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General Secretary and
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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

After the Extraordinary General Shareholders' Meeting of the Portuguese company Portugal Telecom, SGPS, S.A. held in Lisbon today, Telefónica informs that a majority of the votes issued in the aforementioned General Shareholders' Meeting were in favour of the approval of the offer submitted by Telefónica for the acquisition of the Portugal Telecom, SGPS, S.A.'s stake in Brasilcel, N.V., with 73.9% of the submitted votes in favour, and 26.1% of the total votes against it. The attendance quorum was 68.7% of the share capital of the company. Nevertheless, the agreement was vetoed by the Portuguese Government, invoking their rights under the so-called "Golden Share".

Telefónica believes that the veto under the "Golden Share" is illegal, as it infringes, in addition to Portuguese law, European Union Law, in particular, among others, Article 56 of the European Union Treaty. The Board of Directors of Portugal Telecom SGPS SA has also stated at the General Shareholders' Meeting, the illegality of the use of the "Golden Share" by the Portuguese Government.

Regarding the last paragraph of the letter sent to Portugal Telecom, SGPS, SA on June 29, 2010, Telefónica extends the period granted to such company to communicate its acceptance of the offer until July 16, 2010, at 23:59h (Lisbon time), as provided for in such last paragraph.

Madrid, June 30, 2010.

SPANISH NATIONAL SECURITIES MARKET COMMISSION
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