



RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES
Secretario General y
del Consejo de Administración
TELEFÓNICA, S.A.

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

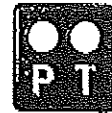
SIGNIFICANT EVENT

Further to the significant events released with regard to the binding and unconditional offer submitted by Telefónica (the “**Offer**”) for the acquisition, directly or through any of the companies within its Group, of 50% of the capital stock of the Dutch company BRASILCEL, N.V. (which is jointly owned by Telefónica and Portugal Telecom, SGPS, S.A., and which directly and indirectly owns shares representing, approximately, 60% of the capital stock of the Brazilian company Vivo Participações, S.A.), Telefónica hereby informs that since the Board of Directors of Portugal Telecom, SGPS, S.A. has not accepted the Offer within its deadline, such Offer has expired.

The communications between Portugal Telecom, SGPS, S.A. and Telefónica are attached hereto.

Madrid, July 17, 2010.

COMISIÓN NACIONAL DEL MERCADO DE VALORES
- MADRID -



Mr Cesar Alierta / Mr Julio Linares
Board of Directors of Telefónica SA
Distrito C, Ronda de la Comunicación s/n,
28050 Madrid, Spain

Fax: 0034917271600

VIA FACSIMILE

Lisbon, 16 July 2010

Dear Sir,

In reference to Telefonica's Offer ("Offer") to acquire the fifty-percent stake in Brasilcel, NV, held by Portugal Telecom, SGPS, SA ("PT"), and following the Extraordinary Shareholders' Meeting that took place on 30 June 2010, PT's designated representatives have engaged in discussions with representatives of Telefónica, SA, ("Telefónica") to analyse future options for Vivo and the Offer.

The discussions with Telefónica have progressed in a constructive manner and PT's Board of Directors is committed to use its best endeavours to conclude them in a way that satisfies the interests of all parties. In light of this, and to continue working towards a positive outcome, the Board of Directors of PT has resolved today to request a final extension of the validity of the Offer until 28 July 2010.

Yours faithfully,

D

Conselho de Administração

Portugal Telecom, SGPS, S.A.

Av. Fontes Pereira de Melo, 40 1069-300 Lisboa - Portugal
Tel (+351) 21 500 0768 Fax (+351) 21 359 1049

www.telecom.pt

Número de identificação fiscal 503 713 058 - CIC de Utilização de Capital Social € 36.295.371,00

Telefonica

To the attention of:

Mr. Henrique Granadeiro
Chairman of the Board of Directors of Portugal Telecom, SGPS S.A.

Mr. Zeinal Bava
Chief Executive Officer of Portugal Telecom, SGPS S.A.

The Board of Directors of Portugal Telecom, SGPS S.A.

Av. Fontes Pereira de Melo, 40
1069-300 Lisbon

July 17th, 2010

Dear Sirs,

In reference to your letter dated July 16, 2010 requesting a final extension until July 28, 2010 of the validity of the Telefónica's offer to acquire 50% of the shares of Brasilcel, N.V. owned directly or indirectly by Portugal Telecom, SGPS S.A., as we have verbally communicated to you before the expiration of such offer, we hereby kindly confirm that the offer, in accordance with its terms and conditions, expired on July 16, 2010 at 23:59 h (Lisbon time).

Yours sincerely

TELEFÓNICA, S.A.

By ___
Name:
Title: C