



RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES
General Secretary and
Secretary to the Board of Directors
TELEFÓNICA, S.A.

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

SIGNIFICANT EVENT

Further to the significant event released with regard to the offer submitted by TELEFÓNICA, S.A. to the Portuguese company PORTUGAL TELECOM, SGPS, S.A. for the acquisition of the shares representing 50% of the capital stock of the Dutch company BRASILCEL, N.V., owned by PORTUGAL TELECOM, SGPS, S.A., it is hereby attached the text of the offer.

Madrid, May 11, 2010

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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

May 6th, 2010

Dear Sirs,

Telefónica, S.A. (“Telefónica”) hereby submits to Portugal Telecom, SGPS, SA. (“Portugal Telecom”) a **binding offer** (the “Offer”) for the acquisition by Telefónica, directly or through any of its affiliates, of 50% of the shares of Brasilcel, N.V. (“Brasilcel” or the “Company”) owned directly or indirectly by Portugal Telecom, in accordance with the terms and conditions set forth herein (the “Transaction”).

This Offer shall constitute a binding commitment on our part subject to the terms provided below. Should you accept the Offer, the terms and conditions herein will become legally binding.

1. Rationale for the Offer

Portugal Telecom and Telefónica were early in identifying the potential of the Brazilian telecommunications market. Following the 1998 Telebras auction acquisitions, in 2001 both companies decided to combine their respective mobile assets in Brazil into a partnership called Vivo Participações, S.A. (“Vivo”), controlled by Brasilcel as a joint control vehicle.

Vivo has performed exceptionally well due to the contribution of both partners, reaching undisputed leadership in the Brazilian mobile market and currently enjoying a valuation which is close to its highest historical level.

The evolution of the telecommunications market towards integrated triple and quadruple offers is widely recognized as the right strategy by the most successful players in the industry. In this respect, the major Brazilian competitors own integrated operations, successfully providing a full range of bundled telecommunications services. In addition, ever increasing competition and market dynamics require an agile and effective management which is greatly facilitated by single control of operations. As a result, we believe that full control of Brasilcel by Telefónica and a potential subsequent integration of Vivo with Telesp would create a superior integrated operator and would derive very substantial value through scale, growth and synergies.

Telefónica, acknowledging the critical contribution of Portugal Telecom to Vivo’s success, Vivo’s standalone value and the value creation potential of the eventual subsequent integration, is ready to submit to Portugal Telecom an offer that values Brasilcel at a very significant premium

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and awards to Portugal Telecom a fair and proportionate share of the envisaged synergies to be derived from the Transaction and the potential subsequent Vivo-Telesp integration.

2. Offer

Subject to the terms and conditions of this Offer, Telefónica hereby proposes to acquire 50% of the shares of the Company owned directly or indirectly by Portugal Telecom free and clear of any liens, charges, encumbrances and third party rights (the "Shares") for an aggregate purchase price of Euros 5,700 million (five thousand and seven hundred million Euros) (the "Consideration"). The Purchase Price would be payable in cash, in immediately available funds on the date of completion of the Transaction (the "Closing").

3. Closing of the Transaction

Closing, in accordance with the terms of this Offer, would take place on the date communicated by Telefónica to Portugal Telecom, provided that such date shall be no later than two (2) months after the acceptance by you of this Offer.

At Closing Telefónica shall pay to Portugal Telecom the Consideration and both parties shall enter into the documents required under Dutch law for the valid transfer of the Shares.

4. Funding of the Transaction

Telefónica has available funds and credit lines to complete the Transaction and therefore this Offer is not subject to obtaining financing by Telefónica.

5. No other conditions

This Offer is not subject to any other conditions. In particular:

- (i) this Offer has been approved by the Board of Directors of Telefónica and thus this Offer is not subject to further approvals by Telefónica;
- (ii) this Offer is not subject to obtaining approvals from third parties in relation to the Transaction;
- (iii) Telefónica would not require non-compete or non-solicitation commitments by Portugal Telecom;
- (iv) Telefónica would not require to complete a due diligence process and therefore this Offer is not contingent on the outcome of such due diligence process.

6. Limited representations and warranties

Telefónica does not require any representation or warranty other than customary representations and warranties in relation to authority to enter into the Transaction, ownership and good title over the Shares and absence of liens and encumbrances on the Shares.

7. Vivo management / employees

Telefónica is pleased with the recent performance of Vivo and therefore it envisions the continuity of Vivo's management and the preservation of Vivo employees' rights.

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8. Subsequent tender offer

Telefónica contemplates to launch after Closing a tender offer over the voting shares (ON) of Vivo not owned by the Company. The purchase price offered in such tender offer would be 80% of the value attributed to each of the Vivo's voting shares (ON) in this Offer, as set forth in paragraph 9.1(i) below.

9. Merits of the Offer

9.1 Full value Offer, compelling to all shareholders

- (i) The Offer represents a full value for Brasilcel:
- implies a valuation of R\$¹ 112.29 for each of Vivo voting shares (ON) owned by the Company, which represents a premium of approximately 145% over the average price of the last month previous to this Offer;
 - represents 84% premium on Brasilcel's value included in Portugal Telecom's average sum of the parts valuation estimated by analysts, which implies a potential upside of at least 36% to Portugal Telecom's share price;
 - implies a multiple of 10.9 times Vivo's EBITDA 09, compared to its current trading multiple of 4.9 times EBITDA 09 and 5.6 times EBITDA 09 of Brazilian mobile comparables;
 - represents 78% of the last one month average market capitalization of Portugal Telecom;
- (ii) The Offer realizes value for Portugal Telecom shareholders that cannot be achieved by Portugal Telecom standalone: potential subsequent Telesp-Vivo integration synergies are unique to the Transaction.
- (iii) The Offer is in the benefit of all Portugal Telecom shareholders:
- Premium valuation for an asset in Portugal Telecom's portfolio;
 - Ability to generate significant shareholders value through the combination of any of the following potential actions:
 - a) improvement of shareholders remuneration (e.g. one time dividend and/or increased recurrent annual profits distribution);
 - b) reduction of the leverage of Portugal Telecom and/or balance sheet optimization;
 - c) implementation of a growth strategy via potential investment in telecom operators managed and controlled by Portugal Telecom.
- (iv) The offer is in the benefit of all Vivo shareholders:
- Subsequent offer on voting shares (ON) at a significant premium;
 - Potential integration synergies upside.

¹ Average 1 last month BRL/EUR FX of 2.35

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9.2 Full certainty of execution

- (i) The Offer is binding, unconditional and is not subject to any condition precedent;
- (ii) The Offer is fully financed and has no execution risk.

9.3 Portugal Telecom would continue to be an attractive investment proposition and would enjoy increased strategic flexibility:

- (i) One time extraordinary cash inflow from the Transaction plus outstanding recurring cash flow generation would allow Portugal Telecom to develop several alternatives to generate shareholder value as indicated in 9.1.(iii) above;
- (ii) Potential to accelerate the current deployment of high speed Next Generation Networks in Portugal;
- (iii) Potential to fund the pension deficit;
- (iv) Potential to consolidate the Portuguese telecoms market;
- (v) Potential to play an active role in PanEuropean telecoms consolidation;
- (vi) Potential to reinvest proceeds in growth telecoms assets.

10. **Validity of this Offer**

This Offer will expire in one month, on June 6th, 2010, unless such term is extended by Telefónica in writing, or unless it is accepted by you in writing on or before such date.

Telefónica is however prepared to grant an extension of the aforesaid validity period in the event that, given the relevance of this Offer, you decide to submit the same to the Portugal Telecom Shareholders' Meeting.

11. **Structuring Flexibility**

Upon acceptance of the Offer, Telefónica is open to negotiate and agree with Portugal Telecom alternatives to accommodate the most efficient Transaction structure, provided that they result in the same effects as the Offer.

12. **Confidentiality**

This Offer is confidential for Portugal Telecom and shall not be disclosed by it, except in the event that Portugal Telecom is requested or required by law, regulation, or pursuant to any requirement of any supervisory authority, regulatory authority, stock exchange or other applicable judicial or governmental order to disclose the existence of this Offer or its terms and conditions. Should this be the case, Portugal Telecom will provide Telefonica with immediate notice thereof and Portugal Telecom will furnish, after written notification to Telefonica, only that portion of the information related to the Offer which is legally required to be disclosed and will exercise all reasonable efforts to obtain a protective order or other reliable assurance that confidential treatment will be accorded to the information related to the Offer.

13. **Governing law**

This Offer shall in all respects, including as to validity, interpretation and effect, be governed by the laws of Portugal, and the courts of Lisbon shall have exclusive jurisdiction to adjudicate any dispute hereunder.

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If you agree with the terms and conditions of this Offer, please confirm your acceptance by executing this Offer below and returning to us one copy duly signed no later than the date mentioned in paragraph 10 above.

Yours sincerely

TELEFÓNICA, S.A. _____

By _____
Name:
Title:

Acknowledged and agreed:
PORTUGAL TELECOM, SGPS, SA.

By _____
Name:
Title:
Date: