

NOTA DE PRENSA

PRESS RELEASE

Madrid, 28 July 2010

The Company becomes the leading telecommunications operator in Brazil

TELEFÓNICA GAINS CONTROL OF VIVO AFTER AGREEING THE PURCHASE OF 50% OF BRASILCEL WITH PORTUGAL TELECOM

Madrid, 28 July 2010.- Telefónica has reached an agreement today with Portugal Telecom to purchase 50% of Brasilcel held by the Portuguese operator. This acquisition gives Telefónica undisputed leadership of the Brazilian telecommunications market, which has been a key market for the Company since it entered there in 1999.

The entity to result from the Telesp-Vivo business combination, to which Telefónica will bring its extensive track record in integrating acquisitions and capturing synergies, will be the largest integrated operator in Brazil by all key metrics: by customer numbers (69.2 million to March 2010), revenue/OIBDA (11.8 and 4.1 billion euros in 2009, respectively) ¹, and profitability (OIBDA margin 2009: 35%).¹

Chairman of Telefónica, Cesar Alierta, said of the outcome: "We are delighted to have reached this agreement with Portugal Telecom which benefits both companies shareholders. It is a unique value creation opportunity. Vivo leads the Brazilian mobile telephony market, a market to which Telefónica is strategically committed".

The new company will have significant growth potential in an expanding market of 192 million inhabitants and in a society, Brazilian, which has shown itself to be very receptive to new technologies.

Accretive impact

The acquisition will have a positive impact on Telefónica's earnings and cash flow generation from year one.

The price finally agreed on was 7.5 billion euros, with a net present value of 7.3 billion euros. The offer is now closed which means there is no commitment with regard to the additional improvements considered in the final proposal voted on favourably by most of PT's shareholders

¹ Note: aggregate figures for Telesp and Vivo for 2009.

at the General Shareholders Meeting held on 30 June in Lisbon, improvements such as distribution of accrued Vivo dividends, call on PT shares and others.

Telefónica will pay the amount by deferred payment of 40% of the price agreed. The company will pay 4,500 millions of euros at the closing of the transaction, an additional amount of 1,000 millions on 31 December 2010 and the remaining 2,000 millions which complete the 31 October 2011 payment.

The transaction is expected to close within 60 days at the latest, the estimated period of time required to obtain the necessary Brazilian regulatory approvals. In addition, after the acquisition of Portugal Telecom's stake in Brasilcel, Telefónica will present a public tender offer for the ordinary shares of Vivo that are not held by Brasilcel and which represent approximately 3.8% of Vivo's equity, an estimated transaction of 800 million euros.

Telefónica has today achieved its strategic objective of reinforcing its growth potential in Brazil while reiterating all shareholder promises, including its commitment to continuing to raise its dividend to at least €1.75 per share by 2012.