



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

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

Today, Telefónica and Portugal Telecom SG SGPS, S.A. (“**Portugal Telecom**”) have signed an agreement for the acquisition by Telefónica (directly or through any of the companies within its Group) of 50% of the capital stock of Brasilcel, N.V. (company jointly owned by Telefónica and Portugal Telecom, which owns shares representing, approximately, 60% of the capital stock of the Brazilian company Vivo Participações, S.A.) owned by Portugal Telecom.

The acquisition price for the aforementioned capital stock of Brasilcel, N.V. is seven thousand five hundred (7,500) million Euros, of which four thousand five hundred (4,500) million Euros will be satisfied at the closing of the transaction, one thousand (1,000) million Euros on December 30, 2010, and two thousand (2,000) million Euros on October 31, 2011, although Portugal Telecom will be able to request for this last payment to be executed on July 29, 2011, and therefore the price of the acquisition and the closing payment will be reduced in approximately twenty-five (25) million Euros.

This agreement establishes that the closing of this acquisition transaction will occur within a 60 days period since the signature of the agreement. Telefónica considers that in the aforementioned period, the relevant approval of the Brazilian authority will be obtained.

On closing, agreements entered into by Telefónica and Portugal Telecom in year 2002 regarding their joint venture in Brazil shall terminate (shareholders agreement and subscription agreement).



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Moreover, Telefonía and Portugal Telecom have also agreed to initiate discussions relating to the implementation of an industrial partnership programme between both companies that will cover joint cooperation regarding, among others, the following areas: procurement; technology; joint provision of services to international clients; roaming; R&D; and cooperation, best practice and know-how exchange regarding technology, operations and management.

Finally, the agreement anticipates that Telefonía will analyze the potential purchase from Portugal Telecom of its shares in the Brazilian company Dedic, S.A., which offers contact centre services in Brazil.

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