, S. A., in relation to its joint venture in Brazil, (Subscription Agreement and Shareholders Agreement), have been terminated.

TELEFONICA confirms that it will launch a Tender Offer over the voting shares of Vivo Participações, S.A., (ONs), for a price equal to eighty percent (80%) of the price paid by TELEFONICA to Portugal Telecom SGPS SG, S.A., for each voting share of Vivo Participações, S.A. (ON) owned by Brasilcel, N.V.

Madrid, September 27, 2010.