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

Further to the reports registered on 30 April, 3, 7 and 8 May of this year, 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

According to information released yesterday, 23 October 2007, by the National Telecommunications Agency of Brazil (Anatel), the Governing Board of that agency yesterday authorised, subject to certain conditions, the acquisition of an indirect stake in TELECOM ITALIA S.p.A. by TELEFÓNICA, S.A.

As a result, TELEFÓNICA, S.A., ASSICURAZIONI GENERALI S.p.A., INTESA SANPAOLO S.p.A., MEDIOBANCA S.p.A. and SINTONIA S.A. (BENETTON) will in the coming days, after obtaining the relevant administrative authorisations, formally execute the acquisition of the whole of the capital stock of the Italian company OLIMPIA S.p.A., owner of shares representing 18% of the capital that confers voting rights of TELECOM ITALIA S.p.A.

As already indicated in the aforesaid reports of Significant Event, the acquisition will be done through an Italian joint venture company, TELCO S.p.A. (in which TELEFÓNICA, S.A. holds a 42.3% equity stake), which, once the deal is completed, will hold approximately 23.6% of the TELECOM ITALIA S.p.A. voting capital (18% indirectly through OLIMPIA S.p.A. and 5.6% contributed by ASSICURAZIONI GENERALI S.p.A. and MEDIOBANCA S.p.A.).

The acquisition of OLIMPIA S.p.A. will entail an outlay by TELEFÓNICA, S.A. of 2.314 billion euros. Also, in accordance with the resolutions adopted this past 28 April, the acquisition of OLIMPIA S.p.A. will be partly financed with a loan of 1.1 billion euros granted to TELCO S.p.A. by INTESA SANPAOLO S.p.A. and MEDIOBANCA S.p.A. Furthermore, pursuant to the said resolutions and with the aim of financing repayment of the loan, the General Shareholders' Meeting of TELCO S.p.A. will approve a capital increase in an amount of up to 900 million euros, which TELEFÓNICA, S.A. may subscribe and pay for in proportion to its stake in the capital of that company, within a time frame of six months.

Madrid, October 24th, 2007.

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