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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 Stock Market Act (*Ley del Mercado de Valores*), hereby reports the following

SIGNIFICANT EVENT

Regarding the Corporate Restructuring of their subsidiaries in Brazil, Telecomunicações de São Paulo S.A. – Telesp ("Telesp") and Vivo Participações, S.A., ("Vivo"), Telefónica informs that the Board of Directors of both companies have approved, at their meeting held on March 25, 2011, the terms and conditions for the merger of shares, by which the totality of Vivo's shares will be merged into the net worth of Telesp, appraising Telesp's share capital. Former Vivo's shareholders will receive 1.55 new shares of Telesp for each Vivo share.

The above exchange ratio was negotiated and agreed by the Special Committees established by the Board of Directors of Telesp and Vivo, and together with all other terms and conditions of the transaction will be subject to approval by the General Shareholders' Meeting of such companies.

In the event that this transaction is approved by the General Shareholders' Meetings of both companies, the direct and indirect stake of Telefonica in Telesp's share capital will be 91.8% of ordinary shares (ONs) with voting rights and 64.6% preferred stock (PNs), representing 73.8% of total share capital of Telesp.

Madrid, March 28, 2011.

SPANISH NATIONAL SECURITIES MARKET COMMISSION
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