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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

Once materialized the purchase of Portugal Telecom’s 50% stake in Brasilcel N. V. on 27 September, and in line with its commitment to provide additional information on this transaction to the financial community, Telefónica announces that the integration of its wireline and wireless businesses in Brazil will generate total synergies with a net present value of at least 3,300 – 4,200 million euros.

This figure includes: i) operational synergies and synergies from the incorporation of Vivo under the Telefónica Group’s integrated management model, which will have a positive impact on revenue generation and result in cost and CapEx savings of at least 2,300 – 2,700 million euros, and ii) financial and tax synergies of between 1,000 and 1,500 million euros.

As previously announced, this acquisition will have a positive impact on Telefónica’s results, as well as in the cash flow generation from year one.

Note that under currently effective accounting standards regarding a business combination achieved in stages (IFRS 3 Revised), at the date of obtaining full control of Vivo Participações, S.A., the previously held investment in Brasilcel, N.V. shall be remeasured at its fair value at the date of acquisition and any difference between said fair value and the corresponding carrying value before remeasurement shall be recorded as a profit or loss, as applicable, in the financial statements of the Telefónica Group. As a result, at the end of the third quarter of 2010 Telefónica will recognise a gain of approximately 3,500 million euros in its income statement.



This means the company is on track to meet its target of earnings per share of 2.10 euros in the current financial year.

In addition, Telefónica confirms that it will launch a tender offer over the voting shares of Vivo Participações, S.A., that are not held by Brasilcel and which will represent approximately 3.8% of Vivo's equity, at the end of October. This operation is expected to be completed in February 2011.

Following this tender offer the Company will further combine the activities of Telesp and Vivo Participações.

Telefónica will apply its long track record in the integration of operations and capturing synergies to start capturing the expected savings from day one.

Madrid, October 1, 2010.

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