

Packer Joseph W Jr  
 Form 4  
 January 07, 2009

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
 Packer Joseph W Jr

2. Issuer Name and Ticker or Trading Symbol  
 PRUDENTIAL BANCORP INC OF PENNSYLVANIA [PBIP]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

Chairman of the Board

C/O PRUDENTIAL SAVINGS BANK, 1834 OREGON AVENUE

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

(Street)  
 PHILADELPHIA, PA 19145

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)			
Common Stock	01/05/2009		A	(A) or (D)	11,307 (1)	A	\$ 0	21,397	D	
Common Stock					10,000	I	By Spouse			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474  
 (9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Option (Right to Buy)	\$ 11.17	01/05/2009		A	28,268	(2) 01/05/2019	Common Stock	28,268

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Packer Joseph W Jr C/O PRUDENTIAL SAVINGS BANK 1834 OREGON AVENUE PHILADELPHIA, PA 19145	X		Chairman of the Board	

## Signatures

/s/ Joseph R. Corrato, A.I.F. for Joseph W. Packer, Jr. 01/07/2009

\_\_Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Represents the grant of shares pursuant to the 2008 Recognition and Retention Plan that vest 20% per year commencing on January 5, 2010.
- (2) The options vest in five equal annual installments beginning on the first anniversary of the date of grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. D> 0,27

**TOTAL**  
24,45 23,77

- (1) Audit services: services included under this heading are mainly the audit of the annual and interim financial statements, work to comply with the requirements of the Sarbanes-Oxley Act (Section 404) and the review of the 20-F report to be filed with the US Securities and Exchange Commission (SEC).
  
- (2) Audit-related services: this heading mainly includes services related to the review of the information required by regulatory authorities, agreed financial reporting procedures not requested by legal or regulatory bodies and the review of corporate responsibility reports.
  
- (3) Tax services: no such services were provided.

- (4) Other non-audit services: the services included under this heading relate to training and other permissible advisory services (non-current assets and other).

Ernst & Young's fees include amounts paid in respect of fully and proportionately consolidated Spanish and foreign Telefónica Group companies. A total of 1.39 and 0.89 million euros, respectively, corresponding to 50% of the fees paid by proportionally consolidated companies, were included in 2008 and 2007, respectively.

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Fees paid to other auditors in 2008 and 2007 amounted to 15.95 million euros and 18.28 million euros, respectively, as follows:

	<b>Millions of euros</b>	
	<b>2008</b>	<b>2007</b>
Audit services	0,71	0,98
Audit-related services	1,05	4,23
Tax services	4,35	4,33
Other non-audit services	9,84	8,74
<b>TOTAL</b>	<b>15,95</b>	<b>18,28</b>

Other auditors' fees include amounts paid in respect of fully and proportionately consolidated Spanish and foreign Telefónica Group companies. In 2008 and 2007, a total of 0.34 and 0.68 million euros, respectively, corresponding to 50% of the fees paid by proportionately consolidated companies, were included.

*e) Trade guarantees*

The Company is required to issue trade guarantees in the ordinary course of its business. No significant additional liabilities in the accompanying consolidated financial statements are expected to arise from trade guarantees issued.

*f) Directors and senior executives compensation and other benefits*

The compensation of Telefónica directors is governed by Article 28 of the Company's by-laws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In this respect, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Board of Directors' advisory or control committees. In addition, the compensation provided for in the preceding paragraphs, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Therefore, the compensation paid to Telefónica directors in their capacity as members of the Board of Directors, the Standing Committee and/or the advisory and control committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Board's advisory or control committees. In this respect, it was also agreed that from September 2007, executive directors would not receive the fixed amounts established for their directorships, but only receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

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The following table presents the fixed amounts established for membership to Telefónica Board of Directors, Standing Committee and Advisory or Control committees (in euros).

<b>Position</b>	<b>Board of Directors</b>	<b>Standing Committee</b>	<b>Advisory or Control Committees</b>
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	
Board member:			
Executive			
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

In addition, the amounts paid for attendance at each of the Advisory or Control Committee meetings is 1,250 euros.

Total compensation paid to Telefónica directors for discharging their duties in 2008 amounted to 3,922,333 euros in fixed compensation and 215,000 thousand euros in fees for attending the Board Advisory or Control Committee meetings. It should also be noted that the compensation paid to Company directors sitting on the Boards of other Telefónica Group companies amounted to 1,349,794 euros. In addition, the Company directors who are members of the regional advisory committees (Andalusia, Catalonia and Valencia) and the Telefónica Corporate University Advisory Council, received a total of 88,750 euros in 2008.

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The following table presents the breakdown by item of the compensation and benefits paid to Telefónica directors for discharging their duties in 2008 (in euros):

<b>Board Members</b>	<b>Board of Directors</b>	<b>Standing Committee</b>	<b>Other Board Committees</b>		<b>TOTAL</b>
			<b>Fixed payment</b>	<b>Attendance fees</b>	
<b>Chairman</b>					
César Alierta Izuel	300,000	100,000			400,000
<b>Vice chairmen</b>					
Isidro Fainé Casas	250,000	100,000			350,000
Vitalino Manuel Nafría Aznar	250,000		51,334	30,000	331,334
<b>Members</b>					
Julio Linares López					
José María Abril Pérez	150,000	100,000	14,000	1,250	265,250
José Fernando de Almansa Moreno-Barreda	150,000		42,000	11,250	203,250
José María Álvarez-Pallete López					
David Arculus	150,000		23,333	6,250	179,583
Eva Castillo Sanz	137,500				137,500
Carlos Colomer Casellas	150,000	100,000	36,167	11,250	297,417
Peter Erskine	150,000	100,000	17,500	8,750	276,250
Alfonso Ferrari Herrero	150,000	108,333(*)	82,833	37,500	378,666
Luiz Fernando Furlán	137,500		11,667	5,000	154,167
Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	84,000	43,750	377,750
Pablo Isla Álvarez de Tejera	150,000		72,333	18,750	241,083
Antonio Massanell Lavilla	150,000		47,833	30,000	227,833
Francisco Javier de Paz Mancho	150,000	100,000	56,000	11,250	317,250
<b>TOTAL</b>	<b>2,575,000</b>	<b>808,333</b>	<b>539,000</b>	<b>215,000</b>	<b>4,137,333</b>

(\*) Alfonso Ferrari Herrero was appointed member of the Standing Committee on December 19, 2007 and therefore the compensation for that month is included in the table.





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In addition, the breakdown of the total paid to executive directors César Alierta Izuel, Julio Linares López and José María Álvarez-Pallete López for discharging their executive duties by item is as follows:

<b>ITEM</b>	<b>2008 (euros)</b>
Salaries	5,704,005
Variable compensation (1)	7,885,683
Compensation in kind (2)	76,746
Contributions to pension plans	25,444

(1) Variable compensation in 2008 includes a multi-year variable payment ( Extraordinary Cash Incentive Program ) of 2,075,189 euros for 2005, 2006 and 2007 related to the fulfillment of certain targets and operating and business metrics established for the entire Group for 2005-2007. This payment was made in the first half of 2008.

(2) Compensation in kind includes life and other insurance premiums (general medical and dental insurance).

In addition, with respect to the Pension Plan for Senior Executives (see Note 19), the total amount of contributions made by the Telefónica Group in 2008 in respect of executive directors was 1,860,754 euros.

In addition, related to the Performance Share Plan approved at the General Shareholders Meeting of June 21, 2006 (see Note 20), the maximum number of shares corresponding to the first, second and third phases of the Plan will be given (on July 1, 2009, July 1, 2010 and July 1, 2011) to each of Telefónica's executive directors if all the terms

established for such delivery are met, is as follows: for César Alierta Izuel, 129,183, 116,239 and 148,818 shares respectively; for Julio Linares López 65,472, 57,437 and 101,466 shares, respectively; for José María Álvarez-Pallete López 62,354, 53,204 and 67,644 shares, respectively).

It should be noted that the non-executive directors do not receive and did not receive in 2008 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica's share price.

In addition, the Company does not grant and did not grant in 2008 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

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Meanwhile, the six senior executives<sup>1</sup> of the Company, excluding those that are also members of the Board of Directors, received a total for all items (including the Extraordinary Cash Incentive Program indicated in Note 1 above), in 2008 of 13,223,911 euros. In addition, the contributions by the Telefónica Group in 2008 with respect to the Pension Plan described in Note 19 for these directors amounted to 911,041 euros.

Furthermore, the maximum number of shares corresponding to the first, second and third phases of the Performance Share Plan assigned to all the Company senior executives is 157,046 shares for the first phase, 130,911 shares for the second phase and 306,115 shares for the third phase.

Finally, in 2008 Antonio Viana-Baptista, who stepped down from his executive duties on January 31, 2008, received 8,584,000 euros of severance in accordance with Clause Nine, section 1 of his senior management contract dated October 21, 1998. Mr Viana-Baptista has also received an amount of 3,289,972 euros for the following items: (i) fixed and variable compensation; (ii) compensation in kind; (iii) long-service bonus he was entitled to receive in 2008 and accrued in the preceding three years, and (iv) settlement of accrued credits and similar receivable.

***g) Equity interests in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors on their own behalf or on behalf of this parties:***

Pursuant to Article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003 of July 17, which amends Securities Market Law 24/1988 of July 28, and the revised Spanish Corporation Law, in order to reinforce the transparency of listed corporations, details are given below of the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge in them, on their own behalf or on behalf of others (including companies of the Telefónica Group).

<sup>1</sup> For these purposes, Senior Executives are understood to be individuals who perform senior management functions reporting directly to the management bodies, or their executive committees or CEOs, including the person in charge of the internal audit.

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<b>Director</b>	<b>Activity</b>	<b>Company</b>	<b>Position or functions</b>	<b>Stake %*</b>
César Alierta Izuel	Telecommunications	Telecom Italia, S.p.A.	Director	
	Telecommunications	China Unicom (Hong Kong) Limited	Director	
Isidro Fainé Casas	Telecommunications	Abertis Infraestructuras, S.A.	Chairman	<0.01%
Julio Linares López	Telecommunications	Telefónica de España, S.A.U.	Director	
	Telecommunications	Telefónica Móviles España, S.A.U.	Director	
	Telecommunications	Telefónica Europe, Plc.	Director	
	Telecommunications	Telecom Italia, S.p.A.	Director	
Fernando de Almansa Moreno-Barreda	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Telefónica del Perú, S.A.A.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Director	
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director	
	Telecommunications	Médi Telecom, S.A.	Director	

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<b>Director</b>	<b>Activity</b>	<b>Company</b>	<b>Position or functions</b>	<b>Stake %*</b>
José María Álvarez-Pallete López	Telecommunications	Telefónica Internacional, S.A.U.	Executive Chairman	
	Telecommunications	Telefónica DataCorp, S.A.U.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Acting Director	
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director/Vice Chairman	
	Telecommunications	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director	
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman	
	Telecommunications	Colombia Telecomunicaciones, S.A. ESP	Director	
	Telecommunications	Telefónica del Perú, S.A.A.	Director	
	Telecommunications	Brasilcel, N.V.	Chairman of Supervisory Board	
	Telecommunications	Telefónica Móviles Colombia, S.A.	Acting Director	
	Telecommunications	Telefónica Larga Distancia de Puerto Rico, Inc.	Director	
	Telecommunications	Telefónica Móviles Chile, S.A.	Acting Director	
	Telecommunications	Telefónica Internacional Chile, S.A.	Director	
	Telecommunications	Telefónica USA, Inc.	Director	
	Telecommunications	Portugal Telecom, S.G.P.S., S.A.	Director	

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<b>Director</b>	<b>Activity</b>	<b>Company</b>	<b>Position or functions</b>	<b>Stake %*</b>
David Arculus	Telecommunications	Telefónica Europe, Plc.	Director	
	Telecommunications	British Sky Broadcasting Group, Plc.		<0.01%
	Telecommunications	BT Group, Plc.		<0,01%
Peter Erskine	Telecommunications	Telefónica Europe, Plc.	Director	
Alfonso Ferrari Herrero	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director	
	Telecommunications	Telefónica de Perú, S.A.A.	Director	
	Telecommunications	Telefónica Móviles Chile, S.A.	Director	
Luz Fernando Furlán	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	
Javier de Paz Mancho	Telecommunications	Atento Holding Inversiones y Teleservicios, S.A.U.	Non-executive Chairman	
	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Director	
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	

(\*) Shareholding of less than 0.01% of share capital

Pursuant to Article 114.2 of the Spanish Corporation Law, also introduced by Law 26/2003 of July 17, it is stated that in the year to which these annual financial statements refer, the directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the normal course of the Company's business or that were not on an arm's length basis.

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The principal finance leases at the Telefónica Group are as follows:

- a) Future minimum lease payment commitments in relation to finance leases at O2 Group companies.

<b>Millions of euros</b>	<b>Minimum payments</b>	<b>Finance cost</b>	<b>Present value</b>
Within one year	80	(16)	64
From one to five years	183	(29)	154
After five years	99	(7)	92
<b>Total</b>	<b>362</b>	<b>(52)</b>	<b>310</b>

These commitments arise from plant and equipment lease agreements. Between March 30, 1991 and April 9, 2001, finance lease agreements were signed between O2 UK and a number of US leasing trusts. A substantial part of the radio and switch equipment of its GSM network is subject to the terms of said agreements. The agreements have a term of 16 years and an early purchase option after the first 12 years.

At December 31, 2008 and 2007, net assets under this lease amounting to 186 and 323 million euros, respectively, were recognized under property, plant and equipment.

- b) Finance lease agreement at Colombia de Telecomunicaciones, S.A., ESP.

Similarly, via its subsidiary Colombia de Telecomunicaciones, S.A., ESP, the Group has a finance lease agreement with PARAPAT, the consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia de Telecomunicaciones, S.A., E.S.P., and which regulate the operation of assets, goods and rights relating with the provision of telecommunications services by the company, in exchange for financial consideration.

This agreement includes the transfer of these assets and rights to Colombia de Telecomunicaciones, S.A., ESP once the last installment of the consideration has been paid in line with the payment schedule over a period of 17 years from 2006:

	<b>Present value</b>	<b>Revaluation</b>	<b>Installments pending payment</b>
2009	98	52	150
2010	95	70	165
2011	91	89	180
2012	121	149	270
2013	116	178	294
Subsequent years	876	3,340	4,216
<b>Total</b>	<b>1,397</b>	<b>3,878</b>	<b>5,275</b>

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The net amount of property, plant and equipment recorded under the terms of this lease was 547 million euros at December 31, 2008 (705 million euros at December 31, 2007).

**(23) CASH FLOW ANALYSIS**

**Net cash flow from operating activities**

In 2008, the Telefónica Group obtained operating cash flow (operating revenue less payments to suppliers for expenses and employee benefits expenses) totaling 20,560 million euros, 2.26% more than the 20,105 million euros generated in 2007. This increase was largely driven by the Group's strong position in its main markets, the impact of the Company's extensive business diversification and its strategic commitment to tapping the growth potential of its operating markets. Meanwhile, its strong commercial effort is helping drive growth in accesses across all operating businesses and regions, thereby helping boost operating cash flow. In 2007, operating cash flow rose 6.9% to 18,810 million euros, mostly thanks to the contribution of synergies arising from the integrated management of operations, to cost cutting and to growth in consolidated revenue.

Customer collections increased by 2.88% to 69,060 million euros in 2008 (67,129 million euros in 2007). This growth was the result of higher revenue due to the growth in accesses, which in turn was due to the success of the commercial campaigns to win and retain customers. In 2007, customer collections increased by 11.4% (from 60,285 million euros in 2006) for the same reasons.

Meanwhile, cash payments to suppliers and employees in 2008 rose 3.14% to 48,500 million euros (2007: 47,024 million euros). This increase was the result of greater commercial efforts in the various geographic areas, mainly to garner customer loyalty, and to higher interconnection charges, while maximizing the efficiency of the cost structure.

Cash payments to suppliers and employees in 2007 rose to 13.4% (2006: 41,475 million euros) due also to greater commercial efforts in the various geographic areas, while maximizing the efficiency of the cost structure, and to higher interconnection charges.

As was the case in 2007, payments for employee benefits expense were higher in 2008, in line with the increase in average headcount.

Payments for net interest and other finance costs in 2008 fell 10.15% to 2,894 million euros (3,221 million euros in 2007) mostly due to the decrease in financial debt. This came after a 35.8% increase in 2007 (2,372 million euros in 2006), primarily due to the repayment of coupons bonds and debentures issued in 2006 and to the impact of the increase in interest rates on the higher debt balance.

Taxes paid in 2008 fell 3.02% to 1,413 million euros. In 2007, taxes paid soared 32.5%, to 1,457 million euros from 1,100 million euros in 2006, due to the higher profit stated in 2006 from 2005 corresponding to the Latin America subsidiaries.



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In all, net cash flow from operating activities increased 5.24% in 2008 to 16,366 million euros (15,551 million euros in 2007). In 2007, the increase was 0.89% (2006: 15,414 million euros).

**Net cash used in investing activities**

Net cash used in investing activities increased by 4,509 million euros in 2008 to 9,101 million euros from 4,592 million euros in 2007. Payments on investments in companies (net of cash and cash equivalents acquired) declined by 22.16%, from 2,798 million euros to 2,178 million euros. The main investments were the acquisitions of Telemig by Brasilcel, N.V. for 347 million euros (see Note 5), of shares of China Netcom and China Unicom for 688 and 424 million euros, respectively, and of 51.8% of CTC from minority shareholders for 640 million euros. The main payment on investments in 2007 was for the 42.3% stake in Telco, S.p.A. for 2,314 million euros. Investment in companies in 2006 totaled 23,757 million euros, mostly due to the 23,553 million euro acquisition of O2 Plc.

Investment in property, plant and equipment and intangible assets in 2008 totaled 7,889 million euros, an increase of 615 million euros from the year before, driven by further investment in fiber optics, 3G, TV and ADSL. Investment in property, plant and equipment and intangible assets in 2007 rose 5% from 2006, to 7,274 million euros from 6,933 million euros.

Proceeds from disposals of investments in companies, net of cash and cash equivalents acquired, amounted to 686 million euros in 2008 mainly thanks to the 648 million euros obtained from the sale of Sogetel. In 2007, the figure was 5,346 million euros, entailing disposals of stakes in Airwave and Endemol for 2,841 million and 2,107 million euros, respectively. In 2006, proceeds from disposals of investments in companies net of cash and cash equivalents acquired amounted to 2,294 million euros, including 1,816 million euros from the sale of TPI and 330 million euros from divestment in Sogetel.

**Net cash flow from financing activities**

Net cash used in financing activities in 2008 totaled 7,765 million euros, down from 9,425 million euros in 2007. The 1,660 million euro decline is due basically to decrease in the repayment of financing thanks to the decline in the debt balance in the last few years. The 23,997 million euro decrease in 2007 from 2006 was mostly the result of the change in financing transactions, mainly the repayment of part of the financing arranged in prior years.

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**(24) EVENTS AFTER THE BALANCE SHEET DATE**

Significant events affecting Telefónica taking place from December 31, 2008 to the date of preparation of these consolidated financial statements include:

**Second tender offer for CTC shares:**

Upon completion of the tender offer launched on September 17, 2008 by Telefónica Internacional Holding, Ltda., for Compañía de Telecomunicaciones de Chile, S.A. (CTC), in keeping with its obligations under Chilean law, on December 1, 2008, Telefónica Internacional Holding, Ltda., presented a second tender offer to acquire all the outstanding shares of CTC that Telefónica did not own, directly or indirectly, after settlement of the first offer (representing 3.25% of CTC's capital), on the same economic terms as the initial bid.

Upon completion of the acceptance period of the second offer on January 7, 2009, Telefónica's indirect stake in CTC had increased to 97.89%.

**Dividends:**

At its meeting of January 28, 2009, the Board of Directors of Telefónica, S.A. analyzed and passed a resolution to change the amount of the dividend to be paid and charged to 2009 profit to 1.15 euros per share. The proposal for adoption of the related resolutions will be made in due time.

At its meeting of February 25, 2009, the Company's Board of Directors agreed to propose at the Shareholders' Meeting the payment of a dividend against 2008 profit with a charge to reserves of a gross amount of 0.5 euros per outstanding share carrying dividend rights, up to a maximum total amount of 2,352 million euros.

**Financing:**

On February 3, 2009, Telefónica Emisiones, S.A.U. issued 2,000 million euros of bonds maturing February 3, 2014 with an annual coupon of 5.431% under the issuance program (EMTN) registered on the London Stock Exchange on July 8, 2005 and renewed on July 3, 2008. These bonds are guaranteed by Telefónica, S.A.

On February 13, 2009, Telefónica, S.A. signed an agreement with the banks involved in the 6,000 million euro credit facility granted on June 28, 2005 and maturing on June 28, 2011, to extend the maturity of 4,000 million euros of the 6,000 million euros drawn down, 2,000 million euros for one year and the remaining 2,000 million euros for two years.

On February 17, 2009, Moody's affirmed Telefónica, S.A.'s long-term Baa1 rating, and changed the outlook to positive from stable, reflecting Moody's expectation that, going forward, Telefónica will sustain an improved financial risk profile, in line with Telefónica Group management's publicly stated targets.

**Guarantees provided for Ipse 2000 S.p.A.:**

After the Italian courts rejected Ipse 2000 S.p.A.'s case regarding the UMTS license this company held, on January 7, 2009, Telefónica paid 241.3 million euros corresponding to the annual payments of 2006, 2007 and 2008. At the date of approval of these financial statements, the Telefónica Group still owes 151.7 million euros in this respect (see Note 21.b).

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**(25) ADDITIONAL NOTE FOR ENGLISH TRANSLATION**

These consolidated financial statements were originally prepared in Spanish. In the event of discrepancy, the Spanish-language version prevails.

These financial statements are presented on the basis of International Reporting Standards adopted by the European Union which for the purposes of the Telefónica Group are not different from those issued by the International Accounting Standard Board (IASB). Consequently, certain accounting practices applied by the Group not conform with generally accepted principles in other countries.

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**APPENDIX I: CHANGES IN THE CONSOLIDATION SCOPE**

The following changes took place in the consolidation scope in 2008:

**Telefónica Spain**

In June 2008, Spanish company Iberbanda, S.A. raised and then decreased capital to offset losses. In the move, Telefónica de España, S.A.U. subscribed more shares than corresponded to its shareholding, thereby raising its stake in the company from 51% to 58.94%. This company is still fully consolidated.

**Telefónica Latin America**

On September 17, 2008, Telefónica launched a tender offer through its Inversiones Telefónica Internacional Holding, Ltda. subsidiary to acquire all the outstanding shares of Compañía de Telecomunicaciones de Chile, S.A. ( CTC ) that Telefónica did not control directly or indirectly. This amounted to 55.1% of CTC 's share capital. This included all CTC shares listed on the Santiago de Chile and New York Stock Exchanges (represented by American Depositary Shares). The offer was structured as a purchase of shares in cash, initially at a price of 1,000 Chilean pesos for class A shares and 900 Chilean pesos for class B shares. On October 11, 2008 the offer price was increased to 1,100 Chilean pesos for class A shares and 990 Chilean pesos for class B shares.

Upon completion of the acceptance period of the tender offer, a total of 496,341,699 shares issued by CTC were tendered, representing 94.11% of the shares to which the offer related and a total investment of approximately 640 million euros.

After settlement of the transaction, Telefónica 's indirect ownership in CTC 's share capital increased from 44.9% to 96.75%. This Chilean company is still included in the Telefónica Group 's consolidated scope using the full consolidation method.

Subsequently, pursuant to the requirements of Chilean law, on December 1, 2008 Telefónica, through subsidiary Inversiones Telefónica Internacional Holding, Ltda., presented a second tender offer to acquire all the outstanding shares of CTC that it did not own, directly or indirectly, after settlement of the first offer (representing 3.25% of CTC 's capital), on the same economic terms as the initial bid. This offer expired on January 9, 2009 (see Note 24 for details of this transaction as a subsequent event).

In August, Telefónica del Perú, S.A.A. acquired 71.29% of Peruvian company Star Global Com, S.A.C. for 8 million US dollars. This company has been included in the Telefónica Group 's consolidated scope using the full consolidation method.

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On April 3, 2008, in accordance with the terms of a sale and purchase agreement entered into on August 2, 2007, after the pertinent administration authorizations were obtained, Vivo Participações, S.A. ( VIVO ) completed the acquisition of 53.90% of the voting stock (ON) and 4.27% of the preferred stock (PN) of Telemig Celular Participações, S.A., the controlling shareholder of Telemig Celular, S.A., a mobile telephony operator in the State of Minas Gerais (Brazil). According to the terms of the sale and purchase agreement, the total purchase price was 1,163 million reais (approximately 429 million euros). VIVO also acquired the right held by the seller to subscribe in the future for paid up shares in Telemig Celular Participações S.A. for a price of approximately 70 million Brazilian reais (26 million euros).

Moreover, on April 8, 2008, VIVO, through its subsidiary Tele Centro Oeste IP, S.A., launched a voluntary tender offer for shares representing up to one third of the free float represented by the preferred stock in Telemig Celular Participações, S.A. and in its subsidiary Telemig Celular, S.A. at a price of 63.90 and 654.72 Brazilian reais, respectively. Once the offer concluded, on May 15, 2008, having reached a level of acceptance of close to 100%, TCO IP, S.A. acquired 31.9% and 6% of the preferred shares of Telemig Celular Participações, S.A. and Telemig Celular, S.A., respectively. Furthermore, in accordance with Brazilian Corporations law, TCO IP, S.A. submitted a mandatory tender offer on July 15 for all the voting stock in Telemig Celular Participações, S.A. and Telemig Celular, S.A. at a price per share equivalent to 80% of the purchase price of the voting stock of these companies.

On December 19, 2008, approval was given by shareholders of Telemig Celular Participações, S.A., Telemig Celular, S.A. and Vivo Participações, S.A. (Vivo) in their respective extraordinary meetings to reorganize the Vivo Group, whereby TCO IP, S.A. was spun off. Its assets were subsequently integrated under Telemig Celular, S.A. and Telemig Celular Participações, S.A., making VIVO a shareholder in both Brazilian companies, with direct and indirect stakes at December 31, 2008 amounting to 90.65% and 58.9%, respectively. Both companies are included in the Telefónica Group s consolidation scope using proportionate consolidation.

Multi Holding Corporation, S.A., which was 100%-owned by Telefónica, S.A., was wound down. Accordingly, the company, which was fully consolidated in the Telefónica Group s financial statements, was removed from the consolidation scope.

On June 16, 2006, Telefónica de Argentina, S.A signed a contract to acquire the shares of Telefónica Data Argentina, S.A. (787,697 shares, representing 97.89% of its share capital) held by Telefónica Data Corp, S.A.U., a wholly owned subsidiary of Telefónica.

After extending the deadline for the sale, on January 28, 2008 Telefónica Data Corp, S.A.U. assumed the obligation to acquire all the shares of Telefónica Data Argentina, S.A. it did not already own (14,948 shares at a price of 224.30 Argentine pesos, representing 1.8578% of share capital). This acquisition was carried out on November 17, 2008.

As a result, Telefónica DataCorp, S.A.U. became owner of 802,645 shares, representing 100% of Telefónica Data Argentina, S.A. It subsequently transferred these shares to Telefónica de Argentina, S.A. in various stages, which ended on December 11, 2008.

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**Other companies**

In November 2008, Telefónica del Perú, S.A.A. sold a total of 4,496,984 shares representing approximately 30% of the share capital of Teleatento del Perú, S.A.C. to Dutch company Atento, N.V. (1,124,246 shares), Chilean company Atento Chile (2,323,442 shares) and to shareholders of Teleatento del Perú, S.A.C. itself (1,049,296 shares), for approximately 103 million new soles. Following this transaction, the Telefónica Group holds 100% of the Peruvian company's share capital. This company is still fully consolidated.

In October 2008, Atento Holding Inversiones y Teleservicios, S.A. (Atento HIT) set up Dutch company Atento EMEA, B.V., with start-up capital of approximately 21 thousand euros. This capital was provided via the spin-off of the 100%-owned subsidiary Atento HIT, Atento N.V. The companies it owned in Europe and Morocco now belong to the new company Atento EMEA, while those located in Latin America and Italy are still controlled by Atento, N.V. Both the newly created Atento EMEA, B.V. and the existing Atento, N.V. are fully consolidated in the Telefónica Group. In addition, on March 4, 2008, Atento HIT acquired 100% of the shares of Telemarketing Prague, a.s.

In January, Turmed, S.L. and the Telefónica Group, through its wholly owned Terra Networks Asociadas, S.L. subsidiary, sold their 100% stakes in Viajar.com Viajes, S.L.U. and Terra Business Travel, S.A., respectively, to the Spanish company Red Universal de Marketing y Bookings On Line, S.A. (RUMBO). The Telefónica Group consolidated this company using the equity method until February and then proportionately from March. Subsequently, on October 28, 2008, RUMBO, Viajar.com Viajes, S.L.U. and Terra Business Travel, S.A. were merged, with RUMBO absorbing Viajar.com Viajes, S.L.U. and Terra Business Travel, S.A., which were extinguished.

Terra Lycos Holding, B.V. and Telefónica U.S.A. Advisors Inc. were liquidated.

In March 2008, Telco S.p.A., in which Telefónica holds a stake of 42.3%, acquired 121.5 million shares at a price of 1.23 euros per share in the Italian company Telecom Italia (equivalent to 0.9% of its share capital), bringing its total direct interest to 24.5% of the voting rights and 16.9% of the dividend rights. The transaction implied a payment of 149.8 million euros.

As a result, the Telefónica Group indirectly holds 10.4% of Telecom Italia's voting rights and 7.1% of its dividend rights. Telco, S.p.A. is included in the Telefónica Group's consolidated financial statements by the equity method.

After a capital hike by Colombian company Telefónica Móviles Colombia, S.A., which Telefónica, S.A. fully subscribed, Telefónica, S.A.'s stake in the company increased to 49.42%, while the shareholding of Colombian company Olympic, Ltd., a 99.99% subsidiary of the Telefónica Group, decreased to 50.58%. The Telefónica Group still consolidates the Colombian operator using the full consolidation method.

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In December, Portuguese company Portugal Telecom, S.G.P.S., S.A. (PT) bought back and cancelled 46,082,677 shares in line with its share buyback program. This raised the Telefónica Group's direct and indirect ownership interest to 10.48%. In accordance with article 20 of the Portuguese stock market code, Telefónica sold 4,264,394 shares of PT, thereby lowering its stake to 10%. This company is still included in the consolidation scope using the equity method. In December, Telefactoring Colombia, S.A. was incorporated, with start-up capital amounting to 4 billion Colombian pesos, fully subscribed and paid in. Telefónica subscribed and paid 1,620 million Colombian pesos, equivalent to a 40.5% stake. This company has yet to commence operations and was not included in the consolidation scope at the end of 2008.

**Changes to the 2007 consolidation scope are described in the following sections.**

**Telefónica O2 Europe**

Telefónica O2 Europe Plc, a wholly owned subsidiary of Telefónica, S.A., and its 100%-owned subsidiary O2 Holdings, Ltd, sold 100% of the share capital of UK company Aiwave O2, Ltd, for 1,932 million pounds sterling (equivalent to 2,841 million euros at the transaction date), obtaining a gain of 1,296 million euros. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

On December 20, 2007, the O2 Group transferred legal ownership to the entire business in Germany to Telefónica, S.A. through a dividend in kind for 8,500 million euros.

**Telefonica Latin America**

In April, the 54% stake held by US company Katalyx, Inc. in Brazilian company Mercador, S.A. was sold. The company, which had been consolidated in the Telefónica Group's financial statements using the equity method, was removed from the consolidation scope.

In June, US company Telefónica USA, Inc., a wholly owned subsidiary of the Spanish company Telefónica DataCorp, S.A., acquired 100% of the assets and shares of US company Katalyx Inc. The company is still fully consolidated in the Telefónica Group.

In 2007, Brazilian company Telecomunicações de Sao Paulo, S.A. acquired 100% of Brazilian company NavyTree Participações, S.A. for 361 million euros. This company was included in the consolidation scope using the full consolidation method.

**Other companies**

In February 2007, 100% of the shares of Endemol France were sold to Endemol, N.V., a company in which the Telefónica Group had a 75% stake.

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In May, 2007 Telefónica, S.A. signed an agreement to sell its 99.7% stake in Dutch company Endemol Investment Holding, B.V. to a newly created consortium owned equally by Mediacinco Cartera, S.L., a newly created company owned by Italian company Mediaset and its listed Spanish subsidiary Gestevisión Telecinco, Cyrte Fond II, B.V. and G.S. Capital Partners VI Fund, L.P, for 2,629 million euros, obtaining capital gains of 1,368 million euros. This sale was carried out on July 3, 2007. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

During the year, Spanish companies Comunicapital Gestión, S.A. and Terra Lycos Intangibles, S.A. were liquidated. Both companies, which had been fully consolidated, were therefore eliminated from the scope of consolidation.

In the first quarter of 2007, the Telefónica Group disposed of shares in Italian company Ipse 2000 S.p.A., lowering its (direct and indirect) shareholding to 39.9158%. The Telefónica Group still carried this company using the equity method of consolidation.

In June 2007, Telefónica, S.A. sold all the shares it held in the Spanish company Sistemas Técnicos de Loterías del Estado, S.A., which represented 31.75% of its share capital. This company, which had been accounted for by the Telefónica Group using the equity method, was removed from the consolidation scope.

In June, Spanish company Atento Teleservicios España, S.A. incorporated US company Contact US Teleservices Inc., contributing 100% of the start-up capital for 0.1 million US dollars. The company was included in the Telefónica Group's consolidated scope using the full consolidation method. Subsequently, in August 2007, US Teleservices Inc. held a 0.55 million US dollar rights issue, fully subscribed by Atento Teleservicios España, S.A.

In August 2007, the Telefónica Group disposed of its 100% holding in Spanish company Azeler Automoción, S.A. for 0.34 million euros. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

On April 28, 2007, Telefónica, S.A., together with its partners Assicurazioni Generali S.p.A., Intesa Sanpaolo, S.p.A., Mediobanca S.p.A. and Sintonía, S.A. (Benetton), entered into a Co-Investment Agreement and Shareholders Agreement with a view to establishing the terms and conditions of their acquisition of an indirect shareholding in Telecom Italia S.p.A. through an Italian company, currently called Telco S.p.A., in which Telefónica has a 42.3% interest. Both agreements were modified on October 25, 2007 following the inclusion of the Assicurazioni Generali Group companies indicated and the Shareholders Agreement was further amended on November 19, 2007.

On October 25, 2007 Telco, S.p.A. acquired 100% of Olimpia, S.p.A., which held 17.99% of the voting shares of Telecom Italia, S.p.A. Also on that date, Assicurazioni Generali S.p.A. (together with its group companies Alleanza Assicurazioni S.p.A., INA Assitalia S.p.A., Volksfürsorge Deutsche Lebensversicherung A.G. and Generali Vie S.A.) and Mediobanca S.p.A. contributed a total share of 5.6% of Telecom Italia S.p.A.'s voting shares (4.06% and 1.54%, respectively) to Telco S.p.A.



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On December 10, 2007, an agreement was reached to takeover and merge Olimpia S.p.A. into Telco S.p.A., making Telco S.p.A.'s entire stake in the voting shares of the Italian operator (23.6%) direct and leaving Telefónica with an indirect holding in the voting shares of Telecom Italia S.p.A. of 9.98% (6.88% of the dividend rights) for 2,314 million euros.

The Shareholders Agreement signed on April 28, 2007, contained a general clause whereby both Telefónica, at the shareholders meetings of Telco, S.p.A. and Telecom Italia, S.p.A., and the Telefónica directors appointed to the companies' respective boards, would abstain from participating in and voting at the meetings dealing with issues regarding the provision of telecommunications services by companies controlled by Telecom Italia S.p.A., in countries where there are legal or regulatory restrictions on the exercise of voting rights by Telefónica.

However, as indicated above, on November 19, 2007 the partners expounded on and detailed the Shareholders Agreement, as well as the bylaws of Telco, S.p.A., to include the specific limitations imposed by the Brazilian telecommunications regulator, Agência Nacional de Telecomunicações (ANATEL), as initially posted on its website on October 23, 2007 and subsequently published on November 5, 2007 as ANATEL's Ato no. 68,276 dated October 31, 2007.

Pursuant to clause 8.5(a) of the Shareholders Agreement, on November 6, 2007 Telco, S.p.A. and Telefónica entered into a Call Option Agreement giving Telefónica the option to buy shares of Telecom Italia, S.p.A. in the event Telco, S.p.A. adopted a resolution to sell or pledge shares of Telecom Italia, S.p.A. (or rights related to its shares, such as voting rights) by simple majority and Telefónica were the dissenting party, under the terms of the Shareholders Agreement.

In December 2007, Telefónica, S.A. sold 18,558,181 shares of Portuguese company Portugal Telecom, S.G.P.S., S.A. This sale lowered the Telefónica Group's shareholding in this company to 8.32%, or 9.155% including Portugal Telecom's treasury shares at the end of 2007. The company was still accounted for in the Telefónica Group consolidated financial statements using the equity method.

In December 2007, Telefónica, S.A. incorporated, as its sole shareholder, the Spanish company Atento Holding, Inversiones y Teleservicios, S.A., with start-up capital of 24 million euros and a share premium of 138 million euros. The shares were fully subscribed and paid via the non-monetary contribution of all of the shares in Dutch company Atento, N.V., of which Telefónica, S.A. was the sole shareholder. The company was fully consolidated in the Telefónica Group.

**Changes to the consolidation scope in 2006 are:**

***Telefónica Spain***

On July 29, 2006, the takeover documents related to the merger of Telefónica Móviles, S.A. by Telefónica, S.A. were filed with Mercantile Registry of Madrid. The merger was carried out via an exchange offer and the exchange ratio was set at 4 shares of Telefónica, S.A., a par value of 1 euro, for every 5 shares of Telefónica Móviles, S.A., par value of 0.5 euros. Accordingly, Telefónica delivered 244,344,012 of its treasury shares to the shareholders of Telefónica Móviles, S.A., representing approximately 7.08% of Telefónica Móviles, S.A.'s share capital. The merger also entailed two extraordinary dividends totaling 0.435 euros per share, which combined with the ordinary 0.205 euro per share dividend against 2005 earnings, brought the total gross dividend to 0.64 euros per share, which was paid out on July 21. Telefónica Móviles, S.A., which had been fully consolidated in the Telefónica Group, was therefore removed from the consolidation scope.

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In July 2006, Telefónica de España, S.A. took over and merged Terra Networks España, S.A. and Telefónica Data España, S.A. Both companies had been fully consolidated in the financial statements of the Telefónica Group, but were then removed from the consolidation scope.

Also in July, Telefónica de España, S.A. acquired 51% of the share capital of Iberbanda, S.A. for 37 million euros. The Telefónica Group consolidates this company using the full consolidation method.

***Telefónica Latin America***

In April, Telefónica Internacional, S.A. acquired 50% plus one share in Colombian company Colombia de Telecomunicaciones, S.A. ESP in a public offer. In December 2006, Colombia Telecom, S.A. absorbed Telefónica Data Colombia, S.A., also from Colombian, which was accordingly removed from the consolidation scope. As a result of the takeover and merger, the Telefónica Group increased its stake in Colombia Telecom to 52.03%. The company was included in the Telefónica Group's consolidated scope using the full consolidation method.

In May, Telefónica del Perú, S.A.A. absorbed its subsidiary Telefónica Empresas Perú, S.A.A. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

On July 29, 2006, Brazilian company Telecomunicações de Sao Paulo, S.A. (Telesp) absorbed subsidiary Telefónica Data Brasil Holding. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

As a result of the cancellation of treasury shares by Telesp in 2006, the acquisition of the minority interests in Telefónica Data Brasil and its subsequent merger into Telesp, the Telefónica Group's interest in the share capital of Telesp rose to 88.01%. The Telefónica Group still consolidates the company using the full consolidation method.

On February 22, 2006, approval was given at the respective shareholders' meetings of Telesp Celular Participações S.A. ( TCP ), Tele Centro Oeste Celular Participações S.A., ( TCO ), Tele Sudeste Celular Participações S.A. ( TSD ) Tele Leste Celular Participações, S.A. ( TBE ) and Celular CRT Participações S.A. ( CRT Part ) for a corporate restructuring entailing the exchange of TCO shares for TCP shares and the absorption of TSD, TBE, and CRT Part by TCP. As a result, TCO became a 100%-owned subsidiary of TCP.

Following VIVO Participações' capital increase and the restructuring undertaken at Brasilcel in 2006, Brasilcel, N.V.'s stake in VIVO Participações increased to 62.94%.

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In June 2006, the Telefónica Group increased its stake in Telefónica Móviles Perú from 98.03% to 98.40% through the acquisition of minority shareholdings for 1.02 million US dollars. This company continues to be fully consolidated in the Telefónica Group.

In 2006, Mexican subsidiary Telecomunicaciones Punto a Punto México, S.A. de C.V. was sold, generating a capital gain of 10 million euros recognized under "Gain on disposal of investments in consolidated companies" in the Telefónica Group's consolidated income statement. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

***Telefónica Europe***

On October 31, 2005, Telefónica, S.A. made a binding offer to acquire all the shares of British company O2 Plc. Once the process was completed, Telefónica owned 100% of the share capital. On March 7, 2006, the shares were delisted from the London Stock Exchange. The cost of the acquisition of the O2 Group was 26,135 million euros (17,887 million pounds sterling). The Telefónica Group's financial statements include the results of the O2 Group from February 1, 2006. The company became fully consolidated within the Telefónica Group.

On July 1, 2006 Eurotel Praha, spol. s.r.o. (Eurotel) was taken over and merged by its parent company Cesky Telecom., a.s., giving rise to the new integrated operator named Telefónica O2 Czech Republic, a.s. Following this transaction, Eurotel, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

In June 2006, O2 UK Ltd. acquired 100% of British internet service provider, Be Un Limited (Be) for 50 million pounds sterling (approximately 73.5 million euros). Be is now fully consolidated in the Telefónica Group.

In October, 2006 the O2 Group acquired the remaining 60% of the share capital of the UK firm, The Link Stores, Ltd. for 28 million pounds sterling. Following the transaction, the Telefónica Group owns 100% of this company. Accordingly, The Link Stores, Ltd., which was accounted for under the equity method until September 2006, became fully consolidated in the Telefónica Group from October 1, 2006.

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***Other companies***

In March 2006, Prisa launched a partial takeover bid for 20% of Sogecable, S.A. The Telefónica Group sold shares to Prisa representing a 6.57% interest in Sogecable, S.A., thereby reducing its stake from 23.83% to 17.26%. Subsequently, also in March, Sogecable held a rights offering in which the Telefónica Group did not participate, thereby diluting its holding in the company to 16.84%. In April 2006, Sogecable undertook an additional capital increase in order to service its share option plans for company directors, executives and management. Redeemable Class B and Series B2005 shares were converted into ordinary Class A shares, further diluting the Telefónica Group's stake to 16.80%. In December, Sogecable converted 405,000 redeemable Class B and Series B2006 shares into ordinary Class A shares, reducing the Telefónica Group's interest in the company at December 31, 2006 to 16.75%. As a result of this dilution, at December 31, 2006, the investment in Sogecable was recognized under Other investments. This company, which had been accounted for by the Telefónica Group using the equity method, was removed from the consolidation scope. In July 2006, Telefónica, S.A. accepted the public takeover bid launched by Yell Group Plc for 100% of the shares of Telefónica Publicidad e Información, S.A. (TPI). It therefore accepted Yell's bid for the 216,269,764 shares Telefónica owned in TPI, representing 59.905% of its share capital.

The gain from the sale and the results of the TPI Group through June 30, 2006 were recognized under Profit (loss) from discontinued operations in the Telefónica Group's consolidated income statement. In addition, for comparability, the Telefónica Group's 2005 financial statements were modified to classify the results of the TPI Group under the same heading.

In May 2006, the Telefónica de Contenidos Group sold all the shares it held in Argentine company Patagonik Film Group, S.A. This company had been accounted for under the equity method and was removed from the consolidation scope.

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The list and main features of outstanding debentures and bonds at December 31, 2008 are as follows (in millions of euros):

Description and special purpose features	Currency	% Interest rate	Final rate	Maturity					Subsequent years	Total
				2009	2010	2011	2012	2013		
15Y BOND	EUR	1,0225 x GBSW10Y	5.260%							50
A 07/21/2029 ZERO	EUR	6.370%	6.370%							54
ON										
FÓNICA FEBRUARY 90	EUR	12.579%	12.579%		14					
NO COUPON										
FÓNICA FEBRUARY	EUR	12.600%	12.600%		4					
2.60%										
FÓNICA JUNE	EUR	1xEURIBOR1Y+0.63000%	6.038%	300						
RIBOR+63BP										
FÓNICA MARCH	EUR	4.500%	4.500%	500						
0%										
<b>onica, S.A.</b>				<b>800</b>	<b>18</b>					<b>104</b>
ROPE BV SEP_00	USD	7.750%	7.750%		1,796					
AL C										
ROPE BV SEP_00	USD	8.250%	8.250%							898
AL D										
FEB_03 EMTN FIXED	EUR	5.125%	5.125%					1,500		
CHE A										
FEB_03 EMTN FIXED	EUR	5.875%	5.875%							500
CHE B										
ROPE BV JULY A 2007	JPY	2.110%	2.110%				119			
ROPE BV JULY B 2007	JPY	1 x JPYL6M + 0.40000%	1.411%				119			
<b>onica Europe, B.V.</b>					<b>1,796</b>		<b>238</b>	<b>1,500</b>		<b>1,398</b>
I O2 EUR (I)	EUR	4.375%	4.375%							1,750
I O2 EURO (II)	EUR	3.750%	3.750%			2,250				
I O2 GBP (I)	GBP	5.375%	5.375%							787
I O2 GBP (II)	GBP	5.375%	5.375%							525
F. EMISIONES JUN 06	USD	1 x USDL3M + 0.30000%	1.825%	719						
CHE A										
F. EMISIONES JUN 06	USD	5.984%	5.984%			719				
CHE B										
F. EMISIONES JUN 06	USD	6.421%	6.421%							898
CHE C										
F. EMISIONES JUN 06	USD	7.045%	7.045%							1,437
CHE D										
F. EMISIONES JULY 06	EUR	1 x EURIBOR3M + 0.35000%	5.271%		1,250					
	EUR	4.393%	4.393%				500			

F. EMISIONES EMBER 06									
F. EMISIONES MBER 06	GBP		5.888%	5.888%					525
F. EMISIONES ARY 06 TRANCHE A	EUR	1 x EURIBOR6M + 0.83000%		3.891%					55
F. EMISIONES ARY 06 TRANCHE B	EUR	1 x EURIBOR3M + 0.70000%		5.527%					24
F. EMISIONES UARY 07	EUR		4.674%	4.674%					1,500
F. EMISIONES MARCH	EUR	1 x EURIBOR3M + 0.13000%		3.121%	350				
F. EMISIONES JUNE A	CZK	1 x CZKPRIB_3M + 0.16000%		4.070%		89			
F. EMISIONES JUNE B	CZK		4.351%	4.351%			111		
F. EMISIONES JUNE C	CZK		4.623%	4.623%					97
F. EMISIONES JULY A	USD		5.855%	5.855%					539
F. EMISIONES JULY B	USD	1 x USDL3M + 0.33000%		3.356%					611
F. EMISIONES JULY C	USD		6.221%	6.221%					503
F. EMISIONES JUNE 08	EUR		5.580%	5.580%					1,250
<b>onica Emisiones, S.A.U.</b>					<b>1,069</b>	<b>1,339</b>	<b>2,969</b>	<b>611</b>	<b>2,400</b> <b>8,101</b> <b>1</b>
<b>Telefónica, S.A. and l purpose vehicles</b>					<b>1,869</b>	<b>3,153</b>	<b>2,969</b>	<b>849</b>	<b>3,900</b> <b>9,603</b> <b>2</b>







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Nonconvertible bonds	BRL	103% CDI					31	31	
Convertible bonds (Telemig) I	BRL	CPI-A + 0.5%					1	1	
Convertible bonds (Telemig) II	BRL	CPI-A + 0.5%					3	3	
Convertible bonds (Telemig) III	BRL	CPI-A + 0.5%					5	5	
<b>Vivo</b>							<b>163</b>	<b>163</b>	
Nonconvertible bonds	BRL	1 x CDI + 0.35000%	461					461	
<b>Telesp</b>			<b>461</b>					<b>461</b>	
<b>Total issues other operators</b>			<b>69</b>	<b>1,085</b>	<b>177</b>	<b>715</b>	<b>50</b>	<b>410</b>	<b>2,505</b>
<b>Total Group issues</b>			<b>1,938</b>	<b>4,239</b>	<b>3,146</b>	<b>1,563</b>	<b>3,950</b>	<b>10,013</b>	<b>24,849</b>

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The list and main features of outstanding debentures and bonds at December 31, 2007 are as follows (in millions of euros):

Description of debentures and bonds	Currency	% Interest rate	Final rate	Maturity					Subsequent years	Total
				2008	2009	2010	2011	2012		
<b>Telefónica and special purpose vehicles</b>										
<b>Debentures and bonds:</b>										
15Y BOND	EUR	1,0225xGBSW10Y	5.2955%						50	
AXA 07/21/2029 ZERO	EUR	6.37%	6.37%						50	
JAPON										
TELEFÓNICA FEBRUARY 90 ZERO COUPON	EUR	12.58%	12.58%			12				
TELEFÓNICA FEBRUARY 90 2.60%	EUR	12.60%	12.60%			3				
TELEFÓNICA JUNE EURIBOR+63BP	EUR	1xEURIBOR1Y +0.63000%	5.1550%		300					
TELEFÓNICA MARCH 4.50%	EUR	4.50%	4.5000%		500					
<b>Debentures subtotal:</b>					<b>800</b>	<b>15</b>			<b>100</b>	
TELEFÓNICA MARCH 4.8414%	EUR	4.84%	4.84%	422						
<b>Debentures subtotal:</b>				422						
<b>Telefónica, S.A.</b>				422	800	15			100	1,347
EUROPE BV SEP_00 DBAL C	USD	7.75%	7.75%			1,698				1,698
EUROPE BV SEP_00 DBAL D	USD	8.25%	8.25%						849	849
EUROPE BV FEB_08 EMTN FIXED SANCHE A	EUR	5.13%	5.13%						1,500	1,500
EUROPE BV FEB_08 EMTN FIXED SANCHE B	EUR	5.88%	5.88%						500	500
EUROPE BV JULY A 2007	JPY	2.11%	2.11%					91		91
EUROPE BV JULY B 2007	JPY	1xJPYL6M+0.40000%	1.27%					91		91
<b>Telefónica Europe, B.V.</b>						1,698		182	2,849	4,737
EMTN O2 EUR (I)	EUR	4.38%	4.38%						1,750	1,750
EMTN O2 EURO (II)	EUR	3.75%	3.75%				2,250			2,250
EMTN O2 GBP (I)	GBP	5.38%	5.38%						1,023	1,023
EMTN O2 GBP (II)	GBP	5.38%	5.38%						682	682
DEF. EMISIONES JUN 06 SANCHE A	USD	1xUSDL3M+0.30000%	5.2263%		679					679
DEF. EMISIONES JUN 06 SANCHE B	USD	5.98%	5.98%				679			679
	USD	6.42%	6.42%						849	849

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EF. EMISIONES JUN 06 ANCHE C									
EF. EMISIONES JUN 06 ANCHE D	USD	7.05%	7.05%					1,359	1,359
EF. EMISIONES JULY 06	EUR	1xEURIBOR3M+0.35000%	4.9800%		1,250				1,250
EF. EMISIONES TEMBER 06	EUR		4.39%				500		500
EF. EMISIONES OBER 06	EUR	1xEURIBOR3M+0.20000%	4.81%	300					300
EF. EMISIONES EMBER 06	GBP		5.89%					682	682
EF. EMISIONES UARY 06 TRANCHE A	EUR	1xEURIBOR6M+0.83000%	5.60%					55	55
EF. EMISIONES UARY 06 TRANCHE B	EUR	1xEURIBOR3M+0.70000%	5.31%					24	24
EF. EMISIONES RURARY 07	EUR		4.67%					1,500	1,500
EF. EMISIONES MARCH	EUR	1xEURIBOR3M+0.13000%	4.90%		350				350
EF. EMISIONES JUNE A	CZK	1xCZKPRIB_3M+0.1600%	4.24%			90			90
EF. EMISIONES JUNE B	CZK		4.35%					113	113
EF. EMISIONES JUNE C	CZK		4.62%					98	98
EF. EMISIONES JULY A	USD		5.86%					509	509
EF. EMISIONES JULY B	USD	1xUSDL3M+0.33000%	5.21%					577	577
EF. EMISIONES JULY C	USD		6.22%					476	476
<b>Telefónica Emisiones, S.A.U.</b>								<b>300</b>	<b>1,029</b>
<b>Telefónica, S.A. and special purpose vehicles</b>								<b>722</b>	<b>1,829</b>
								<b>1,340</b>	<b>2,929</b>
								<b>613</b>	<b>9,584</b>
								<b>795</b>	<b>12,433</b>
									<b>20,000</b>





<b>Telesp</b>						<b>575</b>		<b>575</b>
<b>Total issues</b>	<b>428</b>	<b>105</b>	<b>1,430</b>	<b>153</b>	<b>872</b>	<b>257</b>		<b>3,245</b>
<b>Total Group issues</b>	<b>1,149</b>	<b>1,935</b>	<b>4,485</b>	<b>3,083</b>	<b>1,667</b>	<b>12,787</b>		<b>25,106</b>

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The main debentures and bonds issued by the Group in 2008 are as follows:

Issue by Telefónica Emisiones, S.A.U., underwritten by Telefónica, S.A., under its EMTN program registered with the London Stock Exchange and renewed on July 3, 2008:

Item	Date	Nominal value		Currency of issuance	Maturity	Interest rate
		(millions)	of euros)			
EMTN bonds	06/12/08	1,250	1,250	EUR	06/12/2013	5.58%

Issues by Telefónica del Perú, S.A.A. in the Peruvian market:

Item	Date	Nominal value		Currency of issuance	Maturity	Interest rate
		(millions)	of euros)			
Bonds	03/04/2008	34	8	PEN	03/04/2011	5.9375%
Bonds	03/18/2008	50	11	PEN	03/18/2018	VAC (*) + 3.375%
Bonds	04/02/2008	45	10	PEN	04/02/2011	5.75%
Bonds	04/14/2008	30	7	PEN	04/14/2013	6.25%
Bonds	04/22/2008			PEN	04/22/2028	VAC (*) +
Bonds		49	11			2.8750%
Bonds	05/22/2008			PEN	05/22/2028	VAC (*) +
Bonds		48	11			3.1250%
Bonds	07/21/2008			PEN	07/21/2028	VAC (*) +
Bonds		20	5			3.1875%

(\*) VAC

(1) Exchange rate at  
December 31,  
2008

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The main debentures and bonds issued by the Group in 2007 were as follows:

Issue by Telefónica Emisiones, S.A.U., underwritten by Telefónica, S.A., under its EMTN program registered with the London Stock Exchange and renewed on July 3, 2008:

Item	Date	Nominal value		Currency of issuance	Maturity	Interest rate
		(millions)	of euros) <sup>(1)</sup>			
EMTN bonds	01/31/2007	55	55	EUR	12/31/2021	6-month Euribor + +0.83%
		24	24	EUR	12/31/2018	3-month Euribor + +0.7%
EMTN bonds	02/07/2007	1,500	1,500	EUR	02/07/2014	4.67%
EMTN bonds	03/30/2007	350	350	EUR	03/30/2009	3-month Euribor + 0.13%
	06/19/2007			CZK	06/19/2010	CZK 3-month Pribor +
EMTN bonds		2,400	98			0.16%
		3,000	112	CZK	06/19/2012	4.35%
		2,600	90	CZK	06/16/2014	4.62%

(1) Exchange rate at December 31, 2007.

Bonds issued by Telefónica Emisiones, S.A.U., underwritten by Telefónica, S.A., under the shelf program filed with the Securities Exchange Commission (SEC) in the US on April 12, 2006:

Item	Date	Nominal value		Currency of issuance	Maturity	Interest rate
		(millions)	of euros) <sup>(1)</sup>			
Global bond	07/02/2007	750	509	USD	02/04/2013	5.86%
		850	577	USD	02/04/2013	3M Libor + 0.33%
		700	476	USD	07/03/2017	6.22%

(1) Exchange rate at December 31, 2007.

Bonds issued by Telefónica Emisiones, S.A.U., underwritten by Telefónica, S.A. under its bond issue program registered with the Tokyo Stock Exchange (TSE) on July 11, 2007:

Item	Date	Nominal value		Currency of issuance	Maturity	Interest rate
		(millions)	of euros) <sup>(1)</sup>			
Bonds	07/19/2007	15,000	91	JPY	07/19/2012	2.11%
		15,000	91	JPY	07/19/2012	6M Libor + 0.4%

(1) Exchange rate at December 31, 2007.





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Issues by Telefónica del Perú, S.A.A. in the Peruvian market:

<b>Item</b>	<b>Date</b>	<b>Nominal value</b>		<b>Currency</b>	<b>Maturity</b>	<b>Interest rate</b>
		<b>(millions)</b>	<b>of euros)<sup>(1)</sup></b>			
Bonds	01/11/2007	77	17	PEN	01/11/2009	5.56%
Bonds	03/12/2007	101	23	PEN	03/12/2012	6.00%
Bonds	04/13/2007	19	4	PEN	04/13/2010	5.56%
Bonds	07/13/2007	60	14	PEN	07/13/2027	VAC +3.625%
Bonds	10/12/2007	80	18	PEN	10/12/2012	6.63%
	10/23/2007			PEN	10/23/2017	VAC
Bonds		150	34			+3.6875%
Bonds	11/20/2007	50	11	PEN	11/20/2010	6.38%
	11/30/2007			PEN	11/30/2019	VAC
Bonds		60	14			+3.6875%

(1) Exchange rate at December 31, 2007.

**Table of Contents****APPENDIX III: FINANCIAL INSTRUMENTS**

The detail of the type of financial instruments arranged by the Group (notional amount) by currency and interest rates at December 31, 2008 is as follows:

Millions of Euros	2009	2010	2011	2012	2013	Subsequent years	Total	FAIR VALUE		TOTAL
								Underlying debt	associated derivatives	
<b>EURO</b>	<b>619</b>	<b>3,198</b>	<b>8,482</b>	<b>3,223</b>	<b>4,066</b>	<b>7,893</b>	<b>27,481</b>	<b>24,421</b>	<b>2,626</b>	<b>27,047</b>
Floating rate	(9,170)	(1,210)	6,475	(158)	4,112	799	848	7,639	(7,574)	65
Spread Ref										
Euribor	-0.05%	-0.35%	0.18%	0.46%	0.04%	0.25%	0.62%			
Fixed rate	9,439	4,408	1,607	31	(46)	5,844	21,283	11,349	10,244	21,593
Interest rate	4.40%	4.76%	2.66%	-22.88%	-51.84%	4.20%	4.37%			
Rate cap	350		400	3,350		1,250	5,350	5,433	(44)	5,389
<b>OTHER</b>										
<b>EUROPEAN</b>										
<b>CURRENCIES</b>	<b>846</b>	<b>700</b>	<b>779</b>	<b>1,770</b>	<b>160</b>	<b>2,359</b>	<b>6,614</b>	<b>3,557</b>	<b>2,964</b>	<b>6,521</b>
<b>Instruments in</b>										
<b>CZK</b>	<b>2,025</b>	<b>700</b>	<b>123</b>	<b>111</b>		<b>97</b>	<b>3,056</b>	<b>303</b>	<b>2,753</b>	<b>3,056</b>
Floating rate		278					278	88	191	279
Spread		0.07%					0.07%			
Fixed rate	2,025	422	123	111		97	2,778	215	2,562	2,777
Interest rate	4.04%	3.35%	3.41%	4.35%		4.62%	3.94%			
Rate cap										
<b>Instruments in</b>										
<b>GBP</b>	<b>(1,179)</b>		<b>656</b>	<b>1,659</b>	<b>160</b>	<b>2,262</b>	<b>3,558</b>	<b>3,254</b>	<b>211</b>	<b>3,465</b>
Floating rate			63	740	155	(525)	433	59	569	628
Spread			4.60%	0.27%	0.27%		0.34%			
Fixed rate	(1,179)		593	394	5	1,737	1,550	1,916	(472)	1,444
Interest rate	3.16%		5.12%	7.63%	6.44%	5.27%	7.42%			
Rate cap				525		1,050	1,575	1,279	114	1,393
<b>AMERICA</b>	<b>(60)</b>	<b>1,844</b>	<b>889</b>	<b>747</b>	<b>1,146</b>	<b>3,764</b>	<b>8,330</b>	<b>12,334</b>	<b>(6,555)</b>	<b>5,779</b>
<b>Instruments in</b>										
<b>USD</b>	<b>473</b>	<b>205</b>	<b>245</b>	<b>188</b>	<b>782</b>	<b>921</b>	<b>2,814</b>	<b>9,855</b>	<b>(9,502)</b>	<b>353</b>
Floating rate	(529)	206	151	173	142	96	239	2,492	(2,374)	118
Spread	0.85%	0.41%	-1.34%	0.96%	1.89%		-0.98%			
Fixed rate	669	(11)	84	5	630	795	2,172	6,957	(7,143)	(186)
Interest rate	4.09%	-48.90%	26.66%	-7.92%	3.20%	13.20%	8.28%			
Rate cap	333	10	10	10	10	30	403	406	15	421
<b>Instruments in</b>										
<b>UYU</b>	<b>(2)</b>	<b>2</b>	<b>2</b>				<b>2</b>	<b>1</b>		<b>1</b>
Floating rate										
Spread										
Fixed rate	(2)	2	2				2	1		1
Interest rate	-3.19%	3.75%	3.75%				13.67%			
Rate cap										



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Millions of Euros	2009	2010	2011	2012	2013	Subsequent years	FAIR VALUE		TOTAL	
							Total	Underlying debt derivatives		Associated TOTAL
<b>Instruments in</b>										
<b>ARS</b>	<b>110</b>	<b>141</b>	<b>59</b>							
Floating rate										
Spread										
Fixed rate	110	141	59				310	(85)	321	
Interest rate	-54.69%	6.63%	11.49%				-14.12%			
Rate cap										
<b>Instruments in</b>										
<b>BRL</b>	<b>(209)</b>	<b>726</b>	<b>161</b>	<b>154</b>	<b>154</b>	<b>311</b>	<b>1,297</b>	<b>607</b>	<b>661</b>	<b>1,268</b>
Floating rate	(348)	667	136	130	130	272	987	548	469	1,017
Spread	0.74%	0.49%	3.64%	3.74%	3.75%		2.20%			
Fixed rate	139	59	25	24	24	39	310	59	192	251
Interest rate	21.00%	4.23%	10.03%	10.03%	10.03%	9.96%	13.83%			
Rate cap										
<b>Instruments in</b>										
<b>CLP</b>	<b>349</b>	<b>105</b>	<b>170</b>	<b>102</b>	<b>78</b>		<b>804</b>	<b>(15)</b>	<b>820</b>	<b>805</b>
Floating rate	212	105	151	102	78		648	113	475	588
Spread	-0.20%	0.09%	0.06%	0.13%			-0.01%			
Fixed rate	137		19				156	(128)	345	217
Interest rate	8.59%		4.70%				8.11%			
Rate cap										
<b>Instruments in</b>										
<b>UFC</b>	<b>2</b>	<b>2</b>	<b>68</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>80</b>	<b>173</b>	<b>(95)</b>	<b>78</b>
Floating rate								86	(86)	
Spread										
Fixed rate	2	2	68	2	2	4	80	87	(9)	78
Interest rate	6.53%	6.56%	4.43%	7.45%	6.00%	6.00%	4.74%			
Rate cap										
<b>Instruments in</b>										
<b>PEN</b>	<b>161</b>	<b>181</b>	<b>102</b>	<b>82</b>	<b>61</b>	<b>339</b>	<b>926</b>	<b>807</b>	<b>155</b>	<b>962</b>
Floating rate										
Spread										
Fixed rate	161	181	102	82	61	339	926	807	155	962
Interest rate	5.63%	7.13%	6.67%	6.70%	7.45%	6.23%	6.47%			
Rate cap										
<b>Instruments in</b>										
<b>COP</b>	<b>579</b>	<b>56</b>	<b>82</b>	<b>33</b>	<b>69</b>	<b>183</b>	<b>1,002</b>	<b>391</b>	<b>587</b>	<b>978</b>
Floating rate	8	43	36	33	30		150	148		148
Spread										
Fixed rate	571	13	46		39	183	852	243	587	830
Interest rate	12.66%	15.82%	14.10%		13.44%		10.10%			
Rate cap										
						<b>2,006</b>	<b>2,006</b>	<b>2,006</b>		<b>2,006</b>

**Instruments in**

**UVR**

Floating rate

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Millions of Euros	2009	2010	2011	2012	2013	Subsequent years	FAIR VALUE			TOTAL
							Total	Underlying debt	Associated derivatives	
Spread										
Fixed rate						2,006	2,006	2,006		2,006
Interest rate						7.67%	7.67%			
Rate cap										
<b>Instruments in VEB</b>	<b>(1,998)</b>						<b>(1,998)</b>	<b>(1,999)</b>		<b>(1,999)</b>
Floating rate										
Spread										
Fixed rate	(1,998)						(1,998)	(1,999)		(1,999)
Interest rate	10.34%						10.34%			
Rate cap										
<b>Instruments in MXN</b>	<b>479</b>	<b>426</b>		<b>186</b>			<b>1,091</b>	<b>597</b>	<b>498</b>	<b>1,095</b>
Floating rate	47	266					313	412	63	475
Spread	3.30%	0.61%					1.01%			
Fixed rate	432	160		186			778	185	435	620
Interest rate	12.85%	8.17%		9.25%			11.02%			
Rate cap										
<b>Instruments in GTQ</b>	<b>(4)</b>						<b>(4)</b>	<b>(4)</b>		<b>(4)</b>
Floating rate	(4)						(4)	(4)		(4)
Spread	0.01%						0.01%			
Fixed rate										
Interest rate										
Rate cap										
<b>ASIA Instruments in JPY</b>								<b>575</b>	<b>(597)</b>	<b>(22)</b>
Floating rate								575	(597)	(22)
Spread								152	(158)	(6)
Fixed rate								423	(439)	(16)
Interest rate										
Rate cap										
<b>AFRICA Instruments in MAD</b>				<b>88</b>			<b>88</b>		<b>84</b>	<b>84</b>
Floating rate				88			88		84	84
Spread										
Fixed rate				88			88		84	84
Interest rate				4.54%			8.57%			
Rate cap										
<b>TOTAL</b>	<b>1,405</b>	<b>5,742</b>	<b>10,150</b>	<b>5,828</b>	<b>5,372</b>	<b>14,016</b>	<b>42,513</b>	<b>40,887</b>	<b>(1,478)</b>	<b>39,409</b>

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Floating rate	(9,784)	355	7,012	1,020	4,647	642	3,892	11,733	(8,425)	3,308
Fixed rate	10,506	5,377	2,728	923	715	11,044	31,293	22,036	6,862	28,898
Rate cap	683	10	410	3,885	10	2,330	7,328	7,118	85	7,203
Currency options							(202)		(202)	
<b>Other</b>							<b>422</b>			

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	<b>CURRENCY OPTIONS MATURITIES</b>					
<i>Figures in euros</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013+</b>
<b>Call USD/Put BRL</b>						
Notional amount of options bought	287,418,265					
Strike	2.36					
Notional amount of options sold	290,062,464					
Strike	2.36					
<b>Put USD / Call BRL</b>						
Notional amount of options bought	114,284,734					
Strike	1.86					
Notional amount of options sold	143,709,133					
Strike	1.86					
<b>Call USD / Put ARS</b>						
Notional amount of options bought	15,825,484					
Strike	3.38					
<b>Call USD / Put EUR</b>						
Notional amount of options bought	291,010,994		208,378,242		148,020,407	1,723,431,774
Strike	1.59		1.59		1.49	1.40
Notional amount of options sold	268,984,547		195,129,693			831,255,453
Strike	1.51		1.49			1.20

**Table of Contents****INTEREST RATE OPTIONS  
MATURITIES**

<i>Figures in euros</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013+</b>
<b>Collars</b>					
Notional bought	781,127,398		400,000,000	200,000,000	2,689,686,974
Strike Cap	3.897%		4.000%	3.80%	4.53%
Strike Floor	2.733%		3.300%	2.80%	3.13%
<b>Caps</b>					
Notional bought				6,784,908,136	
Strike				4.28%	
Notional sold	700,000,000		400,000,000	6,784,908,136	2,689,686,974
Strike	4.75%		4.55%	5.156%	5.24%
<b>Floors</b>					
Notional bought	1,481,127,398		400,000,000	567,454,068	2,599,868,766
Strike	0.71%		1.00%	1.15%	1.72%
Notional sold	1,050,000,000	367,974,663		1,067,454,068	
Strike	2.73%	4.39%		2.75%	

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The breakdown of financial instruments arranged by the Group (notional amount) by currency and interest rates at December 31, 2007 is as follows:

	Millions of euros					Subsequent years	Total	Fair value		
	2008	2009	2010	2011	2012			Underlying debt	Associated derivatives	Total
<b>EURO</b>	<b>3,256</b>	<b>(17)</b>	<b>1,799</b>	<b>8,610</b>	<b>2,569</b>	<b>11,005</b>	<b>27,222</b>	<b>23,370</b>	<b>3,862</b>	<b>27,232</b>
Floating rate	1,227	(999)	(307)	4,412	(1,488)	5,142	7,987	5,901	1,523	7,424
Spread Ref										
Euribor	(0.28%)	0.13%	(0.68%)	0.21%	0.34%	0.00%	0.10%			
Fixed rate	629	(68)	2,106	2,998	(293)	5,863	11,235	9,339	2,491	11,830
Interest rate	3.79%	(3.93%)	7.14%	3.59%	6.59%	4.56%	4.74%			
Rate cap	1,400	1,050		1,200	4,350		8,000	8,130	(152)	7,978
<b>OTHER</b>										
<b>EUROPEAN</b>										
<b>CURRENCIES</b>	<b>(1,877)</b>	<b>2,102</b>	<b>2,106</b>	<b>845</b>	<b>3,487</b>	<b>2,814</b>	<b>9,477</b>	<b>5,971</b>	<b>3,485</b>	<b>9,456</b>
<b>Instruments in</b>										
<b>CZK</b>	<b>1,669</b>	<b>561</b>	<b>708</b>		<b>113</b>	<b>98</b>	<b>3,149</b>	<b>360</b>	<b>2,772</b>	<b>3,132</b>
Floating rate	(45)		281				236	46	191	237
Spread	(0.06%)	0.00%	0.07%	0.00%	0.00%	0.00%	0.10%			
Fixed rate	1,714	561	427		113	98	2,913	314	2,581	2,895
Interest rate	4.13%	3.15%	3.35%	0.00%	4.35%	4.62%	3.85%			
Rate cap										
<b>Instruments in</b>										
<b>GBP</b>	<b>(3,546)</b>	<b>1,541</b>	<b>1,398</b>	<b>845</b>	<b>3,374</b>	<b>2,716</b>	<b>6,328</b>	<b>5,611</b>	<b>713</b>	<b>6,324</b>
Floating rate	(205)	1,200	1,398	108	2,181	(682)	4,000	469	3,494	3,963
Spread	0.13%	0.02%	(0.01%)	3.35%	0.28%	0.00%	0.19%			
Fixed rate	(3,818)	341		737	511	2,034	(195)	2,585	(2,781)	(196)
Interest rate	6.19%	5.59%	0.00%	5.12%	7.63%	6.06%	8.78%			
Rate cap	477				682	1,364	2,523	2,557		2,557
<b>AMERICA</b>	<b>3,906</b>	<b>957</b>	<b>1,697</b>	<b>448</b>	<b>357</b>	<b>1,414</b>	<b>8,779</b>	<b>13,689</b>	<b>(5,569)</b>	<b>8,120</b>
<b>Instruments in</b>										
<b>USD</b>	<b>(391)</b>	<b>(68)</b>	<b>122</b>	<b>135</b>	<b>40</b>	<b>1,694</b>	<b>1,532</b>	<b>10,726</b>	<b>(9,768)</b>	<b>958</b>
Floating rate	163	(695)	118	(14)	6	672	250	2,367	(2,132)	235
Spread	1.12%	44.69%	(0.00%)	77.37%	(0.25%)	0.00%	(1.03%)			
Fixed rate	(563)	(62)	(5)	140	25	984	519	7,578	(7,635)	(57)
Interest rate	10.28%	5.79%	(119.61%)	9.26%	3.85%	10.95%	12.79%			
Rate cap	9	689	9	9	9	38	763	781	(1)	780
<b>Instruments in</b>										
<b>UYU</b>		<b>2</b>	<b>2</b>	<b>2</b>			<b>6</b>	<b>5</b>		<b>5</b>
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate		2	2	2			6	5		5
Interest rate	8.83%	3.75%	3.75%	3.75%	0.00%	0.00%	3.93%			
Rate cap										
<b>Instruments in</b>										
<b>ARS</b>	<b>468</b>	<b>256</b>	<b>153</b>				<b>877</b>	<b>101</b>	<b>774</b>	<b>875</b>
Floating rate	22						22	21		21

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Spread	1.15%	0.00%	0.00%	0.00%	0.00%	0.00%	1.15%
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	Millions of euros						Fair value			
	2008	2009	2010	2011	2012	Subsequent years	Total	Underlying debt	Associated derivatives	Total
Fixed rate	446	256	153				855	80	774	854
Interest rate	10.20%	9.22%	9.12%	0.00%	0.00%	0.00%	9.71%			
Rate cap										
<b>Instruments in BRL</b>	<b>140</b>	<b>208</b>	<b>822</b>	<b>94</b>	<b>92</b>	<b>200</b>	<b>1,556</b>	<b>305</b>	<b>1,134</b>	<b>1,439</b>
Floating rate	(774)	153	794	66	64	151	454	138	375	513
Spread	0.47%	(2.42%)	0.21%	3.59%	3.60%	0.00%	0.98%			
Fixed rate	914	55	28	28	28	49	1,102	167	759	926
Interest rate	9.51%	10.65%	10.17%	10.17%	10.17%	10.15%	9.65%			
Rate cap										
<b>Instruments in CLP</b>	<b>53</b>	<b>184</b>	<b>31</b>	<b>181</b>	<b>42</b>		<b>491</b>	<b>12</b>	<b>488</b>	<b>500</b>
Floating rate	(17)	132	31	158	42		346	139	144	283
Spread	0.27%	0.05%	0.38%	0.07%	0.38%	0.00%	0.12%			
Fixed rate	70	52		23			145	(127)	344	217
Interest rate	3.43%	6.63%	0.00%	3.35%	0.00%	0.00%	4.57%			
Rate cap										
<b>Instruments in UFC</b>	<b>117</b>	<b>90</b>	<b>98</b>	<b>99</b>	<b>82</b>	<b>7</b>	<b>493</b>	<b>177</b>	<b>326</b>	<b>503</b>
Floating rate			95				95	95		95
Spread	0.00%	0.00%	0.33%	0.00%	0.00%	0.00%	0.33%			
Fixed rate	117	90	3	99	82	7	398	82	326	408
Interest rate	2.55%	3.55%	6.56%	4.28%	3.80%	6.00%	3.55%			
Rate cap										
<b>Instruments in PEN</b>	<b>132</b>	<b>136</b>	<b>81</b>	<b>72</b>	<b>80</b>	<b>338</b>	<b>839</b>	<b>639</b>	<b>215</b>	<b>854</b>
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate	132	136	81	72	80	338	839	639	215	854
Interest rate	8.58%	5.95%	6.42%	6.90%	6.68%	6.81%	6.91%			
Rate cap										
<b>Instruments in COP</b>	<b>589</b>	<b>222</b>	<b>36</b>	<b>22</b>	<b>26</b>	<b>29</b>	<b>924</b>	<b>412</b>	<b>472</b>	<b>884</b>
Floating rate	12	17	36	22	26	29	142	104		104
Spread	0.00%	0.00%	1.32%	0.00%	0.00%	0.00%	0.34%			
Fixed rate	577	205					782	308	472	780
Interest rate	11.49%	0.01%	0.00%	0.00%	0.00%	36.00%	7.65%			
Rate cap										
<b>Instruments in UVR</b>	<b>3,481</b>	<b>(146)</b>	<b>(151)</b>	<b>(157)</b>	<b>(224)</b>	<b>(854)</b>	<b>1,949</b>	<b>1,949</b>		<b>1,949</b>
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate	3,481	(146)	(151)	(157)	(224)	(854)	1,949	1,949		1,949
Interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			

Rate cap <b>Instruments</b> <b>in VEB</b>	(1,341)	(1,341)	(1,341)	(1,341)
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	Millions of euros						Fair value			
	2008	2009	2010	2011	2012	Subsequent years	Total	Underlying debt	associated derivatives	Total
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate	(1,341)						(1,341)	(1,341)		(1,341)
Interest rate	8.16%	0.00%	0.00%	0.00%	0.00%	0.00%	8.16%			
Rate cap										
<b>Instruments</b>										
<b>in MXN</b>	<b>656</b>	<b>73</b>	<b>503</b>		<b>219</b>		<b>1,451</b>	<b>714</b>	<b>778</b>	<b>1,492</b>
Floating rate	(39)	70	314				345	478	78	556
Spread	0.02%	2.59%	0.61%	0.00%	0.00%	0.00%	1.08%			
Fixed rate	695	3	189		219		1,106	236	700	936
Interest rate	7.81%	8.83%	8.17%	0.00%	9.25%	0.00%	8.16%			
Rate cap										
<b>Instruments</b>										
<b>in GTQ</b>	<b>2</b>						<b>2</b>	<b>(10)</b>	<b>12</b>	<b>2</b>
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate	2						2	(10)	12	2
Interest rate	23.70%	0.00%	0.00%	0.00%	0.00%	0.00%	23.70%			
Rate cap										
<b>ASIA</b>								<b>622</b>	<b>(661)</b>	<b>(39)</b>
<b>Instruments</b>										
<b>in JPY</b>								<b>622</b>	<b>(661)</b>	<b>(39)</b>
Floating rate								151	(152)	(1)
Spread	3.79%	3.79%	3.79%	3.79%	0.00%	0.00%	3.79%			
Fixed rate								471	(509)	(38)
Interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Rate cap										
<b>AFRICA</b>					<b>88</b>		<b>88</b>		<b>85</b>	<b>85</b>
<b>Instruments</b>										
<b>in MAD</b>					<b>88</b>		<b>88</b>		<b>85</b>	<b>85</b>
Floating rate										
Spread	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%			
Fixed rate					88		88		<b>85</b>	<b>85</b>
Interest rate	0.00%	0.00%	0.00%	0.00%	4.54%	0.00%	4.54%			
Rate cap										
<b>TOTAL</b>	<b>5,285</b>	<b>3,042</b>	<b>5,602</b>	<b>9,903</b>	<b>6,501</b>	<b>15,233</b>	<b>45,566</b>	<b>43,652</b>	<b>1,202</b>	<b>44,854</b>
Floating rate	344	(122)	2,760	4,752	831	5,312	13,877	9,909	3,521	13,430
Fixed rate	3,055	1,425	2,833	3,942	629	8,519	20,403	22,275	(2,166)	20,109
Rate cap	1,886	1,739	9	1,209	5,041	1,402	11,286	11,468	(153)	11,315
							(52)		(52)	

Currency  
options  
**Other**

(230)

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<b>(Euros)</b>	<b>MATURITIES</b>				
<b>Interest rate options</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012+</b>
<b>Collars</b>					
Notional bought	1,884,741,996	2,522,100,000		900,000,000	1,847,524,908
Strike Cap	4.195%	3.925%		3.944%	4.715%
Strike Floor	3.460%	2.749%		3.189%	3.804%
Notional sold					
Strike Cap					
Strike Floor					
<b>Caps</b>					
Notional bought	5,400,000,000			300,000,000	6,231,756,204
Strike	4.748%			4.070%	4.470%
Notional sold	1,884,741,996	2,522,100,000		1,200,000,000	8,079,281,112
Strike	4.837%	4.847%		4.555%	5.298%
<b>Floors</b>					
Notional bought	477,229,343	2,872,100,000		900,000,000	1,663,512,408
Strike	2.500%	0.013%		1.000%	1.205%
Notional sold	4,000,000,000	350,000,000	518,685,530		700,000,000
Strike	2.750%	2.700%	4.568%		2.146%

<b>(Euros)</b>	<b>MATURITIES</b>				
<b>Currency options</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012+</b>
<b>Call USD/Put BRL</b>					
Notional amount of options bought		135,860,336			
Strike		2.1585			
Notional amount of options sold		196,239,298			
Strike		2.5587			
<b>Put USD / Call BRL</b>					
Notional amount of options sold		135,860,336			
Strike		1.8585			
<b>Call EUR / Put USD</b>					
Notional amount of options bought	27,832,084				
Strike	1.2780				
<b>Put USD / Call EUR</b>					
Notional amount of options bought	438,659,058				1,714,557,435
Strike	1.4454				1.3618
Notional amount of options sold					831,255,453
Strike					1.2030

**Table of Contents****APPENDIX IV: INTEREST-BEARING DEBT**

The main financing transactions included under this heading outstanding at December 31, 2008 and 2007 and their nominal amounts are as follows:

Name/Summary	Value Date	Maturity Date	Currency	Limit 12/31/08	12/31/2008		12/31/2007	
					Balance (million currency)	Balance (million Euros)	Balance (million currency)	Balance (million Euros)
<b>Holding company</b>								
Telefónica Europe syndicated GBP loan O2 acquisition	10/31/2005	Misc.	GBP	5,250	3,978	4,176	4,221	5,756
Telefónica Europe JPY loan	08/23/2007	07/27/2037	JPY	15,000	15,000	119	15,000	91
Telefónica, S.A. 3bn syndicated loan	07/06/2004	07/06/2009	USD	302	302	217	302	205
BellSouth acquisition								
Telefónica, S.A. 6bn syndicated loan	06/28/2005	06/28/2011	EUR	6,000	6,000	6,000	6,000	6,000
Cesky acquisition								
Telefónica, S.A. syndicated loan with savings banks	04/21/2006	04/21/2017	EUR	700	700	700	700	700
EIB Holding	Misc.	Misc.	EUR	1,001	1,001	1,001	633	633
TELFISA financing	Misc.	Misc.	USD	405	405	291	989	672
<b>Other operators</b>								
Telefónica Móviles Chile May 06 syndicated loan	05/05/2006	01/05/2011	USD	180	180	129	180	122
Telefónica Móviles Chile Nov. 06 syndicated loan	11/15/2006	11/15/2012	CLP	100,000	100,000	113	100,000	137
CTC financing	12/21/2004	12/21/2009	USD	200	200	144	200	136
	10/28/2005	06/21/2011	USD	150	150	108	150	102
	06/09/2008	05/13/2013	USD	150	150	108	150	102
EIB-VIVO financing 2007 (1)	10/31/2007	12/19/2014	EUR	125	125	125	34	34
VIVO bilateral loan (1)	08/09/2007	08/15/2014	BRL	678	678	208	303	93
Telesp bilateral loans	10/23/2007	04/23/2015	BRL	1,687	1,687	519	800	246
Colombia BID	12/20/2007	11/15/2014	USD	125	125	90	0	0
financial Telefónica Móviles	12/20/2007	11/15/2012	USD	475	475	341	0	0
Telefónica O2 Czech Republic	07/30/1997	07/30/2012	EUR	115	115	115	115	115

financing		
<b>Other</b>	<b>8,298</b>	<b>8,521</b>
<b>Total</b>	<b>22,827</b>	<b>23,665</b>

(1) VIVO  
transactions are  
included in the  
balance sheet  
using  
proportionate  
consolidation at  
50%

**Table of Contents****APPENDIX V: MAIN COMPANIES COMPRISING THE TELEFÓNICA GROUP**

The table below lists the main companies comprising the Telefónica Group at December 31, 2008 and the main investments consolidated using the equity method.

Included for each company are the company name, corporate purpose, country, functional currency, share capital (in million of functional currency units), the Telefónica Group's effective shareholding and the company or companies through which the Group holds a stake.

<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
<b>Parent company:</b> Telefónica, S.A.	Spain	EUR	4,705		
<b>Telefónica Spain</b>					
Telefónica de España, S.A.U. <i>Telecommunications service provider</i>	Spain	EUR	1,024	100%	Telefónica, S.A. (100%)
Telefónica Móviles España, S.A.U. <i>Wireless communications services provider</i>	Spain	EUR	423	100%	Telefónica, S.A. (100%)
Telefónica Serv. de Informática y Com. de España, S.A.U. <i>Telecommunications systems, networks and infrastructure engineering</i>	Spain	EUR	6	100%	Telefónica de España, S.A.U. (100%)
Telefónica Soluciones Sectoriales, S.A.U. <i>Consulting services for ICT companies</i>	Spain	EUR	14	100%	Telefónica de España, S.A.U. (100%)
Interdomain, S.A.U. <i>Internet resources operator</i>	Spain	EUR		100%	Telefónica Soluciones Sectoriales, S.A. (100%)
Teleinformática y Comunicaciones, S.A.U. (TELYCO) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i>	Spain	EUR	8	100%	Telefónica de España, S.A.U. (100%)
Telyco Marruecos, S.A. <i>Promotion, marketing and distribution of telephone services</i>	Morocco	MAD	1	54.00%	Teleinformática y Comunicaciones, S.A. (TELYCO) (54.00%)
Telefónica Telecomunicaciones Públicas, S.A.U. <i>Installation of public telephones</i>	Spain	EUR	1	100%	Telefónica de España, S.A.U. (100%)
Telefónica Salud, S.A. <i>Mangement and operation of telecommunications and public television services</i>	Spain	EUR		51.00%	Telefónica Telecomunicaciones Públicas, S.A. (51.00%)
Iberbanda, S.A. <i>Broadband telecommunications operator</i>	Spain	EUR	19	58.94%	Telefónica de España, S.A.U. (58,94%)
Telefónica Cable, S.A.U. <i>Cable telecommunication services</i>	Spain	EUR	3	100%	Telefónica de España, S.A.U. (100%)

*provider*

Telefónica Cable Menorca, S.A. <i>Cable television systems and value-added services</i>	Spain	EUR	1	100%	Telefónica Cable, S.A. (100%)
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**Telefónica Latin America**

Telefónica Internacional, S.A. <i>Investment in the telecommunications industry abroad</i>	Spain	EUR	2,839	100%	Telefónica, S.A. (100%)
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Telefonica International Holding, B.V. <i>Holding company</i>	Netherlands	USD	548	100%	Telefonica International, S.A. (100%)
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<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
Latin American Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i>	Netherlands	EUR	980	100%	Telefónica, S.A. (100%)
Telefónica Datacorp, S.A.U. <i>Telecommunications service provider and operator</i>	Spain	EUR	700	100%	Telefónica, S.A. (100%)
Telecomunicações de Sao Paulo, S.A. TELESP <i>Wireline telephony operator in Sao Paulo</i>	Brazil	BRL	6,558	87.95%	Telefónica Internacional, S.A. (65.30%) Sao Paulo Telecomunicações Participações, Ltda. (22,65%)
Brasilcel, N.V. (*) <i>Joint Venture and holding company for wireless communications services</i>	Netherlands	BRL		50.00%	Telefónica, S.A. (50.00%)
Vivo Participações, S.A. (*) <i>Holding company</i>	Brazil	BRL	6,666	31.78%	Brasilcel, N.V. y subsidiarias (31.78%)
Vivo, S.A. (*) <i>Wireless services operator</i>	Brazil	BRL	5,409	31.78%	Vivo Participações, S.A. (31.78%)
Telemig celular, S.A. (*) <i>Wireless services operator</i>	Brazil	BRL	600	17.93%	Telemig Celular Participações, S.A. (15.58%) Vivo Participações, S.A. (2.35%)
Compañía Internacional de Telecomunicaciones, S.A. <i>Holding company</i>	Argentina	ARS	143	100%	Telefónica Holding de Argentina, S.A. (50.00%) Telefonica International Holding, B.V. (37.33%)
Telefónica de Argentina, S.A. <i>Telecommunications service provider</i>	Argentina	ARS	624	98.20%	Compañía Internacional de Telecomunicaciones, S.A. (52.70%) Telefónica Internacional, S.A. (24.99%) Telefónica Móviles Argentina, S.A. (19.56%) Telefonica International Holding, B.V. (0.95%)
Telefónica Móviles Argentina, S.A. <i>Wireless telephone services provider</i>	Argentina	ARS	1,198	100%	Telefónica Móviles Argentina Holding, S.A. (84.60%) Telefónica, S.A. (15.40%)
Telcel, C.A. <i>Wireless operator</i>	Venezuela	VEF	343	100%	Latin America Cellular Holdings, B.V. (97.21%) Telefónica, S.A. (0.08%) Comtel Comunicaciones Telefónicas, S.A. (2.71%)
Telefónica Móviles Chile, S.A. <i>Wireless communications services</i>	Chile	CLP	1,835,848	100%	TEM Inversiones Chile Ltda. (100%)

<i>operator</i>					
Compañía de Telecomunicaciones de Chile, S.A.	Chile	CLP	694,570	96.75%	Inversiones Telefónica Internacional Holding Ltda. (51,86%)
<i>Local, long distance and international telephony services provider</i>					Telefónica Internacional de Chile, S.A. (44.89%)
Telefónica del Perú, S.A.A.	Peru	PEN	2,596	98.18%	Telefónica Internacional, S.A. (98.03%)
<i>Local, domestic and international long distance telephone service provider</i>					Telefónica, S.A. (0.15%)

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<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
Telefónica Móviles Perú, S.A.C. <i>Wireless communications services provider</i>	Peru	PEN	732	96.79%	Telefónica Móviles Perú Holding, S.A.A. (94.47%) Latin America Cellular Holdings, B.V. (2.18%) Telefónica, S.A. (0.14%)
Colombia Telecomunicaciones, S.A. ESP <i>Communications services operator</i>	Colombia	COP	909,929	52.03%	Telefónica Internacional, S.A. (52.03%)
Telefónica Móviles Colombia, S.A. <i>Wireless operator</i>	Colombia	COP	82	100.00%	Olympic, Ltda. (50.58%) Telefónica, S.A. (49.42%)
Telefónica Móviles México, S.A. de C.V. (MEXICO) <i>Holding company</i>	Mexico	MXN	20,271	100%	Telefónica Internacional, S.A. (100%)
Pegaso Comunicaciones y Sistemas, S.A. de C.V. <i>Wireless telephone and communications services</i>	Mexico	MXN	29,067	100%	Pegaso Telecomunicaciones, S.A. de C.V. (100%)
Telefónica Móviles del Uruguay, S.A. <i>Wireless communications and services operator</i>	Uruguay	UYU	196	100%	Latin America Cellular Holdings, B.V. (68.00%) Telefónica, S.A. (32.00%)
Telefónica Larga Distancia de Puerto Rico, INC. <i>Telecommunications service operator</i>	Puerto Rico	USD	111	98.00%	Telefónica Internacional, S.A. (98.00%)
Telefónica Móviles Panamá, S.A. <i>Wireless telephony services</i>	Panama	USD	103	100%	Telefónica, S.A. (56.31%) Panamá Cellular Holdings, B.V. (43.69%)
Telefónica Móviles El Salvador, S.A. de C.V. <i>Provision of wireless and international long distance communications services</i>	El Salvador	SVC	1,640	99.08%	Telefónica El Salvador Holding, S.A. de C.V. (99.08%)
Telefónica Móviles Guatemala, S.A. <i>Wireless, wireline and radio paging communications services provider</i>	Guatemala	GTQ	3,162	99.98%	TCG Holdings, S.A. (65.99%) Telefónica, S.A. (13.60%) Guatemala Cellular Holdings, B.V. (13.12%) Panamá Cellular Holdings, B.V. (7.27%)
Telefonía Celular de Nicaragua, S.A. <i>Wireless telephony services</i>	Nicaragua	NIO	247	100%	Latin America Cellular Holdings, B.V. (98.00%) Telefónica El Salvador Holding, S.A. de C.V. (2.00%)
Otecel, S.A. <i>Wireless communications services provider</i>	Ecuador	USD	133	100%	Ecuador Cellular Holdings, B.V. (100%)



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Telefónica International Wholesale Services, S.L. <i>International services provider</i>	Spain	EUR	230	100%	Telefónica, S.A. (92.51%) Telefónica Datacorp, S.A.U (7.49%)
Telefónica International Wholesale Services America, S.A. <i>Provision of high bandwidth communications services</i>	Uruguay	UYU	14,563	100%	Telefónica, S.A. (80.56%) Telefónica International Wholesale Services, S.L. (19.44%)
Telefónica International Wholesale Services France, S.A.S. <i>Provision of high bandwidth communications services</i>	France	EUR	37	100%	Telefónica International Wholesale Services, S.L. (100%)
Telefónica International Wholesale Services Argentina, S.A. <i>Provision of high bandwidth communications services</i>	Argentina	USD	78	100%	T. International Wholesale Services America, S.A. (100%)

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Telefónica International Wholesale Services Brasil Participacoes, Ltd <i>Provision of high bandwidth communications services</i>	Brazil	USD	62	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services Perú, S.A.C. <i>Provision of high bandwidth communications services</i>	Peru	USD	20	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services USA, Inc. <i>Provision of high bandwidth communications services</i>	United States	USD	36	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services Puerto Rico, Inc. <i>Provision of high bandwidth communications services</i>	Puerto Rico	USD	5	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services Ecuador, S.A <i>Provision of high bandwidth communications services</i>	Ecuador	USD	3	100%	T. International Wholesale Services America, S.A. (100%)
Terra Networks Brasil, S.A. <i>ISP and portal</i>	Brazil	BRL	1,046	100%	Telefónica Interactiva Brasil, Ltda. (59,00%) Sao Paulo Telecomunicações Participações, Ltda. (41,00%)
Terra Networks Mexico, S.A. de C.V. <i>ISP, portal and real-time financial information services</i>	Mexico	MXN	837	99.99%	Terra Networks Mexico Holding, S.A. de C.V. (99.99%)
Terra Networks Perú, S.A. <i>ISP and portal</i>	Peru	PEN	10	99.99%	Telefónica Internacional, S.A. (99.99%)
Terra Networks Argentina, S.A. <i>ISP and portal</i>	Argentina	ARS	7	100%	Telefónica Internacional, S.A. (100%)
Terra Networks Guatemala, S.A. <i>ISP and portal</i>	Guatemala	GTQ	154	99.99%	Telefónica Internacional, S.A. (99.99%)
Telefonica China, B.V. <i>Holding company</i>	Netherlands	EUR		100%	Telefónica Internacional, S.A. (100%)
<b>Telefónica Europe</b>					
Telefónica Europe plc <i>Holding company</i>	UK	GBP	9	100%	Telefónica, S.A. (100%)
MmO2 plc <i>Holding company</i>	UK	GBP	20	99.99%	Telefónica Europe plc (99.99%)
O2 Holdings Ltd. <i>Holding company</i>	UK	GBP	12	100%	MmO2 plc (100%)
Telefónica O2 UK Ltd. <i>Wireless communications services operator</i>	UK	GBP	10	100%	O2 Networks Ltd. (80,00%) O2 Cedar Ltd. (20,00%)

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The Link Stores Ltd. <i>Telecommunications equipment retailer</i>	UK	GBP		100%	Telefónica O2 UK Ltd. (100%)
Be Un Limited (Be) <i>Internet services provider</i>	UK	GBP	10	100%	Telefónica O2 UK Ltd. (100%)
Tesco Mobile Ltd. (*) <i>Wireless telephony services</i>	UK	GBP		50.00%	O2 Ash Ltd. (50,00%)
O2 (Europe) Ltd. <i>Holding company</i>	UK	GBP	1,239	100%	Telefónica, S.A. (100%)

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<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
Telefónica O2 Germany GmbH & Co. OHG <i>Wireless communications services operator</i>	Germany	EUR	51	100%	Telefónica O2 Germany Verwaltungs GmbH (99.99%) Telefónica O2 Germany Management GmbH (0.01%)
Tchibo Mobilfunk GmbH & Co. KG (*) <i>Telecommunications equipment retailer</i>	Germany	EUR		50.00%	Telefónica O2 Germany GmbH & Co. OHG (50.00%)
O2 Communications (Ireland) Ltd. <i>Wireless communications services operator</i>	Ireland	EUR	97	100%	O2 Holdings Ltd. (100%)
Manx Telecom Ltd. <i>Telecommunications service provider</i>	Isle of Man	GBP	12	100%	O2 (Netherlands) Holdings BV (100%)
Telefónica O2 Czech Republic, a.s. <i>Telecommunications service provider</i>	Czech Republic	CZK	32,209	69.41%	Telefónica, S.A. (69.41%)
Telefónica O2 Slovakia, s.r.o. <i>Wireless telephony, internet and data transmission services</i>	Slovakia	SKK		69.41%	Telefónica O2 Czech Republic, a.s. (69.41%)
<b>Other companies</b>					
Telefónica de Contenidos, S.A.U. <i>Organization and operation of multimedia service-related businesses</i>	Spain	EUR	1,865	100%	Telefónica, S.A. (100%)
Atlántida Comunicaciones, S.A. <i>Media</i>	Argentina	ARS	22	100%	Telefonica Media Argentina S.A. (93.02%) Telefónica Holding de Argentina, S.A. (6.98%)
Televisión Federal S.A. TELEFE <i>Provision and operation TV and radio broadcasting services</i>	Argentina	ARS	148	100%	Atlántida Comunicaciones S.A. (79.02%) Enfisure S.A. (20.98%)
Telefónica Servicios Audiovisuales, S.A.U. <i>Provision of all type of audiovisual telecommunications services</i>	Spain	EUR	6	100%	Telefónica de Contenidos, S.A.U. (100%)
Telefónica Servicios de Música, S.A.U. <i>Provision of telemarketing services</i>	Spain	EUR	1	100%	Telefónica de Contenidos, S.A.U. (100%)
Atento Holding, Inversiones y Teleservicios, S.A.U. <i>Telecommunications service provider</i>	Spain	EUR	24	100%	Telefónica, S.A. (100%)
Atento N.V. <i>Telecommunications service provider</i>	Netherlands	EUR		100%	Atento Holding, Inversiones y Teleservicios, S.A. (100%)
Atento Teleservicios España, S.A.U. <i>Provision of all type of telemarketing services</i>	Spain	EUR	1	100%	Atento N.V. (100%)
	Brazil	BRL	152	100%	Atento N.V. (100%)

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Atento Brasil, S.A.

*Telecommunications services provider*

Atento Argentina, S.A.

*Telecommunications services provider*

Teleatento del Perú, S.A.C.

*Telecommunications services provider*

Argentina

ARS

3

100%

Atento Holding Chile, S.A.  
(97.99%)

Atento N.V. (2.01%)

Atento N.V. (83.33%)

Atento Holding Chile, S.A.  
(16.67%)

Peru

PEN

15

100%

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<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
Atento Chile, S.A. <i>Telecommunications services provider</i>	Chile	CLP	11,128	99.06%	Atento Holding Chile, S.A. (71.16%) Compañía de Telecomunicaciones de Chile, S.A. (26.52%) Telefónica Empresas Chile, S.A. (0.93%) Telefónica Larga Distancia, S.A. (0.45%)
Atento Centroamérica, S.A. <i>Provision of call-center services</i>	Guatemala	GTQ	114	100%	Atento N.V. (99.99%) Atento El Salvador, S.A. de C.V. (0.01%)
Terra Networks Asociadas, S.L. <i>Holding company</i>	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Red Universal de Marketing y Bookings Online, S.A. (RUMBO) (*) <i>Online travel agency</i>	Spain	EUR	1	50.00%	Terra Networks Asociadas, S.L. (50.00%)
Educaterra, S.L. <i>Vertical e-learning portal</i>	Spain	EUR	1	100%	Terra Networks Asociadas, S.L. (100%)
Telefónica Ingeniería de Seguridad, S.A.U. <i>Security services and systems</i>	Spain	EUR	1	100%	Telefónica, S.A. (100%)
Telefónica Engenharia de Segurança <i>Security services and systems</i>	Brazil	BRL	21	99.99%	Telefónica Ingeniería de Seguridad, S.A. (99.99%)
Telefónica Capital, S.A.U. <i>Finance company</i>	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Lotca Servicios Integrales, S.L. <i>Aircraft ownership and operation</i>	Spain	EUR	17	100%	Telefónica, S.A. (100%)
Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. <i>Administration of pension funds</i>	Spain	EUR	16	70.00%	Telefónica Capital, S.A. (70.00%)
Fonditel Gestión, Soc. Gestora de Instituciones de Inversión Colectiva, S.A. <i>Administration and representation of collective investment schemes</i>	Spain	EUR	2	100%	Telefónica Capital, S.A. (100%)
Telefónica Investigación y Desarrollo, S.A.U. <i>Telecommunications research activities and projects</i>	Spain	EUR	6	100%	Telefónica, S.A. (100%)
Telefónica Investigación y Desarrollo de Mexico, S.A. de C.V. <i>Telecommunications research activities and projects</i>	Mexico	MXN		100%	Telefónica Investigación y Desarrollo, S.A. (100%)
	Brazil	BRL		100%	

Telefônica Pesquisa e Desenvolvimento do Brasil, Ltda. <i>Telecommunications research activities and projects</i>					Telefónica Investigación y Desarrollo, S.A. (100%)
Casiopea Reaseguradora, S.A. <i>Reinsurance</i>	Luxemburg	EUR	4	100%	Telefónica, S.A. (99.97%) Telefónica Finanzas, S.A. (TELFISA) (0.03%)
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. <i>Distribution, promotion or preparation of insurance contracts</i>	Spain	EUR		100%	Casiopea Reaseguradora, S.A. (83,33%) Telefónica, S.A. (16.67%)

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Name and corporate purpose	Country	Currency	%		Holding Company
			Share capital	Telefónica Group	
Altair Assurances, S.A. <i>Direct insurance transations</i>	Luxemburg	EUR	6	100%	Casiopea Reaseguradora, S.A. (95.00%) Seguros de Vida y Pensiones Antares, S.A. (5.00%) Telefónica, S.A. (89.99%) Casiopea Reaseguradora, S.A. (10.01%)
Seguros de Vida y Pensiones Antares, S.A. <i>Life insurance, pensions and health insurance</i>	Spain	EUR	51	100%	
Telefónica Finanzas, S.A.U. (TELFISA) <i>Integrated cash management, consulting and financial support for Group companies.</i>	Spain	EUR	3	100%	Telefónica, S.A. (100%)
Fisatel Mexico, S.A. de C.V. <i>Integrated cash management, consulting and financial support for Group companies</i>	Mexico	MXN	5	100%	Telefónica, S.A. (100%)
Telfisa Global, B.V. <i>Integrated cash management, consulting and financial support for Group companies</i>	Netherlands	EUR		100%	Telefónica, S.A. (100%)
Telefónica Europe, B.V. <i>Fund raising in capital markets</i>	Netherlands	EUR		100%	Telefónica, S.A. (100%)
Telefónica Finance USA, L.L.C. <i>Financial intermediation</i>	United States	EUR	2,000	0.01%	Telefónica Europe, B.V. (0.01%)
Telefónica Emisiones, S.A.U. <i>Financial debt instrument issuer</i>	Spain	EUR		100%	Telefónica, S.A. (100%)
Spiral Investments, B.V. <i>Holding company</i>	Netherlands	EUR	39	100%	Telefónica Móviles España, S.A.U. (100%)
Solivella Investment, B.V. <i>Holding company</i>	Netherlands	EUR	881	100%	Telefónica Móviles España, S.A.U. (100%)
Aliança Atlântica Holding B.V. Holder of 5,225,000 Portugal Telecom, S.A. shares	Netherlands	EUR		93.99%	Telefónica, S.A. (50.00%) Telecomunicações de Sao Paulo, S.A. TELESP (43.99%) Telefónica, S.A. (100%)
Telefónica Gestión de Servicios Compartidos España, S.A. <i>Provision of mangement and administration services</i>	Spain	EUR	8	100%	
Telefónica Gestión de Servicios Compartidos, S.A.C. <i>Provision of mangement and administration services</i>	Argentina	ARS		99.99%	T. Gestión de Servicios Compartidos España, S.A. (95.00%) Telefónica, S.A. (4.99%)
Telefónica Gestión de Servicios Compartidos, S.A. <i>Provision of mangement and</i>	Chile	CLP	1,017	96.75%	Compañía de Telecomunicaciones de Chile, S.A (96.75%)



administration services Telefónica Gestión de Servicios Compartidos, S.A. Provision of mangement and administration services	Peru	PEN	1	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Cobros Serviços de Gestao, Ltda. Provision of mangement and administration services	Brazil	BRL		99.33%	T. Gestión de Servicios Compartidos España, S.A. (99.33%)
Tempotel, Empresa de Trabajo Temporal, S.A. Temporary employment agency	Spain	EUR		100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Telefonica Gestao de Serviços Compartilhados do BRASIL, Ltda. Provision of mangement and administration services	Brazil	BRL	12	99.99%	T. Gestión de Servicios Compartidos España, S.A. (99.99%)
Telefónica Gestión de Servicios Compartidos Mexico, S.A. de C.V. Provision of mangement and administration services	Mexico	MXN	50	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)

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<b>Name and corporate purpose</b>	<b>Country</b>	<b>Currency</b>	<b>Share capital</b>	<b>% Telefónica Group</b>	<b>Holding Company</b>
Telefónica Servicios Integrales de Distribución, S.A.U. Distribution services provider	Spain	EUR	2	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Telefónica Compras Electrónicas, S.L. Development and provision of information society services	Spain	EUR		100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
<b>Companies accounted for using the equity method</b>					
Telco, S.p.A. Holding company	Italy	EUR	4,849	42.30%	Telefónica, S.A. (42.30%)
Portugal Telecom, S.G.P.S., S.A. Holding company	Portugal	EUR	27	9.86%	Telefónica, S.A. (8.51%) Telecomunicações de Sao Paulo, S.A. TELESP (0.79%) Aliança Atlântica Holding B.V. (0.56%)
Lycos Europe, N.V. Internet portal	Netherlands	EUR	3	32.10%	LE Holding Corporation (32.10%)
Médi Telecom, S.A. Wireless communications services provider	Morocco	MAD	2,659	32.18%	Telefónica Móviles España, S.A.U. (32.18%)
Hispasat, S.A. Operation of a satellite telecommunications system	Spain	EUR	122	13.23%	Telefónica de Contenidos, S.A.U. (13.23%)
Telefónica Factoring España, S.A. Factoring services provider	Spain	EUR	5	50.00%	Telefónica, S.A. (50.00%)
Telefónica Factoring Do Brasil, Ltd. Factoring services provider	Brazil	BRL	5	50.00%	Telefónica, S.A. (40.00%) Telefónica Factoring España, S.A. (10.00%)
Ipse 2000, S.p.A. Installation and operation of 3G wireless communications systems	Italy	EUR	13	39.92%	Solivella Investment, B.V. (39.92%)

(\* ) Companies consolidated using proportionate consolidation.

Through these consolidated financial statements, O2 (Germany) GmbH & Co. OHG, complies with the provisions of Art. 264b HGB [ Handelsgesetzbuch : Germany code of commerce], and are exempt in accordance with the stipulations of Art. 264b HGB

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**2008 CONSOLIDATED MANAGEMENT REPORT**

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**EARNINGS PERFORMANCE**

***Consolidated results***

Against a complex backdrop, the Telefónica Group's commercial and financial results in 2008 underscore the benefits of its unique profile: extensive business diversification, operating integration in key markets, strong competitive positioning in main markets, proven capacity to deliver and financial strength.

The Group's customer base, measured by accesses, climbed 13.2% to 258.9 million accesses at year-end 2008 from 228.7 million the year before. This increase was primarily driven by growth of 16.6% in mobile access, of 20.9% in broadband accesses and of 29.7% in pay TV accesses. By region, accesses in Latin America grew a noteworthy 18.0% to 158.3 million from 134.1 million at December 2007, due mainly to sharp growth in broadband subscribers, net wireless adds and growth in the customer base in the pay TV business.

By access type, the Telefónica Group's **mobile accesses** rose 16.6% to 195.6 million at December 2008 (including nearly 4 million Telemig subscribers added to the Group in April 2008) from 167.8 million at the end of 2007. The biggest drivers of net adds for the year by country were Brazil (7.5 million, excluding Telemig's customer base), Mexico (2.8 million), Peru (2.5 million) and Germany (1.7 million).

**Retail broadband internet accesses** increased by nearly 20.9%, from 10.3 million to 12.5 million at year-end 2008, driven by growing take-up of bundled voice, ADSL and pay TV (so-called triple play) packages. In fact, in Spain over 85% of retail broadband accesses are bundled as part of some kind of dual or triple play package, while in Latin America the weight of bundles is growing rapidly, with 49% of retail broadband accesses bundled into dual or triple play packages.

During the year, retail broadband internet accesses climbed 13.7% in Spain (to 5.2 million), 20.5% in Latin America (6.1 million) and 72.9% in Europe (1.2 million).

Lastly, **pay TV accesses** increased 29.7% to 2.3 million at December 2008 from 1.7 million at the end of 2007, driven by higher penetration in the markets where this service is available, which at the end of 2008 included Spain, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela.

Growth in the customer base drove **revenue** 2.7% higher in 2008 to 57,946 million euros from 56,441 million euros. In 2008, the fallout from exchange rate movements eroded revenue growth by almost 3 percentage points, while changes in the consolidation scope detracted an additional 1.2 percentage points.

In absolute terms, by region Telefónica Latin America accounted for 38.3% of total Group revenues in 2008 (up 2.7 pp on 2007), with Telefónica Spain and Telefónica Europe accounting for 36.0% and 24.7%, respectively.

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Meanwhile, **expenses** at the Telefónica Group fell 2.6%, from 37,881 million euros in 2007 to 36,892 million euros. Stripping out the impact of currency movements, expenses would have risen 0.9% in the year, reinforcing the trend evident since the start of the year as a result of initiatives put in place by the Company to maximize productivity in both years.

**Supplies** in 2008 totaled 17,818 million euros, 0.5% lower than the 17,907 million euros of 2007. Stripping out the impact of exchange rates, the increase would have been 3.6%, mainly due to higher interconnection expenses at Telefónica Latin America and O2 UK.

**Personnel expenses** fell 14.3% to 6,762 million euros in 2008 from 7,893 million euros in 2007 (down 12.4% in constant euros), in large part due to personnel restructuring expenses recognized in 2007 (1,199 million euros). The average headcount during the period was 251,775, a net increase of 7,723 employees on 2007, mainly due to expansion of the Atento Group's workforce. Excluding Atento Group's workforce, the average headcount at the Telefónica Group fell by 2,218 from year-end 2007 in 124,885 employees, in part due to the deconsolidation of Endemol and Airwave.

**External service expenses** inched up 0.9% to 10,079 million euros from 9,991 million euros (+3.7% in constant currency), mainly due to higher expenses at Telefónica Latin America, primarily in Brazil, Venezuela and Chile, reflecting higher commissions and subcontracted activity, and to greater customer acquisition and retention costs at Telefónica Europe.

Meanwhile, **gains on the disposal of assets** totaled 292 million euros in 2008, mainly in connection with capital arising on the sale of the stake in Sogecable (143 million euros) and on the sale of real estate assets included in the real estate management programs in Telefónica Spain and Telefónica Europe. It is worth recalling that in 2007 the Company recognized the capital gains realized on the disposal of Airwave (1,296 million euros) and Endemol (1,368 million euros) in the second and third quarters, respectively.

**Operating income before depreciation and amortization (OIBDA)** rose 0.4% in 2008 to 22,919 million euros from 22,824 million euros in 2007.

In absolute terms, Telefónica Spain accounted for 44.9% of the total Group OIBDA, compared to 36.8% and 18.2% at Telefónica Latin America and Telefónica Europe, respectively.

The OIBDA margin in 2008 stood at 39.6% (2007: 40.4%), significantly shaped by the capital gains on Airwave and Endemol.

**Depreciation and amortization** fell 4.1% in 2008, to 9,046 million euros from 9,436 million euros. Telefónica Europe includes the amortization of the purchase price allocation made following the O2 Group acquisition (689 million euros) and the Telefónica O2 Czech Republic acquisition (131 million euros).

**Operating income (OI)** rose 3.6% in the year to 13,873 million euros from 13,388 million euros, also shaped mainly by the capital gains recognized in 2007 on the sales of Airwave and Endemol.

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The Group's **share of profit (loss) of associates** amounted to a loss of 161 million euros in 2008, compared to profit of 140 million euros in 2007. Results for 2008 include the impact of the write-off of Telco, S.p.A.'s investment in Telecom Italia. To estimate the impact, the Telefónica Group took the estimated synergies to be obtained by improving certain processes in its European operations through the alliances reached with Telecom Italia. Accordingly, amount of the impairment loss recognized in **Share of profit (loss) of associates** in this connection is 209 million euros.

**Net financial expense** in 2008 amounted to 2,797 million euros, compared with 2,844 million euros in 2007. The decrease was the mainly the result of:

- a) A 7.6% decline in average debt, which led to a saving of 240 million euros. In addition, there was 93 million euros of revenue (9 million euros more than in 2007) from changes in the present value of commitments assumed under official redundancy programs and other positions measured at fair value.
- b) An increase in the average cost of Group debt to 6.0% of total average net debt (excluding exchange gains or losses), which led to an increase in costs of 218 million euros, caused by the rise in average interest rates in 2008.

**Free cash flow** generated by the Telefónica Group in 2008 amounted to 9,145 million euros. Of this amount, 2,224 million euros were allocated to net repurchases of treasury shares, 4,165 million euros to Telefónica S.A.'s dividend payment, 920 million euros to cancel commitments derived mainly from personnel reorganization programs and 1,327 million euros to financial and real estate investments, net of sales, mainly the acquisition of CTC's minority shareholdings, the increase in the stake in China Unicom, the purchase of Telemig and the sale of the stake in Sogecable. In all, net interest-bearing debt decreased by 508 million euros. Net debt was reduced by an additional 2,043 million euros due to changes in exchange rates, changes in the consolidation scope and other effects on financial accounts. This led to a total reduction in consolidated debt of 2,551 million euros, leaving the Telefónica Group with net financial debt at December 31, 2008 of 42,733 million euros, compared with 45,284 million euros at year-end 2007.

The **tax provision** for 2008 totaled 3,089 million euros, compared with 1,565 million euros in 2007, implying an effective tax rate of 28.3%. However, the Telefónica Group's cash settlement in 2008 was lower than this amount as it was able to apply unused loss carryforwards and tax credits against taxable profit. It is worth highlighting that in 2007 the tax expense recognized was lower, mainly on account of the Endemol disposal which triggered a capital loss for tax purposes.

**Minority interests** rose 10.2% in 2008 and detracted 234 million euros from cumulative net profit, compared to a loss of 213 million euros in 2007. Minority shareholder interests in Telesp and Telefónica O2 Czech Republic accounted for the bulk of this balance.

As a result of the above, **profit for the year attributable to equity holders of the parent** amounted to 7,592 million euros, down 14.8% on the 8,906 million euros recorded in 2007. This decrease is mainly due to the recognition in 2007 of capital gains on the sales of Airwave and Endemol.

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**Basic earnings per share** in 2008 was 1.63 euros, down from 1.87 euros per share in 2007.

**Capex** climbed 4.7% to 8,401 million euros from 8,027 million euros. The bulk of this growth was driven by the capex earmarked for Telefónica Latin America, reflecting the rapid development of the broadband and pay TV businesses in the region, as well as the deployment of extended coverage and capacity at its mobile networks.

**Operating cash flow (OIBDA-CapEx)** contracted 1.8% to 14,518 million euros in 2008 from 14,797 million euros in 2007. By region, Telefónica Spain accounted for 8,077 million euros, while Telefónica Latin America generated 4,410 million euros and Telefónica Europe, 2,108 million euros.

The table below breaks down the Group's accesses at the dates indicated:

	<b>At December 31</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
		<b>(thousands)</b>	
End customer accesses (1)	42,340.7	43,433.6	42,930.7
Data and internet accesses	12,170.9	13,156.6	14,654.3
Narrowband	3,997.7	2,678.7	1,997.2
Broadband (2)	7,974.8	10,320.2	12,472.1
Other (3)	198.4	157.7	185.0
Mobile accesses	145,125.1	167,781.1	195,598.9
Pay TV	1,064.0	1,748.1	2,267.5
<b>End customer accesses</b>	<b>200,700.7</b>	<b>226,119.4</b>	<b>255,451.4</b>
Leased loop	962.2	1,396.5	1,748.1
Shared loop	527.7	776.4	602.3
Unbundled loop	434.5	620.1	1,145.8
Wholesale ADSL (5)	1,288.6	571.7	534.7
Other (6)	228.6	656.0	1,150.1
<b>Wholesale accesses</b>	<b>2,479.4</b>	<b>2,624.2</b>	<b>3,433.0</b>
<b>Total accesses</b>	<b>203,180.2</b>	<b>228,743.6</b>	<b>258,884.4</b>

(1) *PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access and digital access 2/6 x30. Includes access for internal use.*

*Includes all fixed wireless accesses.*

(2)

*ADSL, satellite,  
fiber optic,  
cable modem  
and broadband  
circuits.*

(3) *All other  
non-broadband  
retail circuits.*

(4) *Includes  
Telemig  
customers since  
April 2008.*

(5) *Includes  
unbunbled lines  
by Telefónica  
Germany.*

(6) *Circuits for  
other operators.*

*Notes:*

*Includes  
Iberbanda  
accesses from  
January 1,  
2007.*

*The Group's  
accesses were  
reclassified with  
effect from  
December 31,  
2006, with all  
fixed mobile  
accesses now  
included in fixed  
wireless. Until  
December 2007  
these accesses  
were included,  
depending on  
the country,  
under total  
mobile or fixed  
accesses.*

*From  
January 1, 2008*



*public telephony  
over wireless  
technology is  
included within  
the fixed mobile  
category under  
fixed accesses.*

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**REGULATORY ENVIRONMENT**

The regulatory debate in the EU has focused on three issues that will go a long way to shaping the future regulatory framework and the development of the telecommunications market in Europe.

First is the review of the European regulatory framework governing electronic communications in effect since 2002, which predominated debate in the European Parliament and Council and which will give rise to a new set of rules to govern the sector across Europe once the new legislation is transposed into national law.

Second is the major initiative being undertaken by the European Commission to call termination charges on fixed and mobile networks -these charges are of particular relevance to mobile operators- which will culminate in an official EU recommendation.

This is the extension of regulations governing international roaming services, in effect since mid-2007, along several fronts. For example, the extension of current regulations governing voice roaming services beyond the initially forecast 2010 timeframe, fleshed out with specific measures designed to bring down roaming charges. In addition, the tariff unit is being changed and the scope of application of existing regulations is being extended to text messaging and data services.

Meanwhile in Spain, the resolution adopted in January 2007 by the Executive Committee for Economic Affairs (CDGA), establishing the price approval and communication scheme applicable to services included in the Universal Service following prior elimination of the price cap scheme, will remain in effect.

The Spanish telecommunications regulator, the CMT, approved a resolution determining that Orange and Vodafone were also liable for contributing to the cost incurred by Telefónica in providing universal service from 2003-2005, when it recognized a net cost of 284 million euros. However, a ruling on sharing the burden of the net cost of providing this service from 2006 onwards has yet to be issued.

In June 2008, the enacting regulations governing the use of public radio spectrum were passed into law. This regulatory framework introduced a new management model for this spectrum, including features such as measures to make usage more flexible and to enable the transfer or acquisition of spectrum in the secondary market. Of utmost significance here is the transformation envisaged for current license holders in Spain, which will affect mobile telephony license holders (GSM, DCS 1800 and 3G) and wireless access licenses using LMDS technology.

It is also worth noting that in 2008 the CMT virtually concluded its second round of analysis of relevant markets as defined by the European Commission in 2007. The only markets pending review are the virtual mobile operator segment (VMOs), which is no longer an EC-recommended relevant market susceptible to ex ante regulation and the wholesale circuit leasingmarket. In practical terms, this second round has spelled continuity in terms of existing regulation to date, punctuated by small steps in terms of deregulation, for example in the field of telephone service pricing.

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As for broadband, 2008 marked the definition of the regulatory framework applicable to the rollout of new generation access networks using optic fiber and the services provided over them, enabling the launch at year-end of a new family of Future services. Among the noteworthy principles established by the sector watchdog in the regulations governing the new generation networks (NGNs) is the express acknowledgement that to foster investment and innovation, NGN regulations need to differ significantly from the rules governing copper networks. These new approaches have been confirmed in the analysis of the relevant markets approved subsequently.

The other European markets where Telefónica operates have also stepped up discussions surrounding the regulatory model applicable to develop NGNs, prompting the various national regulators to open public consultations, coupled with a broad range of government-led initiatives. Meanwhile, progress was made on the various reviews of the necessary relevant markets to bring prevailing regulatory frameworks in line with the market's development on various fronts, although none of the initiatives undertaken in 2008 had a material impact on the Group's European operations. Spectrum is proving an area of increasing regulatory focus: in the UK, the debate sparked over the reallocation of GSM bandwidth to 3G networks -with no deadline set for the transfer yet- and the auction of new 3G spectrum was particularly intense.

In Latin America, the Argentine Secretary of Communications issued new regulations governing universal service on April 4, 2008. In May the deeds setting up the organization committee for the universal service fiduciary trust (COFFU for its initials in Spain) were executed. Telefónica has requested that a series of programs be considered as part of the provision of universal service; the related finding by the Secretary of Communications is pending. Meanwhile the mobile operators are considering the joint formulation of projects to bring coverage to remote areas, which could be used to offset their universal service provision obligations.

In Brazil, with a view to defining the process for updating the regulatory framework governing the telecommunications industry, industry regulator Anatel approved the general plan for updating telecommunications regulations in Brazil, a program which features the review of concession contracts, the design of a general competition milestones plan, the rules governing the unbundling of elements of the network and implementation of a cost model. This plan will set the regulator's agenda over the short, medium and long term.

In addition, the Brazilian regulator's steering council, in its session of October 16, 2008, approved a new general license plan for public regime telecommunications services. The overriding purpose of the approved text is to eliminate regulatory restrictions that hinder consolidation among regional concessionaires and, specifically, to provide for the merger between Oi and Brasil Telecom. This plan was written into law by the President of Brazil via presidential decree, as published in the official Brazilian gazette (the DOU) on November 21, 2008.

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In Chile, the tariff-setting processes for establishing Telefónica Móviles Chile s (TMCH) access charges and Telefónica Chile s (TCH) local retail tariffs and access charges for 2009-2014 was put in motion.

In Ecuador, local regulator Conatel approved and authorized the national telecommunications department to subscribe a 15-year concession arrangement with Otecel (Movistar). The new agreement was signed on November 20, 2008.

In Mexico, the program for radioelectric spectrum frequency bandwidth to be tendered by the Mexican secretary of communications and transport was published in the official federal gazette in March 2008. The program recommends that the federal telecommunications commission (COFETEL) publish the call to tender. The availability of new frequencies is necessary to increase GSM network capacity in Mexico City and to roll out UMTS technology.

Meanwhile, in preliminary rulings published in the federal gazette in July 2008, the federal anti-trust authority (COFECO) ruled that TELMEX has a dominant market position in several fixed telecommunication markets; on October 28, 2008, the COFECO also issued a its preliminary findings concluding that Telcel (América Móvil) has significant market power (SMP) in nationwide mobile telephony service, a relevant market. If these ongoing processes effectively conclude with definitive statements that Telmex/Telcel have significant market power, it would provide the basis for rules to prevent both operators from engaging in unfair trade practices and for setting the foundations for free competition in the Mexican market.

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**SHARE PRICE PERFORMANCE**

After five years of consecutive gains, Telefónica's share price was not immune to the widespread rout in equity markets in 2008, ending the year 28.7% lower at 15.85 euros per share. Nonetheless, the Company's unique profile was underscored by its outperformance relative to its European peers: the DJ Stoxx Telecommunications index fell 37.0%. The shares also outperformed the general indices: the Ibex-35 and EStoxx-50 plunged 39.4% and 44.3%, respectively.

Telefónica also outperformed its European peers Telecom Italia, S.p.A. (-45.9%) and Portugal Telecom (-32.0%), while performing broadly in line with Vodafone (-26.0%) and Deutsche Telekom (-28.4%).

The fall in value of Telefónica shares came against a backdrop of a widespread collapse in equity prices. Telefónica's high liquidity and significant weight in benchmark indices such as Spain's Ibex-35 or the EStoxx-50 meant that Telefónica's shares were particularly affected by the flight of capital out of the equity markets.

In addition, negative investor sentiment regarding the outlook for the Spanish economy and the weakness of certain Latin American currencies also contributed to the share's performance.

Nonetheless, in 2008 Telefónica outperformed the main indices, underpinned by successive strong quarterly earnings releases throughout the year and investor perception that Telefónica is a safe haven stock thanks to its growth profile, high cash flow generation ability, strong financial position, highly selective expansion strategy and compelling shareholder remuneration policy.

This outperformance has enabled Telefónica to reinforce its position as the world's fourth largest telecommunications operator by market cap. At year-end 2008, Telefónica's market cap stood at 74,574 million euros.

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Telefónica Spain's total accesses increased 2.0% to 47.3 million accesses at December 31, 2008 from 46.4 million accesses at December 31, 2007. Total accesses at December 31, 2008 included 23.6 million mobile accesses, 15.3 million fixed telephony accesses, 5.7 million Internet and data accesses and 0.6 million pay TV accesses. Additionally, it included 1.7 million unbundled local loop accesses and 0.4 million of wholesale ADSL accesses. The following table presents statistical data relating to our operations in Spain:

		At December 31,	
	2006	2007	2008
	(in thousands)		
Fixed telephony accesses	15,949.9	15,918.8	15,326.3
Internet and data accesses	4,842.0	5,321.8	5,670.0
Narrowband accesses	1,040.5	660.8	388.0
Broadband accesses	3,742.7	4,614.0	5,246.4
Other accesses	58.8	47.0	35.6
Mobile accesses	21,446.0	22,826.6	23,604.8
Pre-pay accesses	9,303.0	9,181.8	9,037.0
Pay TV	383.0	511.1	612.5
<b>Final clients accesses</b>	<b>42,620.8</b>	<b>44,578.2</b>	<b>45,213.6</b>
<b>Wholesale accesses</b>	<b>1,531.8</b>	<b>1,855.5</b>	<b>2,136.1</b>
<b>Total accesses</b>	<b>44,152.6</b>	<b>46,433.6</b>	<b>47,349.7</b>

*Note: Iberbanda's accesses are included as of January 1, 2007*

Beginning January 1, 2008, Telefónica Spain changed the business model for its Public Use Telephony, or PUT, service and related contracts in order to maximize its operations within the scope of the applicable regulatory framework. As a result, this business is now managed on a pure wholesale basis, exclusively registering net margin as revenues. During 2007, this business was managed on a retail basis and we recorded both gross revenues and the associated sales and marketing expenses required to promote PUT traffic through resellers as separate line items.

Telefónica Spain's revenues increased 0.7% to 20,838 million in 2008 from 20,683 million in 2007.

Revenues from Telefónica Spain's fixed business increased 1.4% to 12,581 million in 2008 from 12,401 million in 2007 principally due to the growth of Internet and broadband service revenues.

Revenues from traditional accesses include all revenues from our customers for rental and connection to public switched telephone network (PSTN) lines (for basic telephony service), ISDN lines (for integration of voice, data and video services), corporate services, PUT, additional recharges and advertising in telephone booths. Revenues from traditional accesses increased 6.2% to 2,944 million in 2008 compared to 2,772 million in 2007, partially as a result of revenues derived from recognizing the Universal Service Cost for the period 2003-2005, which we accounted for in 2008 as revenues of 182.8 million.

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Revenues from traditional voice services decreased 7.4% to 4,436 million in 2008 compared to 4,792 million in 2007. Excluding the impact of the change in the business model applicable of PUT services, as described above, traditional voice revenues would have decreased by 3.5%. This evolution is mainly affected by lower fixed to mobile traffic, the decrease of effective prices in international traffic and the increasing importance of traffic included in national flat tariff plans.

Revenues from Internet and broadband services increased 8.7% to 3,017 million in 2008 compared to 2,775 million in 2007. Retail broadband service revenues increased 11.6% in 2008 compared to 2007, and accounted for 2.2 percentage points of Telefónica Spain fixed business revenues growth. At the same time, wholesale broadband service revenues increased by 2.6% in 2008 compared to 2007, mainly due to the increment of the revenues associated to the bigger customer base of unbundled local loop.

Revenues from data services grew 2.6% to 1,190 million in 2008 from 1,160 million in 2007.

Revenues from information technology services grew 1.2% to 443 million in 2008 from 437 million in 2007.

Revenues from Telefónica Spain's mobile business decreased 0.1% to 9,684 million in 2008 from 9,693 million in 2007, due to the lower consumption by the customers and to the lower income revenues. Customer revenues increased 1.2% to 6,943 million in 2008 from 6,863 million in 2007, while interconnection revenues decreased 9.4% to 1,243 million in 2008 from 1,372 million in 2007, due primarily to the reduction in interconnection rates. Roaming-in revenues fell 9.9% to 198 million in 2008 from 220 million in 2007 due to the downward trend in roaming and wholesale prices. Revenue from handset sales increased 3.6% to 1,227 million from 1,184 million in 2007.

Telefónica Spain's expenses decreased 6.8% to 10,901 million in 2008 from 11,701 million in 2007, principally due to lower personnel expenses.

Supplies expenses decreased 0.7% to 4,604 million in 2008 from 4,639 million in 2007, mainly due to lower interconnection expenses.

Personnel expenses decreased 23.7% to 2,375 million in 2008 from 3,111 million in 2007. Personnel expenses were affected in 2007 by non-recurring reorganization costs of 667 million.

Other expenses decreased 0.7% to 3,922 million in 2008 from 3,951 million in 2007, principally due to a 2.3% decrease in external expenses to 3,212 million in 2008 from 3,287 million in 2007. This decrease in external expenses was mainly as a result of the change in the business model applicable of PUT services, as well as the fact that external expenses were affected in 2007 by Telefónica Spain's recording of an EU fine provision of 151.9 million that year. This decrease was partially offset by an increase in other expenses in 2008 primarily due to the recognizing of the Universal Service Cost for the period 2003-2005.

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In the fixed business, total expenses decreased 9.7% to 6,799 million in 2008 from 7,532 million in 2007, principally due to a decrease in personnel expenses.

Supplies expenses decreased 1.5% to 2,962 million in 2008 from 3,008 million in 2007 mainly due to lower interconnection expenses and fewer equipment purchases.

Personnel expenses decreased 21.6% to 2,071 million in 2008 from 2,642 million in 2007, principally due to the personnel reorganization costs incurred in 2007. The average number of employees in 2008 was 31,243, a 6% reduction in comparison with the average number of employees in 2007 for the fixed business.

Other expenses decreased 6.1% to 1,766 million in 2008 from 1,881 million in 2007, principally due to a 5.4% decrease in external expenses to 1,336 million in 2008 from 1,413 million in 2007 partially as a result of the change in the business model applicable of PUT services as well as the 2007 EU fine provision. This decrease was partially offset by an increase in other expenses in 2008 primarily due to the recognizing of the Universal Service Cost for the period 2003-2005 in an amount of 73 million in 2008.

Telefónica Spain's expenses related to its mobile business decreased 0.7% to 5,502 million in 2008 from 5,541 million in 2007 impacted by the provision of 154 million related to a new personnel reorganization program in 2007. Disregarding this provision in 2007, Telefónica Spain's expenses related to its mobile business would have increased by 2.1% from 5,387 million in 2007 to 5,502 million in 2008.

Supplies expenses decreased 0.4% to 2,667 million in 2008 from 2,677 million in 2007 due to decreases in interconnection and roaming expenses.

Personnel expenses decreased 34.6% to 299 million in 2008 from 457 million in 2007, primarily as a result of the provision for the new personnel reorganization program in 2007. Excluding the aforementioned provision, personal expenses would have decreased by 1.5% to 299 million in 2008 from 304 million in 2007.

Other expenses increased 5.4% to 2,537 million in 2008 from 2,407 million in 2007 due to higher customer management expenses, the growth in network costs and the impact of the recognizing of the Universal Service Cost for the period 2003-2005.

Telefónica Spain's operating income before depreciation and amortization, OIBDA, increased 8.9% to 10,285 million in 2008 from 9,448 million in 2007. Telefónica Spain's OIBDA, as a percentage of Telefónica Spain's revenues, was 49.4% in 2008 compared to 45.7% in 2007.

Telefónica Spain's depreciation and amortization decreased 6.0% to 2,239 million in 2008 from 2,381 million in 2007, principally due to a decrease in the average value of plant subject to depreciation.

Telefónica Spain's operating income increased 13.9% to 8,046 million in 2008 from 7,067 million in 2007.

*Telefónica Spain Fixed business*

Telefónica Spain provides fixed telephony services in Spain through the operator Telefónica de España.



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The following table shows the development of Telefónica de España's accesses since 2006:

	At December 31,		
	2006	2007 (in thousands)	2008
Fixed telephony accesses	15,949.9	15,918.8	15,326.3
Internet and data accesses	4,842.0	5,321.8	5,670.0
Narrowband accesses	1,040.5	660.8	388.0
Broadband accesses	3,742.7	4,614.0	5,246.4
Other accesses	58.8	47.0	35.6
Pay TV accesses	383.0	511.1	612.5
<b>Final clients accesses</b>	<b>21,174.9</b>	<b>21,751.6</b>	<b>21,608.8</b>
Wholesale line rental			9.5
Unbundled local loop	939.0	1,353.9	1,698.0
Shared ULL	527.7	776.4	602.3
Full ULL	411.3	577.6	1,095.7
Wholesale ADSL	586.4	495.5	423.8
Other	6.4	6.0	4.7
<b>Wholesale accesses</b>	<b>1,531.8</b>	<b>1,855.5</b>	<b>2,136.1</b>
<b>Total accesses</b>	<b>22,706.7</b>	<b>23,607.1</b>	<b>23,744.8</b>

*Note: Iberbanda's accesses are included as of January 1, 2007.*

The total Spanish fixed telephony market grew by an estimated 0.7% in 2008 in terms of number of accesses. During the same period, Telefónica Spain's fixed telephony accesses decreased by 3.7% to 15.3 million accesses at December 31, 2008 from December 31, 2007. Telefónica Spain had net fixed telephony accesses losses of 0.6 million in 2008, higher than the 31.1 thousand net fixed telephony accesses losses recorded in 2007.

Estimated net adds in the total Spanish broadband market decreased 23.0% to 1.1 million in 2008 from 1.4 million in 2007. The total Spanish fixed broadband Internet access market stood at an estimated 9.3 million accesses at December 31, 2008. Telefónica Spain's broadband accesses increased 13.7% to 5.2 million at December 31, 2008 from 4.6 million accesses at December 31, 2007.

The estimated market share of unbundled local loops in the broadband access market increased to 18.3% in 2008 from almost 17% in 2007. Unbundled local loops at December 31, 2008 amounted to 1.7 million accesses of which 35.5% were shared access loops.

Telefónica Spain's total wholesale ADSL accesses decreased 14.5% to 0.4 million accesses at December 31, 2008 from 0.5 million accesses at December 31, 2007, mainly because of the migration to unbundled local loops.

In 2008, Telefónica Spain continued to increase its presence in the pay TV market, achieving a customer base of 0.6 million accesses at December 31, 2008. Telefónica Spain increased its estimated market share to 14% at December 31, 2008, compared to approximately 13% at December 31, 2007.

Since 2005 Telefónica Spain has bundled ADSL products with other products in Duo bundles, which include voice services, and Trio bundles, which include voice and IPTV services. The total number of Duo and Trio bundles

increased by 19.7% to 4.5 million units at December 31, 2008 from 3.8 million units at December 31, 2007. At December 31, 2008, over 85% of Telefónica Spain's broadband accesses were included in Duo or Trio bundles compared to over 80% at December 31, 2007.

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In terms of sales and marketing, one of our main priorities has been to satisfy customer needs and increase customer loyalty by improving the quality of our customer service and offering a wide range of integrated telecommunications services. We have reinforced our strategy of customer segmentation in order to tailor our services to best meet the specific needs of each customer segment. In addition, with the purpose of increasing our ability to distribute our products and services, we have signed agreements with large Spanish department stores to complement our traditional channels of distribution.

In 2008 we marketed new products and promotions to strengthen our position in the market for fixed-mobile convergence, both for residential and business customers.

In 2008 we were also very active in capturing new fixed telephony customers (which, in many cases, includes broadband customers as well) through free-connection fee campaigns. These campaigns stimulated new adds, decreasing the net loss of lines.

During 2008 Telefonica Spain continued marketing bundled ADSL products, which included voice and IPTV services, and communicated to the *Comisión del Mercado de las Telecomunicaciones*, or the CMT, its intention to start marketing Quadruple bundles, which include fixed-line telephony, mobile telephony, broadband access and IPTV services.

Telefónica Spain launched in July 2008 a new ADSL offer at 6Mb intended for the residential market and upgraded the existing base of 3Mb customers (for loops compatible with such speed) to 6Mb.

ADSL commercial campaigns carried out to capture new broadband customers were very intense during 2008, in particular the *Semana Loca* campaigns, which had very positive results for Telefonica Spain. These campaigns introduced new promotions with attractive and competitive prices.

In 2008 Telefónica Spain also launched Fiber to the Home (FTTH) based services, including a brand new range of products and services named FUTURA. This line of products embodies the concept of high internet speed (currently up to 30Mb) that allowed Telefónica Spain to provide its customers with advanced IPTV services such as High Definition (HDTV channels), Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR). The offer was launched in November 2008, once Telefónica Spain received permission from the CMT allowing it to commercialize such products.

In the business segment, we continued to promote the concept of *Puesto de Trabajo*, which is a package of services designed to meet the voice, data and IT needs for small- and medium-sized businesses.

The corporate customer service model employed by Telefónica Spain, which is focused on achieving the highest degree of efficiency in customer service, has the following features:

- A 24-hour personal customer service line for purchasing any type of product and service and handling customer queries;

- Telefónica stores (*Tiendas Telefónica*) where customers can test and buy the products we market, including the opening in 2008 of our flagship store at the historic Telefónica headquarters building on the Gran Vía (Madrid), which is the largest telecommunications store in Spain;

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The Telefónica virtual store (Telefónica On Line), accessible by Internet, which offers the ability to order and purchase online the majority of services and products we offer; and

A customer service system for corporate customers, ranging from a telephone help line for businesses to the assignment of sales managers to address the needs of larger corporate clients.

Regarding competition, Telefónica Spain's main competitors in the fixed telephony market fall within three main categories:

Cable operators, such as the Spanish nationwide cable operator ONO, which offers trio bundles, and regional cable operators;

ULL operators, such as Orange and Ya.com (both directly or indirectly owned by France Telecom), Jazztel and Tele2 (owned by Vodafone); and

Large-business oriented operators, such as British Telecom and Colt, which offer voice and data VPNs.

With the acquisition of Tele2, Vodafone now offers bundles of naked ADSL plus home zone mobile voice and fixed numbering.

Telefónica Spain's estimated market share at December 31, 2008 was as follows:

Fixed telephony accesses market share reached approximately 77% of retail accesses (approximately 81% in 2007);

Broadband market share amounted to approximately 57% of retail accesses (approximately 56% in 2007); and

Pay TV market share achieved approximately 14% of the market in terms of accesses (approximately 13% in 2007).

In November, the CMT approved Wholesale Access for Telephone Lines (AMLT), a new product that allows operators to resell telephone lines to its final customers.

In terms of network and technology, Telefónica Spain has made significant investments to develop its broadband access business through ADSL technology, strongly increasing the coverage and the development of Imagenio, our IPTV service. Additionally Telefónica Spain has begun deploying a new fiber access network, or FTTX, which currently offers only limited coverage.

**Table of Contents***Telefónica Spain Mobile business (Spain)*

Telefónica Spain provides mobile services in Spain through the operator Telefónica Móviles España.

The Spanish mobile market exceeded 53.1 million accesses at December 31, 2008, which represented a penetration rate of 116%, an increase of more than 5 percentage points from December 31, 2007. The Spanish mobile market showed growth as a result of a decline of mobile handset prices and per minute call rates, and the success of pre-pay calling plans, with strong competition in number portability and pressure on pricing, including termination rate reductions, along with the entry of new competitors such as MVNOs.

The following table presents selected statistical data relating to the operations of Telefónica Spain's mobile business:

	At December 31,		
	2006	2007	2008
<b>Total mobile accesses (in thousands)</b>	<b>21,446.0</b>	<b>22,826.6</b>	<b>23,604.8</b>
Pre-pay accesses (in thousands)	9,303.0	9,181.8	9,037.0
MOU (minutes)	156	161	156
ARPU (in euros)	32.9	32.3	30.4

Our mobile customer base in Spain, measured in terms of accesses, increased 3.4% to 23.6 million accesses at December 31, 2008 compared to 22.8 million accesses at December 31, 2007. This growth was primarily driven by a 6.8% increase in accesses in the contract segment. At December 31, 2008, approximately 61.7% of our mobile accesses in Spain were through a contract, which represents an increase of 1.9 percentage points from December 31, 2007.

In the context of an increasingly competitive market, with strong competition in number portability and pressure on pricing, along with the entry of new competitors, Telefónica Móviles España estimated that it had the highest share of net adds in the Spanish mobile market in 2008 (31.3%), thanks to their competitive tariff scheme, strong focus on high value customers and effective marketing and advertisement strategies. Telefónica Spain's mobile business achieved net adds of 0.8 million accesses in 2008 from net adds of 1.4 million accesses in 2007, with a noteworthy number of net accesses gains in the contract segment, 0.9 million accesses in 2008, from 1.5 million in 2007.

Commercial activity fell by 2.4% to 11.7 million commercial actions in 2008.

In terms of portability, which is customers transferring their number to Telefónica Móviles España from a competitor, Telefónica Móviles España continued to focus on the higher value customer segments with a net balance in contract of 38.8 thousand of lines. Meanwhile, total net adds was a negative figure of 61.3 thousand of lines at the end of the year. In terms of usage, the volume of traffic carried by Telefónica Móviles España grew 3.3% to more than 65,000 million minutes in 2008 from over 63,300 million minutes in 2007. On net traffic, which means traffic originated and terminated on our network, rose 2.8% in 2008 compared to 2007. MOU decreased 2.8% to 156 minutes in 2008 from 161 minutes in 2007.

ARPU for Telefónica Spain's mobile business decreased 5.9% to 30.4 in 2008 from 32.3 in 2007. The decrease was partially driven by a decrease in voice ARPU of 8.5% to 25.2 in 2008 from 27.6 in 2007 as a result of increased competition, interconnection price cuts and roaming-out regulation. Outgoing voice ARPU also decreased 7.4% to 21.2 in 2008 from 22.9 in 2007. These decreases were partially offset by an increase in data ARPU of 9.3% to 5.2 in 2008 from 4.8 in 2007, with outgoing data ARPU growing 10.5% to 4.7 in 2008 from 4.2 in 2007.

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At December 31, 2008, Telefónica Spain's customers held more than 6.2 million UMTS/HSDPA handsets, representing a penetration of 27% of our accesses base, excluding machine to machine, or M2M, an increase of 11.5 percentage points from December 31, 2007.

In terms of sales and marketing, Telefónica Spain is focused on key initiatives to preserve its position as a leading mobile operator in the market, leading it to increase commercial efforts with measures including:

- In-depth market segmentation, with a focus on customer value;
- Programs to promote customer loyalty;
- Pricing policy to stimulate usage, including launching segmented packages and innovative tariff options; and
- Leverage of UMTS to develop new services, deploying the network ahead of competitors.

Since Telefónica Spain began providing mobile services in Spain, its sales and marketing strategy has been to generate increased brand awareness and customer satisfaction, achieving customer growth and increased revenues. Telefónica Spain utilizes several types of marketing channels, including television, radio, exterior billboards, telemarketing, direct mail and Internet advertising. Telefónica Spain also sponsors several cultural and sporting events in order to increase its brand recognition.

During 2008 Telefónica Spain's main marketing campaigns focused on boosting demand for mobile broadband, with the launch of data flat rates, and serving as the exclusive distributor in Spain of high-capacity data transmission devices such as the iPhone, N96 and N5800. In addition, Telefónica Spain offers ASSUS laptops. Both mentioned tariffs and the offer of suitable devices, have been bundled by Telefónica in order to promote an increase in the number of accesses and level of use of mobile broadband services in Spain.

With respect to mobile voice service, Telefónica Spain promoted access to medium range mobile phones for pre-pay customers with the launch of *Movistar Mix*, and responded to the needs of cost control of different customer segments with different ranges of flat rate plans including: *Planazos* launched in October 2008 for residential customers that are high users of voice services, *Autónomos Tú Eliges* launched in September 2008 for independent professional customers, *Megabonos* in May 2008 for residential customers who are high users of messaging and *Tarifa Plana Familiar* in October 2008, designed for residential customers calling between family members.

Regarding competition, Telefónica Spain's main competitors in the Spanish market for mobile communications service are: Vodafone España, a subsidiary of Vodafone plc, Orange, which is the trade name of France Telecom España S.A., Yoigo, whose principal shareholder is TeliaSonera, and other MVNO operators.

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Telefónica Spain's estimated market share in Spain in terms of mobile accesses was approximately 44% at December 31, 2008, down from 45.1% at December 31, 2007.

In terms of network and technology, Telefónica Spain's digital network in Spain is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica Spain's international roaming agreements, enable its mobile customers to make and receive calls in more than 200 countries worldwide. Telefónica Spain's GSM/UMTS based network provides its customers with access to many of the most advanced mobile handsets and a full range of services and products.

In 2007 and 2008, Telefónica Spain invested an aggregate amount of approximately 1,333 million in building out and enhancing its networks in Spain and developing its technological platforms and information systems. At December 31, 2008, Telefónica Spain's GSM/GPRS digital network in Spain, which consisted of 113 switching centres and approximately 22,000 base stations, provided coverage to approximately 99% of the Spanish population. In 2008, Telefónica Spain accelerated the expansion of its UMTS network with 1,324 new base stations with a total of more than 9,200 UMTS base stations installed at the end of the year.

**Table of Contents****INFORMATION BY BUSINESS LINE*****Telefónica Latin America***

Telefónica Latin America provides fixed line and mobile telephony, and pay TV services through the operators described in the following sections in the main Latin American markets. In addition, Telefónica Latin America's other members include: Telefónica Empresas, Telefónica International Wholesale Services, or TIWS, the business unit responsible for other telecommunications operators and for managing our international services and the network which supports these services, and Terra Networks Latin América.

The following table presents statistical data relating to our operations in Latin America:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	23,916.9	25,381.0	25,644.5
Internet and data accesses	6,723.7	6,954.8	7,629.8
Narrowband accesses	2,813.5	1,815.6	1,445.8
Broadband accesses	3,780.3	5,035.9	6,067.0
Other accesses	130.0	103.4	117.0
Mobile accesses (1)	83,298.4	100,542.2	123,385.2
Pay TV	665.3	1,163.8	1,540.5
<b>Final clients accesses</b>	<b>114,604.4</b>	<b>134,041.8</b>	<b>158,200.1</b>
<b>Wholesale accesses</b>	<b>65.9</b>	<b>62.6</b>	<b>59.0</b>
<b>Total accesses</b>	<b>114,670.3</b>	<b>134,104.4</b>	<b>158,259.0</b>

(1) Includes accesses of Telemig from April 2008.

Notes:

As of December 31, 2006 we have been reclassified the Group accesses, including within the fixed telephony accesses, the total of fixed wireless accesses, which accesses until December 31, 2007, have been



included,  
depending the  
country, within  
the total  
accesses fixed  
or mobile.

From January 1,  
2008 it is  
included TUPs  
with wireless  
technology  
within the fixed  
wireless section.

Telefónica Latin America's total accesses increased 18.0% to 158.3 million accesses at December 31, 2008 from 134.1 million accesses at December 31, 2007. Total accesses at December 31, 2008 include 123.4 million mobile accesses, 25.6 million fixed telephony accesses, 7.6 million Internet and data accesses and 1.5 million pay TV accesses. Additionally, it includes 0.1 million of wholesale accesses.

The following table sets forth certain information as of December 31, 2008 regarding the principal Latin American operating companies of Telefónica Latin America, ordered by region.

<b>Country</b>	<b>Company</b>	<b>Population (in millions)</b>	<b>Interest (%)</b>
Brazil	Telecomunicações de São Paulo, S.A. Telesp	40.6(*)	87.95
	Brasilcel, N.V.(1)	190.4	50.00
Mexico	Telefónica Móviles México, S.A. de C.V.	109.6	100.00
Panamá	Telefónica Móviles Panamá, S.A.	3.4	100.00
Nicaragua	Telefónica Móviles Nicaragua, S.A.	5.4	100.00
Guatemala	Telefónica Móviles Guatemala, S.A.	13.5	100.00
El Salvador	Telefónica Móviles El Salvador, S.A. de C.V.	5.9	100.00
Venezuela	Telcel, S.A.	27.7	100.00
Colombia	Colombia Telecomunicaciones, S.A. ESP.	44.7	52.03
	Telefónica Móviles Colombia, S.A.		100.00

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<b>Country</b>	<b>Company</b>	<b>Population (in millions)</b>	<b>Interest (%)</b>
Peru	Telefónica del Perú, S.A.A.	27.9	98.18
	Telefónica Móviles Perú, S.A.C.		97.79
Ecuador	Otecel, S.A.	14.5	100.00
Argentina	Telefónica de Argentina, S.A.	39.7	98.05
	Telefónica Móviles Argentina S.A.		100.00
Chile	Telefónica Chile, S.A.	16.4	96.75
	Telefónica Móviles Chile, S.A.		100.00
Uruguay	Telefónica Móviles Uruguay, S.A.	3.3	100.00

(\*) Concession area only.

(1) Jointly controlled and managed by Telefónica and Portugal Telecom. Brasilcel is the holding company which controls the mobile operating company Vivo, S.A., or Vivo.

Revenues at Telefónica Latin America increased 10.4% to 22,174 million in 2008 from 20,078 million in 2007 (an increase of 14.2% on a constant euro basis). On a constant euro basis, the countries contributing most to this revenue growth were Brazil (4.7 percentage points), Venezuela (2.8 percentage points) and Argentina (2.4 percentage points). In 2008, Brazil continued to make the largest contribution to Telefónica Latin America's revenues (38.8%) followed by Venezuela (12.5%) and Argentina (11.4%).

Telefónica Latin America revenues from Brazil increased to 8,606 million in 2008 from 7,662 million in 2007 (an increase of 12.2% in local currency), with both fixed and mobile businesses contributing (increases of 8.2% and 22.3%, respectively, in local currency). With respect to Vivo, Telefónica Latin America's mobile business in Brazil, revenues increased to 2,932 million in 2008 from 2,396 million in 2007 (an increase of 22.3% in local currency), driven by a strong growth in the customer base, outgoing revenues, based on plan upgrades by existing customers, and focus in connectivity, and by the acquisition of Telemig in the second quarter of 2008. With respect to Telesp, Telefónica Latin America's fixed line business in Brazil, revenues increased to 6,085 million in 2008 from 5,619 million in 2007 (an increase of 8.2% in local currency). This increase was due to the growth of broadband, TV and data/IT services which have increased as a percentage of total revenues (16.3% in 2008 vs. 12.9% in 2007). Traditional fixed line revenues also grew (2.7% in local currency), mainly driven by higher fixed to mobile traffic and more value added services, which helped to offset the decrease in accesses and public telephony revenues.

Telefónica Latin America revenues from Argentina increased to 2,527 million in 2008 from 2,264 million in 2007 (an increase of 21.3% in local currency). Of this, Telefónica Móviles Argentina's revenues increased to

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1,585 million in 2008 from 1,353 million in 2007 (an increase of 27.3% in local currency). This was primarily driven by an increase of 18.0% in service revenues (an increase of 28.2% in local currency). Revenues in the fixed line business increased to 1,027 million in 2008 from 984 million in 2007 (an increase of 13.5% in local currency), with the traditional fixed line business contributing 23% to this growth, the Internet business contributing 43%, and data and IT businesses contributing 23%.

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Telefónica Latin America's revenues from Chile increased to 1,936 million in 2008 from 1,814 million in 2007 (an increase of 13.3% in local currency). Growth was primarily driven by the mobile, broadband and pay TV businesses, which offset the decline in the traditional fixed telephony business. With respect to Telefónica Móviles Chile, Telefónica Latin America's mobile business in Chile, revenues increased to 1,051 million in 2008 from 930 million in 2007 (an increase of 20.0% in local currency). Service revenues increased 13.4% in 2008 (an increase of 20.3% in local currency), driven by growth in ARPU. This trend is underpinned by migration to GSM technology, growth in the contract customer base (27.9% of Telefónica Móviles Chile's mobile accesses were contract access at December 31, 2008 compared to 24.5% at December 31, 2007), plan upgrades and the sale of minute bundles and value added services. With respect to Telefónica Chile, Telefónica Latin America's fixed line business in Chile, revenues in 2007 remained relatively unchanged at 974 million in 2008 (an increase of 6.1% in local currency). Pay TV services growth and increased broadband penetration drove the local currency increase in Internet and broadband revenues, offsetting a decrease in revenues from traditional business.

Telefónica Latin America's revenues from Peru increased to 1,627 million in 2008 from 1,513 million in 2007 (an increase of 7.6% in local currency). Revenue growth was primarily driven by outgoing revenues in the pre-pay segment of its mobile business and broadband services and by television in its fixed line business. With respect to Telefónica Móviles Perú, Telefónica Latin America's mobile business in Peru, revenues increased to 773 million in 2008 from 603 million in 2007 (an increase of 28.4% in local currency), driven primarily by revenue growth in the pre-pay segment. Service revenues increased 20.0% in 2008 (an increase of 20.1% in local currency). With respect to Telefónica del Perú, Telefónica Latin America's fixed line business in Peru, revenues decreased to 977 million in 2008 from 1,031 million in 2007 (a decrease of 5.1% in local currency). This decrease was primarily due to a decrease in revenues from public use telephony and fixed telephony service as a consequence of Telefónica del Perú no longer being by default provider of long distance services and the continued migration of customers to mobile rather than fixed services. In the second half of 2008, Telefónica del Perú lowered the rates on calls from public use telephony to mobile, which slowed the pace of revenue decreases from public use telephony. In contrast, revenues from broadband and pay TV increased over the same period (21.0% and 6.0% in local currency, respectively).

Telefónica Latin America's revenues from Colombia decreased to 1,490 million in 2008 from 1,569 million in 2007 (a decrease of 3.9% in local currency). The growth in Internet and broadband revenues in the fixed business and service revenues derived from the mobile business did not offset the reduction of interconnection tariffs implemented in December 2007. With respect to Telefónica Móviles Colombia, Telefónica Latin America's mobile business in Colombia, revenues decreased to 815 million in 2008 from 869 million in 2007 (a decrease of 5.1% in local currency). Service revenues decreased 6.6% in 2008 (a decrease of 5.5% in local currency) primarily due to a reduction of interconnection tariffs. Revenues for the fixed line telephony business decreased to 710 million in 2008 from 739 million in 2007 (a decrease of 2.9% in local currency) primarily due to the lower revenues from traditional fixed services not compensated by increased broadband and pay TV revenues.

Telefónica Latin America's revenues from Mexico increased to 1,631 million in 2008 from 1,431 million in 2007 (an increase of 23.8% in local currency). This growth was underpinned by service revenues growth of 21.6% in 2008 (an increase of 32.1% in local currency). This increase in local currency was greater than the 22.8% rate of growth in the customer base over the same period.

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Telefónica Latin America's revenues from Venezuela increased to 2,769 million in 2008 from 2,392 million in 2007 (an increase of 23.9% in local currency), primarily driven by higher growth in service revenues of 14.6% (an increase of 22.6% in local currency). This growth in local currency was greater than the 14.1% rate of growth in the customer base over the same period.

Telefónica Latin America's revenues from Central America decreased to 568 million in 2008 from 585 million in 2007 (an increase of 4.2% in constant euro terms). This growth in constant euro terms was primarily driven by improved commercial performance in the region. Service revenues grew 5.2% in constant euro terms in 2008 compared to 2007.

Telefónica Latin America's revenues from Ecuador increased to 318 million in 2008 from 291 million in 2007 (an increase of 16.8% in local currency). Service revenues increased 13.1% in 2008 (an increase of 20.8% in local currency).

Regarding expenses, Telefónica Latin America's expenses increased 5.4% in 2008 to 14,338 million from 13,605 million in 2007.

Supplies expenses increased 7.0% to 6,371 million in 2008 from 5,953 million in 2007, mainly due to higher interconnection costs and an increase in the cost of handsets driven by growth of gross adds and upgrades.

Supplies expenses for Telefónica Latin America in Brazil increased to 2,479 million in 2008 from 2,045 in 2007 (an increase of 21.1% in local currency), principally due to the increase of interconnection mobile costs as a result of outgoing traffic growth, and higher co-billing costs in the fixed line business, as a result of higher services traffic, and more data services out of Sao Paulo.

Supplies expenses for Telefónica Latin America in Argentina increased to 650 million in 2008 from 556 million in 2007 (an increase of 27.0% in local currency), principally due to higher interconnection costs as a result of higher traffic and capacity needs and higher inflation.

Supplies expenses for Telefónica Latin America in Chile increased to 503 million in 2008 from 472 million in 2007 (an increase of 13.0% in local currency), principally due to higher inflation, mobile interconnection costs, mobile handsets upgrades, purchases of pay TV content and the construction of increased broadband capacity.

Supplies expenses for Telefónica Latin America in Peru increased to 413 million in 2008 from 386 million in 2007 (an increase of 6.9% in local currency). This increase was primarily driven by increased marketing efforts in both the mobile and fixed line businesses, and an increase in mobile traffic and interconnection tariffs.

Supplies expenses for Telefónica Latin America in Colombia decreased to 394 million in 2008 from 530 million in 2007 (a decrease of 24.8% in local currency), principally due to a reduction in interconnection tariffs implemented in December 2007.

Supplies expenses for Telefónica Latin America in Mexico decreased to 716 million in 2008 from 732 million in 2007 (an increase of 6.3% in local currency). This increase in local currency was primarily due to an increase in interconnection costs driven by the growth of traffic and an increase in contract segment commercial activity.

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Supplies expenses for Telefónica Latin America in Venezuela decreased to 770 million in 2008 from 780 million in 2007 (an increase of 5.5% in local currency), principally due to lower handsets costs as a consequence of the GSM network, that partially compensate higher roaming interconnection costs.

Supplies expenses for Telefónica Latin America in Central America decreased 6.1% in constant euro terms to 196 million in 2008 from 224 million in 2007, principally due to a decrease in interconnection costs and in the cost of handsets as a result of a decrease in gross adds and upgrades.

Supplies expenses for Telefónica Latin America in Ecuador increased to 112 million in 2008 from 109 million in 2007 (an increase of 9.5% in local currency), principally due to an increase in interconnection costs driven by a growth of traffic.

Personnel expenses for Telefónica Latin America decreased 8.0% to 1,735 million in 2008 from 1,886 million in 2007, principally due to personnel restructuring charges recorded in 2007.

Personnel expenses for Telefónica Latin America in Brazil decreased to 513 million in 2008 from 547 million in 2007 (a decrease of 6.3% in local currency), primarily as a result of Telesp's program for restructuring its workforce in 2007.

Personnel expenses for Telefónica Latin America in Argentina decreased to 303 million in 2008 from 323 million in 2007 (an increase of 2.0% in local currency). This increase in local currency was due to higher expenses in the mobile business which compensated reduced expenses in the fixed line business due to restructuring of the workforce realized during 2007.

Personnel expenses for Telefónica Latin America in Chile increased to 182 million in 2008 from 169 million in 2007 (an increase of 14.7% in local currency). This increase was primarily driven by the implementation in 2008 of new labor legislation in Chile and higher inflation.

Personnel expenses for Telefónica Latin America in Peru decreased to 159 million in 2008 from 251 million in 2007 (a decrease of 36.7% in local currency). 2007 personnel expenses recorded a 108 million charge related to workforce restructuring.

Personnel expenses for Telefónica Latin America in Colombia decreased to 122 million in 2008 from 123 million in 2007 (a decrease of 0.4% in local currency), primarily driven by workforce restructuring costs in both the mobile and fixed line businesses.

Personnel expenses for Telefónica Latin America in Mexico increased to 96 million in 2008 from 86 million in 2007 (an increase of 20.7% in local currency) principally due to an increase in the number of employees and an increase in wages.

Personnel expenses for Telefónica Latin America in Venezuela increased to 131 million in 2008 from 108 million in 2007 (an increase of 30.4% in local currency), principally due to the effects of higher inflation on wages.

Personnel expenses for Telefónica Latin America in Central America increased to 44 million in 2008 from 42 million in 2007 (an increase of 12.0% on a constant euro basis), principally due to an increase in the number of employees and workforce restructuring costs.

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Personnel expenses for Telefónica Latin America in Ecuador increased to 26 million in 2008 from 24 million in 2007 (an increase of 16.4% in local currency), principally due to an increase in the headcount.

Other expenses for Telefónica Latin America increased 8.1% to 6,232 million in 2008 from 5,767 million in 2007, principally due to an increase in customer service activities and higher costs associated with the retention and acquisition of customers.

Other expenses for Telefónica Latin America in Brazil increased to 2,543 million in 2008 from 2,354 million in 2007 (an increase of 9.3% in local currency). This increase was primarily driven by higher sales and recharge commissions in the mobile business due to commercial aggressiveness and higher FISTEL (a regulatory tax linked to net adds of customers) costs due to stronger customer base growth in Vivo. Other expenses also increased in the fixed line business mainly due to higher call center and maintenance expenses, primarily as a result of the growth of broadband and TV clients.

Other expenses for Telefónica Latin America in Argentina increased to 678 million in 2008 from 626 million in 2007 (an increase of 17.1% in local currency), principally as a result of higher inflation and a broader range of services offered.

Other expenses for Telefónica Latin America in Chile increased to 556 million in 2008 from 477 million in 2007 (an increase of 18.6% in local currency), principally due to increased customer service activities and network upgrades and repairs.

Other expenses for Telefónica Latin America in Peru increased to 467 million in 2008 from 404 million in 2007 (an increase of 11.2% in local currency), principally due to the higher commission expenses, increased customer service activities and mobile advertising as a result of higher commercial activity.

Other expenses for Telefónica Latin America in Colombia increased to 515 million in 2008 from 476 million in 2007 (an increase of 9.6% in local currency), principally due to higher bad debt allowances in the mobile business.

Other expenses for Telefónica Latin America in Mexico decreased to 430 million in 2008 from 468 in 2007 (a decrease of 1.1% in local currency), due to the implementation of measures to control commissions, marketing and logistics costs.

Other expenses for Telefónica Latin America in Venezuela increased to 553 million in 2008 from 449 million in 2007 (an increase of 31.7% in local currency), driven primarily by increased network expenses due to the launch of a GSM network and higher operational taxes and acquisition costs.

Other expenses for Telefónica Latin America in Ecuador increased to 93 million in 2008 from 86 million in 2007 (an increase of 15.4% in local currency), principally due to an increase in commercial activity and the tax paid for the renewal of the mobile license.

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In the case of operating income before depreciation and amortization, or OIBDA, Telefónica Latin America's OIBDA increased 18.6% to 8,445 million in 2008 from 7,121 million in 2007 (an increase of 22.5% on a constant euro basis). By country, Venezuela contributed most to OIBDA growth (5.1 percentage points), followed by Brazil (4.0 percentage points) and Mexico (3.9 percentage points). In absolute terms, in 2008 Brazil was the largest contributor to Telefónica Latin America's OIBDA, accounting for 39.7% of the total, followed by Venezuela at 15.7% and Argentina at 10.9%.

Telefónica Latin America's OIBDA in 2008 as a percentage of Telefónica Latin America's revenues for the same period was 38.1%, 2.6 percentage points higher than in 2007.

Telefónica Latin America's OIBDA in Brazil increased to 3,359 million in 2008 from 3,056 million 2007 (an increase of 9.8% in local currency).

Telefónica Latin America's OIBDA in Argentina increased to 919 million in 2008 from 788 million 2007 (an increase of 26.7% in local currency).

Telefónica Latin America's OIBDA in Chile increased to 740 million in 2008 from 716 million 2007 (an increase of 9.7% in local currency).

Telefónica Latin America's OIBDA in Peru increased to 621 million in 2008 from 482 million 2007 (an increase of 29.0% in local currency).

Telefónica Latin America's OIBDA in Colombia increased to 515 million in 2008 from 503 million 2007 (an increase of 3.6% in local currency).

Telefónica Latin America's OIBDA in Mexico increased to 420 million in 2008 from 179 million 2007 (an increase of 154.2% in local currency).

Telefónica Latin America's OIBDA in Venezuela increased to 1,328 million in 2008 from 1,060 million 2007 (an increase of 34.0% in local currency).

Telefónica Latin America's OIBDA in Central America decreased to 217 million in 2008 from 236 million 2007 (a decrease of 1.5% on a constant euro basis).

Telefónica Latin America's OIBDA in Ecuador increased to 92 million in 2008 from 73 million 2007 (an increase of 35.0% in local currency).

Regarding depreciation and amortization, Telefónica Latin America's depreciation and amortization expense increased 2.4% to 3,645 million in 2008 from 3,559 million in 2007.

Finally, Telefónica Latin America's operating income increased 34.8% to 4,800 million in 2008 from 3,562 million in 2007.



**Table of Contents***Brazil*

The following table presents statistical data relating to our operations in Brazil:

	<b>2006</b>	<b>At December 31, 2007</b>	<b>2008</b>
		<b>(in thousands)</b>	
Fixed telephony accesses	12,107.1	11,960.0	11,661.9
Internet and data accesses	3,556.8	3,288.6	3,625.8
Narrowband accesses	1,856.6	1,155.9	996.4
Broadband accesses	1,608.2	2,069.6	2,557.8
Other accesses	92.0	63.1	71.6
Mobile accesses (1)	29,053.1	33,483.5	44,945.0
Pre-pay accesses	23,543.4	27,236.4	36,384.0
Pay TV		230.9	472.2
<b>Final clients accesses</b>	<b>44,716.9</b>	<b>48,963.1</b>	<b>60,704.9</b>
<b>Wholesale accesses</b>	<b>38.4</b>	<b>37.4</b>	<b>34.1</b>
<b>Total accesses</b>	<b>44,755.3</b>	<b>49,000.5</b>	<b>60,739.1</b>

(1) Includes accesses of Telemig which we acquired in April 2008.

Telefónica Latin America accesses in Brazil increased 24.0% to 60.7 million accesses at December 31, 2008 from 49.0 million accesses at December 31, 2007. This growth reflects a 34% year-on-year increase in Vivo's (Telefónica Latin America's Brazilian mobile business), customer base and, to a lesser extent, the expansion of Telesp's, (Telefónica Latin America's Brazilian fixed line business), broadband and pay TV businesses. These increases were offset by a reduction in the number of fixed telephony accesses at Telesp and a decrease in narrowband internet accesses primarily as a result of a strong migration to broadband accesses.

*Brazil Fixed Business – Telecomunicações de São Paulo, S.A. – Telesp*

Telesp provides fixed line and other telecommunications services in the Brazilian state of São Paulo under concessions and licenses from Brazil's federal government.

Telesp's fixed telephony, broadband and TV accesses increased 1.8% to 15.8 million accesses at December 31, 2008 from 15.5 million accesses at December 31, 2007, due to the growth of broadband and pay TV accesses, that offset the reduction in the number of fixed telephony accesses, within the context of increased fixed-to-mobile substitution as a result of strong growth in Brazil's mobile sector, and a decrease in narrowband internet accesses, as a result of migration to broadband solutions. Telesp's fixed telephony accesses decreased 2.5% to 11.7 million accesses at December 31, 2008 from 12.0 million accesses at December 31, 2007. Of these fixed telephony accesses, 23.8% were pre-pay accesses or accesses with consumption limits.

The Brazilian broadband market continued to grow strongly in 2008. Telesp increased its retail broadband customer base by 23.6% to 2.6 million accesses at December 31, 2008 from 2.1 million accesses at December 31, 2007. Telesp markets, since 2007 Trio Telefónica, a triple play bundle with different connection speed options and a range of pay TV content choices, including GloboSat content. Telesp offers TV mainly through a DTH solution and, since the fourth quarter of 2007 after the acquisition of Navy Tree, also offers MMDS technology, reaching 0.5 million

accesses at December 31, 2008, 0.3 million accesses more than the previous year.

Teleps's voice traffic increased by 7.7% in 2008 (to 76,653 million minutes) compared to 2007, due mainly to growth in long distance traffic from mobile services accesses as a result of a joint marketing strategy rolled out with Vivo, as well as a higher interconnection traffic coming primarily from mobile network. Fixed local traffic grew 3.4% despite the reduction in the number of fixed line accesses, driven by flat rates implementation and minutes bundles. Fixed-to-mobile traffic, measured in minutes, fell 1.7% in 2008 compared to 2007 as a result of a strong migration of traffic to mobile networks.

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In terms of sales and marketing, we employ a differentiated approach to marketing whereby we use a mix of human and technological resources (a specialized team and business intelligence tools, respectively), in addition to specific studies that allow us to target various market segments according to the relevant needs of the customers in such segment. We continuously monitor market trends in an effort to develop new products and services that may address the future needs and trends of our customers.

Telefónica Latin America employs the following strategies to deliver fixed line and other telecommunications solutions to residential, SME s and corporate customers in Brazil:

- person-to-person sales: customized sales services to achieve and preserve customer loyalty, customized consulting telecommunication services and technical and commercial support;
- telesales: a telemarketing channel;
- indirect channels: outsourced sales by certified companies in the telecommunications and data processing segments to provide an adequately sized network for our products and services;
- Internet: the Telefónica website;
- virtual shop for corporate clients: a gateway for our corporate customers to acquaint themselves with our portfolio through the Internet; and
- door-to-door: door-to-door sales of services by consultants in the State of São Paulo in order to approach more to Telefónica Negócios clients (SME s).

We offer bundled products, which include both local and long-distance traffic and minutes bundled with broadband, in response to a growing demand from our clients. We believe that the trend towards bundled offers will continue to grow, and that further developing such offers will be important to maintain our competitiveness in the market.

Regarding competition, our fixed line business in Brazil currently faces strong competition in the corporate and premium residential segments in respect of several types of services. In the corporate segment, there is strong competition in both voice services (local and long-distance) and data transmission, resulting in greater retention costs to maintain client relationships.

Our main competitors in the corporate fixed line segment are Oi, Intelig and Embratel, a subsidiary of Telmex International. In the high-income residential service segment, we compete for long-distance with Embratel and for broadband services with cable TV providers, mainly NET Serviços de Comunicação S.A. For the local voice and high-income segments, we also face increasing competition from mobile telecommunications services, which have lower rates for certain types of calls, such as mobile-to-mobile calls. Such competition increases our advertising and marketing costs. In 2008, we also saw the entry into the market of small VoIP operators, focused on low and middle income corporate clients, whose impact has not been significant at this point. We are taking several steps to defend ourselves from increasing competition. We are focused on improving our broadband products, by offering bundled services that include voice, broadband and television, and by increasing the access speed offered to our clients. In addition, we are improving our market segmentation and developing more competitive products intended to defend our client base from our competitors product offerings and to defend the market share.

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In the low-income, local fixed telecommunications segment, we face less direct competition due to the low profitability of this market. The most significant competition is from pre-pay mobile telecommunications providers. Telesp had an estimated market share in the fixed telephony market in the State of São Paulo of approximately 83.5% at December 31, 2008 based on the number of fixed telephony accesses.

*Brazil mobile business Brasilcel (Vivo)*

With 150.6 million mobile accesses, Brazil ranked first in Latin America in terms of number of mobile accesses at December 31, 2008. At December 31, 2008, Brazil had an estimated mobile market penetration rate of 79%.

Telefónica and Portugal Telecom are 50:50 shareholders in Brasilcel, a joint venture which combines Telefónica's and Portugal Telecom's mobile businesses in Brazil. This joint venture is the leading mobile operator in Brazil in terms of number of mobile accesses at December 31, 2008. All of the operating companies participating in the joint venture have been operating under the brand name Vivo since April 2003. The licensed areas of Brasilcel include 20 states in Brazil with an aggregate population of approximately 190.4 million people.

Vivo's customer base, in terms of number of accesses, increased 34.2% to 44.9 million accesses at December 31, 2008 from 33.5 million accesses at December 31, 2007. Of these, 8.6 million accesses were contract accesses. The primary factors contributing to this growth include the acquisition of Telemig, the wider range of handsets available, Vivo's leadership in terms of brand and distribution chain, ongoing marketing campaigns for pre-pay traffic and an improved capacity to attract contract accesses with its Vivo Escolha plans. At December 31, 2008, 53.9% of residential contract accesses had subscribed to a Vivo Escolha plan, demonstrating the popularity of this offer. These plans also helped to increase customer loyalty, by encouraging increased minute consumption and maintaining the perception in the market of Vivo's low prices relative to its competitors. These plans are divided into different categories depending on the number of minutes included as well as additional upgrade features, such as extra SMS, extra minutes of long distance calls and extra MMS.

Total ARPU for the year was 11.2 in 2008 compared to 11.9 in 2007 (a decrease of 5.8% in local currency), reflecting the increased proportion of SIM only accesses in the pre-pay customer base and control accesses in the contract customer base, despite continuous growth in data consumption.

In terms of sales and marketing, Brasilcel actively manages its distribution channels, which consisted of approximately 11,300 points of sale at December 31, 2008. Also, pre-pay customers have access to a wide range of recharge points. Credit recharges can also be made by electronic transfers through the commercial banking network. As of December 31, 2008, approximately 19% of Brasilcel's customer base were contract accesses and the remaining 81% were pre-pay accesses. Contract accesses growth was driven by customer acquisition and retention campaigns focused on high value customers, with an emphasis on the Vivo Escolha plans.

Regarding competition, Vivo was the leading mobile operator in Brazil in terms of number of accesses at December 31, 2008. The growth of the Brazilian market was considerable during the past years while being accompanied by an increase in competition due to the introduction of new competitors in the regions in which Vivo operates. Vivo's major competitors are subsidiaries of Telecom Italia, America Móvil and Oi.

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Vivo had an estimated market share in the Brazilian mobile markets in which it operates of approximately 30% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, the licenses granted to the companies integrated under the Vivo brand allow operations over the WCDMA, GSM, CDMA, CDMA 1XRTT, CDMA EVDO and TDMA systems. Vivo offers both analog and digital services in the band of 800 MHz, 1900 MHz and 2100 MHz. In 2008 migration from the CDMA to the GSM network continued. In 2008 Vivo reached national coverage with the acquisition of 13 of a total of 15 1900 MHz licenses which were auctioned in September 2008 and, with the acquisition of the J sub-strip of the 3G licenses auction carried out by ANATEL in December, 2008, Vivo should be able to improve service quality in the areas with the highest traffic on its network. At the end of 2007 Vivo reached an agreement for the purchase of Telemig in order to complete national coverage, although this transaction was not approved by ANATEL until the first months of 2008. Vivo's GSM customer base at December 31, 2008 amounted to 31.1 million accesses, 69% of its total customer base.

*Mexico*

*Mexico mobile business* *Telefónica Móviles México, S.A. de C.V.*

The following table presents selected statistical data related to our operations in Mexico:

	<b>2006</b>	<b>At December 31, 2007</b>	<b>2008</b>
		<b>(in thousands)</b>	
<b>Total mobile accesses</b>	<b>8,553.2</b>	<b>12,534.1</b>	<b>15,330.6</b>
Pre-pay accesses	8,017.8	11,833.7	14,432.4
Fixed wireless accesses	2.0	3.6	133.6
<b>Total accesses</b>	<b>8,553.2</b>	<b>12,537.6</b>	<b>15,464.2</b>

The mobile penetration rate in Mexico was approximately 71.7% at December 31, 2008 an increase of 8.3 percentage points from December 31, 2007.

During 2008, Telefónica Latin America, through Telefónica Móviles México, S.A. de C.V., or Telefónica Móviles México, launched innovative products to maintain current customers and attract additional ones. In addition, Telefónica Móviles México focused on commercial activity and profitability while improving the quality of its network, which enabled the company to maintain robust customer growth during that year.

Telefónica Móviles México's customer base increased 23.3% to 15.5 million mobile accesses at December 31, 2008 from 12.5 million accesses at December 31, 2007. Of these, 0.9 million were contract accesses.

Total ARPU for the year was 8.2 in 2008 compared to 9.3 in 2007 (a decrease of 4.3 % in local currency), due to lower termination rates and usage.

In terms of sales and marketing, in México, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products and services. At December 31, 2008, approximately 94.1% of our customers in Mexico were pre-pay accesses while approximately 5.9% were contract accesses.

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Among business initiatives that improved Telefónica Móviles México's competitive positioning, Telefónica Móviles México launched 1-2-3 Movistar during the 2008 Christmas season, which is a new three level, per minute rate plan which allows clients to choose according to their level of consumption.

Regarding competition, Telefónica Móviles México is the second largest mobile operator in Mexico based on the number of mobile accesses, and competes with various mobile operators at the national level. Telefónica Móviles México's principal competitor is Telcel, a subsidiary of América Móvil. Other significant competitors are Nextel and Iusacell.

Telefónica Móviles México had an estimated market share in the Mexican mobile market of approximately 19.5% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, Telefónica Móviles México has 100% of its accesses on its GSM network.

*Venezuela*

*Venezuela mobile business Telcel, S.A. Telcel*

The following table presents selected statistical data related to our operations in Venezuela:

	<b>At December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in thousands)</b>		
<b>Total mobile accesses</b>	<b>8,826.2</b>	<b>9,434.0</b>	<b>10,584.0</b>
Pre-pay accesses	7,520.2	8,900.3	9,970.7
Fixed wireless accesses	836.6	995.9	1,312.8
Pay TV			8.5
<b>Total accesses</b>	<b>8,826.2</b>	<b>10,429.9</b>	<b>11,905.3</b>

The mobile penetration rate in Venezuela stood at an estimated 100.2 % at December 31, 2008, an increase of 13.5 percentage points from December 31, 2007.

Telefónica Latin America operates in Venezuela through Telcel, S.A., or Telcel, whose accesses increased 14.1% to 12.0 million accesses at December 31, 2008 from 10.4 million accesses at December 31, 2007. This growth was the result of net adds of over 1.5 million accesses in 2008. 66.3% of the total gross adds were GSM, and GSM accesses made up over 55% of the total mobile accesses at December 31, 2008.

Total ARPU for the year was 16.9 in 2008 compared to 16.3 in 2007 (an increase of 11.0% in local currency), reflecting the increased proportion of contract accesses in the customer base, customer adoption of new products and services and the continued growth in data revenues.

In terms of sales and marketing, in Venezuela, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products. At December 31, 2008, 5.8% of our mobile accesses in Venezuela were contract accesses (excluding fixed wireless accesses from the total number of mobile accesses), while approximately 94% were pre-pay.

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In 2008 Telcel continued implementing its strategy of offering a wider range of handsets than its competitors, offering exclusive handsets including the launch of the iPhone during the 2008 Christmas season, as well as increasing sales in fixed wireless.

Regarding competition, the major market competitors in the Venezuela mobile business are Movilnet and Digitel. Movilnet is a mobile services communication provider owned by the public operator CANTV. Movilnet currently uses CDMA and TDMA technologies although it has started the migration process to GSM. Digitel is a mobile communications provider that uses GSM technology.

According to the *Comisión Nacional de Telecomunicaciones República Bolivariana de Venezuela*, or CONATEL, CANTV is the incumbent operator in Venezuela with a 79.0% share of the fixed market, and a 41.4% share of the mobile market (through Movilnet) as of December 31, 2008. CANTV is controlled by the government of Venezuela.

Telefónica had an estimated market share in the Venezuelan mobile market of approximately 37.8% at December 31, 2008, based on number of mobile accesses.

In terms of network and technology, in Venezuela, we operate both digital and analog networks. Our digital network is based on the CDMA and GSM standard and our analog network is based on N-AMPS. At December 31, 2008, approximately 55% of accesses in Venezuela were based on the GSM network.

*Chile*

The following table presents statistical data relating to our operations in Chile:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	2,206.2	2,172.4	2,121.0
Internet and data accesses	557.7	686.8	743.8
Narrowband accesses	53.3	31.8	18.7
Broadband accesses	494.5	646.0	716.6
Other accesses	10.0	8.9	8.6
Mobile accesses	5,680.2	6,282.7	6,875.0
Pre-pay accesses	4,507.6	4,742.2	4,956.0
Pay TV	94.2	219.9	263.0
<b>Final clients accesses</b>	<b>8,538.4</b>	<b>9,361.7</b>	<b>10,002.7</b>
<b>Wholesale accesses</b>	<b>19.9</b>	<b>15.4</b>	<b>11.5</b>
<b>Total accesses</b>	<b>8,558.3</b>	<b>9,377.2</b>	<b>10,014.3</b>

At December 31, 2008 Telefónica Latin America managed a total of 10.0 million accesses in Chile, 6.8% more than at December 31, 2007, underpinned by growth in mobile accesses, which increased by 9.4% to 6.9 million accesses at December 31, 2008 from 6.3 million accesses at December 31, 2007. Growth was also driven, to a lesser extent, by a 10.9% increase in final client broadband Internet accesses to 0.7 million accesses at December 31, 2008 and a 19.6% increase in pay TV accesses to 0.3 million accesses. Fixed telephony accesses decrease 2.4% to 2.1 million at December 31, 2008.

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*Chilean fixed business Telefónica Chile, S.A.*

Telefónica Latin America conducts its Chilean fixed business through Telefónica Chile S.A., or Telefónica Chile (formerly Compañía de Telecomunicaciones de Chile, or CTC Chile), the leading fixed line telecommunications operator in Chile based on number of accesses, according to information provided by its competitors and regulatory authorities.

Telefónica Chile's accesses increased 1.4% to 3.1 million accesses at December 31, 2008 from those accesses at December 31, 2007. Telefónica Chile's fixed telephony accesses decreased by 2.4% from December 31, 2007 to 2.1 million accesses at December 31, 2008. Broadband and pay TV accesses continued to grow in 2008, and Telefónica Chile managed 0.7 million broadband accesses at December 31, 2008, maintaining its leadership of the Chilean broadband market, in terms of accesses.

Telefónica Chile's pay TV business grew to 0.3 million accesses at December 31, 2008. Telefónica Chile established itself as the second pay TV operator in Chile, by number of accesses.

In terms of sales and marketing, one of our main priorities in the Chilean fixed line business is to satisfy customer needs by improving the quality of our customer service. We continued our strategy of segmenting our customers in order to tailor our services to best meet the specific needs of each customer segment.

During 2008, Telefónica Chile and VTR, our main competitor in the broadband service market, increased the speed of their respective broadband networks twice. In addition, Telefónica also launched Prepaid Broadband Service and VTR

Naked Broadband in Chile, aiming to target more customer segments.

The customer service model developed by Telefónica Chile, which is aimed at achieving the highest degree of efficiency in customer service, features the following:

- personal customer service lines for purchasing any type of product and service and handling customer queries;

- Telefónica stores (*Tiendas Telefónica*) where customers can test and buy products marketed by Telefónica;

- Telefónica's virtual store, accessible by Internet, which offers customers the ability to order and purchase online the majority of services and products offered by Telefónica; and

- a sophisticated customer service system for corporate clients, ranging from a telephone help line for small and medium-sized businesses to the assignment of sales managers to address the needs of larger corporate clients.

Regarding competition, the competitive landscape in fixed telephony in Chile is marked by a significant fixed-to-mobile substitution effect. The increased sales of Duo's and Trio's bundles is the cornerstone of Telefónica Chile's strategic focus, which aims to increase the number of revenue generating units per customer and, accordingly, ARPU. VTR is our principal competitor in the Chilean fixed telephony market, though Telmex has made a strong entrance into Chile as a 3-play player like Telefónica.



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Telefónica Chile's estimated market share at December 31, 2008 was as follows:

broadband market share amounted to approximately 49.4% of retail accesses;

fixed telephony accesses market share amounted to approximately 62.1% of retail fixed telephony accesses;  
and

pay TV market share amounted to approximately 17% of the market by number of accesses.

*Chilean mobile business – Telefónica Móviles Chile, S.A.*

The mobile penetration rate in Chile stood at an estimated 96.6% at December 31, 2008, an increase of 6.6 percentage points from December 31, 2007.

Telefónica Latin America conducts its Chilean mobile business through Telefónica Móviles Chile, S.A., or Telefónica Móviles Chile, whose customer base increased 9.4% to 6.9 million accesses at December 31, 2008, making it the market leader in Chile in terms of mobile accesses. Growth in the customer base was driven by net adds to the GSM service, which accounted for 97.2% of the total customer base, 7.7 percentage points more than at December 31, 2007. The number of contract accesses rose by 24.6% to 1.9 million accesses at December 31, 2008 from 1.5 million accesses at December 31, 2007, accounting for more than 64% of net adds in 2008.

Total ARPU for the year was 12.3 in 2008 compared to 12.0 in 2007 (an increase of 8.3% in local currency), driven by higher traffic and greater pre-pay accesses consumption.

In terms of sales and marketing, in Chile, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products.

Regarding competition, we currently have three primary competitors in the Chilean market for mobile communications service, each of which provides services on a nationwide basis: Entel, Claro and Nextel.

Telefónica Móviles Chile had an estimated market share in the Chilean mobile sector of approximately 43.3% at December 31, 2008 based on number of accesses.

In terms of network and technology, in Chile, Telefónica Móviles Chile operates with TDMA, CDMA and GSM networks. GSM customers represented 97.2% of Telefónica Móviles Chile's total customer base at December 31, 2008. In December 2007 the 3G network was launched, and Telefónica Móviles Chile had 0.1 million accesses on this network at December 31, 2008.

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The following table presents statistical data relating to our operations in Argentina:

	2006	At December 31, 2007 (in thousands)	2008
Fixed telephony accesses	4,636.3	4,682.5	4,603.1
Fixed wireless		104.3	22.4
Internet and data accesses	973.7	1,149.9	1,284.3
Narrowband accesses	439.2	312.2	182.8
Broadband accesses	517.7	819.3	1,082.0
Other accesses	16.8	18.4	19.5
Mobile accesses	11,199.4	13,629.7	14,829.6
Pre-pay accesses	7,315.8	8,836.0	9,687.6
Fixed wireless	140.7		
<b>Final clients accesses</b>	<b>16,809.4</b>	<b>19,462.1</b>	<b>20,717.0</b>
<b>Wholesale accesses</b>	<b>7.3</b>	<b>9.3</b>	<b>10.0</b>
<b>Total accesses</b>	<b>16,816.6</b>	<b>19,471.4</b>	<b>20,726.9</b>

Telefónica Latin America managed a total of 20.7 million accesses in Argentina at December 31, 2008, an increase of 6.4% from December 31, 2007. This increase was underpinned by the growth in mobile accesses, which increased by 8.8% to 14.8 million accesses at December 31, 2008 from 13.6 million accesses at December 31, 2007, and by growth in the number of broadband accesses, which increased by 32.1% to 1.1 million accesses at December 31, 2008 from 0.8 million accesses at December 31, 2007.

*Argentina fixed business – Telefónica de Argentina, S.A.*

Telefónica Latin America conducts its Argentine fixed business through Telefónica de Argentina, S.A., or Telefónica de Argentina, the leading provider of fixed line public telecommunications services and basic telephone services in Argentina in 2008 based on number of accesses, according to information provided by its competitors and regulatory authorities.

Telefónica de Argentina's accesses increased 1.0% to 5.9 million accesses at December 31, 2008 from 5.8 million accesses at December 31, 2007. This growth was primarily driven by a 32.1% increase in retail broadband accesses to 1.1 million accesses at December 31, 2008 from 0.8 million accesses at December 31, 2007. The growth in broadband accesses was accompanied by a slight decrease in fixed telephony accesses of 1.7% to 4.6 million accesses at December 31, 2008 from 4.7 million accesses at December 31, 2007.

Total voice traffic (measured in minutes) remained almost stable during 2008 as compared to 2007 despite the sharp growth of mobile-to-fixed traffic. Local and interconnection fixed-to-fixed traffic (measured in minutes) decreased 8.0% and 3.9% respectively, in the year ended December 31, 2008 compared to the year ended December 31, 2007. These decreases were offset by an increase in mobile-to-fixed interconnection traffic of 18.8% over the same period. Public use telephony traffic (measured in minutes) in 2008 fell by 27.7% compared to the year ended December 31, 2007.

In terms of sales and marketing, Telefónica de Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its fixed telephony products and services. Telefónica de Argentina continued answering customers' needs through the development of the broadband business and providing them new value added services. Telefónica de Argentina also focused its product strategy on bundlings and packages, supported by commercial offerings like flat rate plans (*Tarifa Plana*). In 2008, long distance flat rate plans were launched. The flat rate plan was primarily sold with the bundling of broadband

access together with a local traffic plan. As of December 31, 2008 approximately 58% of the broadband customer base subscribed to broadband through a bundled package.

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Regarding competition, Telefónica de Argentina is the incumbent provider of fixed telephony services in the southern region of Argentina. However, other licensees currently providing local telephone services include Telecom, Telmex, Impsat S.A. (acquired by Global Crossing in May 2007) and Port-Hable (Hutchison Telecommunications Argentina S.A.). Claro, a mobile phone company owned by America Movil, also competes in the fixed line telephony market, since March 2005.

Telefónica de Argentina is using its expanded fiber-optic network in the northern region of Argentina to carry long-distance traffic and a multiservice network to provide local service in the three most important cities in the northern region of Argentina where Telecom is the incumbent provider. Telefónica de Argentina expanded and improved its network capacity by the construction of fixed wireless networks and the activation of new lines.

Telefónica de Argentina also competes with Grupo Clarín, a company with a growing broadband and TV businesses as a result of the merger of its affiliate Cablevisión with Multicanal in 2007. In 2008, Telecentro, a small provider, without global coverage in the country, launched a triple-play offering reaching a customer base of around 40 thousand clients.

Telefónica had an estimated market share in the Argentine fixed telephony market of approximately 48.1% at December 31, 2008 based on number of accesses.

*Argentina mobile business Telefónica Móviles Argentina, S.A.*

The Argentine mobile market continued to grow at a strong pace in 2008, with an increase in its penetration rate from 98% at December 31, 2007 to 110% at December 31, 2008, based on number of accesses.

Telefónica Latin America conducts its Argentine mobile business through Telefónica Móviles Argentina, S.A., or Telefónica Móviles Argentina, whose accesses increased 8.8% to 14.8 million accesses at December 31, 2008 from 13.6 million accesses at December 31, 2007. Telefónica Móviles Argentina also increased its number of contract accesses by 7.3% to 5.1 million accesses at December 31, 2008 from 4.8 million accesses at December 31, 2007. Of Telefónica Móviles Argentina's total customer base at December 31, 2008, 99.8% were on Telefónica Móviles Argentina's GSM network, which represents an increase of 13.4 percentage points from December 31, 2007.

Total ARPU for the year was 8.7 in 2008 compared to 8.5 in 2007 (an increase of 10.5% in local currency), reflecting customer adoption of new products and services and the continued growth in data revenues.

In terms of sales and marketing, Telefónica Móviles Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2008, approximately 34.7% of our accesses in Argentina were contract accesses.

Regarding competition, we currently have three competitors in the Argentine market for mobile communications services, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by Telecom Italia through Telecom Argentina; Claro, controlled by América Móvil; and Nextel, owned by NII Holdings Inc.

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Telefónica Móviles Argentina had an estimated market share in the Argentine mobile market of approximately 34.0% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, in Argentina we operate on digital networks based upon GSM and UMTS technology. In 2008, Telefónica Móviles Argentina deactivated its analogical network. At December 31, 2008, GSM accesses represented 99.8 % of Telefónica Móviles Argentina's accesses.

*Colombia*

The following table presents statistical data relating to our operations in Colombia:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	2,359.4	2,328.5	2,299.2
Internet and data accesses	70.9	200.3	395.9
Narrowband accesses	2.9	0.0	0.3
Broadband accesses	68.0	200.3	393.9
Other accesses			1.7
Mobile accesses	7,759.7	8,372.1	9,963.1
Pre-pay accesses	5,960.5	6,612.9	8,327.3
Pay TV		72.9	142.3
<b>Final clients accesses</b>	<b>10,190.0</b>	<b>10,973.8</b>	<b>12,800.5</b>
<b>Wholesale accesses</b>			<b>2.9</b>
<b>Total accesses</b>	<b>10,190.0</b>	<b>10,973.8</b>	<b>12,803.4</b>

Telefónica Latin America managed a total of 12.8 million accesses in Colombia at December 31, 2008, an increase of 16.7% from December 31, 2007. This increase was underpinned by the sharp growth in mobile accesses, which increased 19.0% to 10.0 million accesses at December 31, 2008 from 8.4 million accesses at December 31, 2007, and by growth in the number of broadband accesses, which increased 96.7% to 0.4 million accesses at December 31, 2008 from 0.2 million accesses at December 31, 2007.

*Colombian fixed business - Colombia Telecomunicaciones, S.A. ESP*

Telefónica Latin America conducts its Colombian fixed telephony business through Colombia Telecomunicaciones, S.A. ESP, or Colombia Telecom, which is present in approximately 1,000 municipalities in Colombia. In April 2006, Telefónica Internacional, S.A., acquired 50% plus one share of Colombia Telecom for approximately 289 million pursuant to an auction process. In December, this company merged with Telefónica Data Colombia, S.A. As a result of the merger, Telefónica Internacional, S.A.'s stake increased to 52.03%.

Colombia Telecom reached 2.8 million accesses at December 31, 2008, which represents an increase of 9.2% from 2.6 million accesses at December 31, 2007. Of these accesses, 0.4 million accesses were broadband accesses, which represents an increase of 96.7% compared to December 31, 2007. This increase in broadband accesses also helped to offset the decrease of 1.3% in fixed telephony accesses from December 31, 2007 to 2.3 million accesses at December 31, 2008.

Colombia Telecom also launched a satellite TV product at the beginning of 2007, allowing it to begin offering Trio triple play bundles (voice, broadband and TV). As of December 31, 2008, Colombia Telecom had 0.1 million satellite TV accesses.

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Colombia Telecom has a finance lease agreement with PARAPAT. PARAPAT is the consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia Telecom and regulates the operation of assets, goods and rights relating to the provision of telecommunications services by Colombia Telecom. This finance lease agreement includes the lease of the telecommunications assets and the transfer of these assets to Colombia Telecom once the last installment of the lease has been paid which, in accordance with the payment schedule, is expected to be in 2022.

In terms of sales and marketing, Colombia Telecom uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market their products.

In Colombia, we are currently pursuing a strategy to increase market penetration, by offering bundled products such as Trio Telefónica .

Regarding competition, Colombia Telecom's principal competitors in the Colombian market are Telmex and ETB.

Colombia Telecom had an estimated market share in the Colombian fixed telephony market of approximately 29.2% at December 31, 2008 based on number of accesses.

*Colombian mobile business Telefónica Móviles Colombia, S.A.*

At December 31, 2008 the Colombian mobile market had 44.7 million accesses, representing an estimated mobile penetration rate of 91.1%. This penetration rate represents an increase of 15.9 percentage points from December 31, 2007.

Telefónica Latin America conducts its Colombian mobile business through Telefónica Móviles Colombia, S.A., or Telefónica Móviles Colombia, whose customer base increased by 19.0% from December 31, 2007 to 10.0 million accesses at December 31, 2008, 91.6% of which were GSM accesses. The number of GSM accesses at December 31, 2008 represents a 10.1 percentage point increase from December 31, 2007.

In 2008 Telefónica Móviles Colombia focused on its commercial restructuring, and increased the breadth and depth of its distribution capabilities. Telefónica Móviles Colombia continued to expand its GSM coverage. Also, Telefónica Móviles Colombia continued to work on a commercial offering with a similar rate structure regardless of call destination.

Total ARPU for the year was 6.8 in 2008 compared to 8.8 in 2007 (a decrease of 21.6% in local currency), reflecting the decreased proportion of contract accesses in the customer base and the reduction of interconnection tariffs in December 2007.

In terms of sales and marketing, Telefónica Móviles Colombia uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2008, approximately 16.4% of our mobile accesses in Colombia were contract accesses, while approximately 83.6% were pre-pay accesses.

The company implemented, in the contract segment, commercial promotions associated with customer's loyalty and new tariff plans focused on one single tariff to any destination with lower basic charges, to attract customers.

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Regarding competition, Telefónica Móviles Colombia currently has two primary competitors in the Colombian market for mobile communications services: Comcel, which is owned by América Móvil, and Colombia Móvil, who operates under the brand Tigo and it is owned by Millicom.

Telefónica Móviles Colombia had an estimated market share in the Colombian mobile market of approximately 24.5% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, Telefónica Móviles Colombia operates digital networks based upon the GSM, CDMA 1XRTT and TDMA standards. At December 31, 2008, GSM accesses represented 91.6% of total accesses.

*Peru*

The following table presents statistical data relating to our operations in Peru:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	2,569.8	2,843.4	2,986.5
Fixed wireless accesses		290.0	485.5
Internet and data accesses	525.5	623.1	728.9
Narrowband accesses	47.8	40.3	17.7
Broadband accesses	468.5	572.1	698.4
Other accesses	9.2	10.7	12.8
Mobile accesses	4,987.2	8,067.3	10,612.7
Pre-pay accesses	4,353.3	7,238.1	9,575.2
Fixed wireless accesses	71.3		
Pay TV	557.2	640.0	654.5
<b>Final clients accesses</b>	<b>8,710.9</b>	<b>12,173.8</b>	<b>14,982.6</b>
<b>Wholesale accesses</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>
<b>Total accesses</b>	<b>8,711.4</b>	<b>12,174.3</b>	<b>14,983.0</b>

At December 31, 2008, Telefónica Latin America in Peru had 15.0 million accesses, which represents an increase of 23.1% from December 31, 2007. This growth in accesses was primarily driven by a 31.6% increase in mobile accesses from December 31, 2007 to 10.6 million mobile accesses at December 31, 2008, mostly in the pre-pay segment. The IRIS project, a collaboration between fixed line telephony operators and mobile operators in Peru, which was launched in March 2007 with the aim of increasing fixed line telephony and broadband penetration, as well as continued growth in broadband, also contributed to the overall growth in accesses.

*Peruvian fixed business - Telefónica del Perú, S.A.A.*

Telefónica Latin America conducts its Peruvian fixed business through Telefónica del Perú, S.A.A., or Telefónica del Perú, which at December 31, 2008 was the leading fixed line telecommunications operator in Peru based on number of fixed telephony accesses.

Telefónica del Perú had total accesses of 4.4 million at December 31, 2008, an increase of 6.4% from December 31, 2007, due primarily to increases in fixed wireless telephony and broadband. Fixed telephony accesses, increased 5.0% from December 31, 2007 to 2.9 million accesses at December 31, 2008, primarily as a result of growth in fixed wireless telephony accesses, which totalled 0.5 million accesses at December 31, 2008. Broadband accesses grew by 22.1% from December 31, 2007 to 0.7 million at December 31, 2008. In addition, pay TV accesses totalled 0.7 million accesses at December 31, 2008 recording growth of 2.3% from December 31, 2007 primarily due to cable clients.





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In terms of sales and marketing, Telefónica del Perú's commercial strategy is based on achieving and maintaining high levels of market penetration by offering customized services to different segments, focusing campaigns to keep customer loyalty and increasing the options available to potential customers. The primary products offered by Telefónica del Perú include fixed telephony, broadband, TV, data and IT services.

During 2008 Telefónica del Perú launched Dúo and Trío promotions, which include telephony, broadband, pay TV and a flat fee service on telephony.

In the long distance market after elimination of pre-selection by default in 2007, Telefónica del Perú began to offer tariffs per second for its Hola Perú card and tariff reductions for long distance national public telephone-to-mobile calls that have reduced the effect of substitution of its service for mobile telephony and increased traffic.

The reductions achieved in average tariffs for local telephony are the result of implementation of the productivity factor and the execution of agreements established with the Peruvian government. During 2007 Telefónica del Perú began implementing an agreement reached with the Peruvian government in December 2006 to, among other things, reduce tariffs by up to 29% in basic telephony plans, increase the period of validity for pre-pay cards to 180 days, reduce public telephony tariffs and implement per second tariff plans.

In the broadband market, Telefónica del Perú broadened its coverage in three departments: Ancash, Ica and Junín, as well as reduced Giga ADSL tariffs.

In pay TV, Telefónica del Perú announced the launch of Evolución Cable Mágico, to increase customer value by adding more channels and improving service with certain digital offerings. Additionally, Direct TV, Telefónica del Perú's main competitor in the TV market, launched its pre-pay digital subscription TV which allows it to access low-income customers, while Telmex incorporated new channels to its offer.

Star Global Com was purchased by Telefónica del Perú in September 2008, adding 0.02 million accesses (13 thousand pay TV accesses and 6 thousand Internet accesses).

Regarding competition, Telmex implemented an aggressive strategy to enter the residential market by offering a triple play service. The response from Telefónica del Perú consisted on increasing Trío options at lower prices.

Telefónica had an estimated market share in the Peruvian fixed telephony market of approximately 94.0% at December 31, 2008, based on number of fixed telephony accesses.

*Peruvian mobile business Telefónica Móviles Perú, S.A.C.*

The pace of growth of the Peruvian mobile market accelerated in 2008, with an estimated mobile penetration rate of 60.6% at December 31, 2008, which represents an increase of 13.1 percentage points compared to December 31, 2007.

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Telefónica Latin America conducts its Peruvian mobile business through Telefónica Móviles Perú, S.A.C., or Telefónica Móviles Perú, whose customer base increased by 31.6% from December 31, 2007 to 10.6 million accesses at December 31, 2008. This increase was primarily driven by a 32.3% increase in the number of pre-pay accesses from December 31, 2007 to December 31, 2008. In 2008, Telefónica Móviles Perú continued the migration to GSM technology, and at December 31, 2008, GSM accesses accounted for 89.6% of its total customer base, which represents an increase of 52.3% from December 31, 2007.

Total ARPU for the year was 6.0 in 2008 compared to 7.3 in 2007 (a decrease of 16.6% in local currency), as a consequence of reductions in both contract and pre-pay tariffs.

In terms of sales and marketing, Telefónica Móviles Perú uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2008, approximately 90.2% of Telefónica Móviles Perú's mobile accesses in Peru were pre-pay accesses, while approximately 9.8% were contract accesses.

Regarding competition, Telefónica Móviles Perú currently has two primary competitors in the Peruvian market for mobile communications services: Claro, owned by América Móvil, and Nextel Perú.

New mobile price tariffs were launched by both Telefónica Móviles Perú and Claro at the beginning of 2008, which consist of mobile tariffs that do not differentiate between on-net and off-net calls.

Telefónica had an estimated market share in the Peruvian mobile market of approximately 62.6% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, at December 31, 2008 Telefónica Móviles Perú operated both GSM and CDMA technology. Its digital network is based upon the CDMA/CDMA 1XRTT standard, and Telefónica Móviles Perú launched its GSM network in February 2006. At December 31, 2008, approximately 89.6% of Telefónica Móviles Perú's customer base was GSM accesses.

*Ecuador**Ecuador mobile business Otecel, S.A.*

The Ecuadorian mobile market experienced strong growth in 2008, with an estimated mobile penetration rate of 81% by the end of the year, which represents an increase of 11 percentage points from December 31, 2007.

The following table presents selected statistical data related to our operations in Ecuador.

	<b>2006</b>	<b>At December 31, 2007</b>	<b>2008</b>
		<b>(in thousands)</b>	
<b>Total mobile accesses</b>	<b>2,490.0</b>	<b>2,581.1</b>	<b>3,122.5</b>
Pre-pay accesses	2,133.0	2,177.5	2,650.5
Fixed wireless accesses	1.7	1.3	89.4
<b>Total accesses</b>	<b>2,490.0</b>	<b>2,582.4</b>	<b>3,211.9</b>

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Telefónica Latin America conducts its Ecuadorian mobile business through Otecel, S.A., or Otecel, which had a customer base of 3.2 million accesses at December 31, 2008 an increase of 24.4% from 2.6 million accesses at December 31, 2007. Of these, 83.1% were GSM accesses, representing an increase of 13 percentage points from December 31, 2007.

Total ARPU for the year was 6.7 in 2008 compared to 6.6 in 2007 (an increase of 8.9% in local currency), as a result of higher consumption.

In terms of sales and marketing, in Ecuador, Otecel uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market their products. At December 31, 2008, approximately 84.9% of our mobile accesses in Ecuador were pre-pay accesses, while approximately 15.1% were contract accesses.

It is remarkable, the number of accesses on the movistar and multicolour tariffs, which are preferential tariff plans for on-net and off-net calls, respectively, which had an approximate three-fold aggregate increase to 2.7 million pre-pay accesses at December 31, 2008.

Regarding competition, Otecel currently has two primary competitors in market for mobile communications services in Ecuador, Porta (América Móvil) and Alegro.

Telefónica had an estimated market share in the Ecuadorian mobile market of approximately 26.6% at December 31, 2008 based on number of mobile accesses.

In terms of network and technology, Otecel operates both analogue and digital networks. Its digital network is based upon the GSM standard and CDMA standard.

*Central America*

Telefónica Central America (which includes Panama, Guatemala, El Salvador and Nicaragua) reduced its commercial activity during 2008, compared to 2007, mainly due to the high penetration levels reached, especially in El Salvador and Panama, implementation of a more selective commercial approach to capture higher value customers and intensified competition.

At the end of 2008, the mobile penetration rate of the Central American market, where Telefónica operates, was 80.4%, which represents an increase of 11.2 percentage points from December 31, 2007.

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Telefónica Central América's customer base increased by 13.5% from December 31, 2007 to 6.2 million accesses at December 31, 2008. Of this, Telefónica Central América had 0.4 million fixed accesses and 0.4 million contract accesses. Growth was fuelled by the effectiveness of commercial campaigns carried out throughout 2008 based on new offers focused on competitive tariff plans.

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	320.3	393.4	437.2
Internet data and accesses	26.0	22.0	18.4
Broadband accesses	24.1	19.8	16.5
Pay TV	14.0		
Mobile accesses	3,618.6	5,009.9	5,702.0
<b>Total accesses</b>	<b>3,978.9</b>	<b>5,425.3</b>	<b>6,157.6</b>

Total ARPU for the year was 7.4 in 2008 compared to 9.7 in 2007 (a decrease of 17.7% on a constant euro basis), down sharply due to a decrease in usage and a lower proportion of contract accesses in the customer base.

Table of Contents**INFORMATION BY BUSINESS LINE*****Telefónica Europe***

Telefónica Europe's principal activities are the provision of fixed and mobile telecommunications, broadband and Internet services in the United Kingdom, Germany, the Czech Republic and the Isle of Man and of mobile telecommunications services in Ireland and Slovakia.

The Telefónica Europe area was created in 2006 and the principal companies included within this area were consolidated for the first time as of February 1, 2006 (in the case of the O2 group).

The following table presents statistical data relating to our operations in Europe:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	2,462.9	2,130.0	1,952.7
Internet and Data accesses	607.1	880.0	1,354.5
Narrowband accesses	143.7	202.4	163.4
Broadband accesses	451.9	670.3	1,158.7
Other accesses	11.6	7.3	32.4
Mobile accesses	35,225.2	38,263.8	41,182.1
Pay TV accesses	15.6	73.2	114.5
<b>Final clients accesses</b>	<b>38,310.9</b>	<b>41,347.0</b>	<b>44,603.8</b>
<b>Wholesale accesses</b>	<b>243.8</b>	<b>706.2</b>	<b>1,237.9</b>
<b>Total accesses</b>	<b>38,554.7</b>	<b>42,053.2</b>	<b>45,841.7</b>

Telefónica Europe's total accesses increased 9.0% to 45.8 million accesses at December 31, 2008 from 42.1 million accesses at December 31, 2007. Total accesses at December 31, 2008 included 41.2 million mobile accesses, 2.0 million fixed telephony accesses, 1.4 million Internet and data accesses and 0.1 million pay TV accesses. Additionally, it included 1.2 million wholesale ADSL accesses.

Telefónica Europe's revenues decreased 1.0% to 14,309 million in 2008 from 14,458 million in 2007 (an increase of 5.9% excluding the impact of foreign exchange rates and the sale of Airwave). Telefónica Europe's 2008 revenues were negatively affected by the decline of the sterling/euro exchange rate.

Revenues derived from Telefónica O2 UK decreased to 7,052 million in 2008 from 7,403 million in 2007 (an increase of 10.6% in local currency). The increase in revenues on a local currency basis was primarily driven by an increase in O2 UK's customer base and ARPU growth.

Revenues derived from Telefónica O2 Germany increased 1.5% to 3,595 million in 2008 from 3,541 million in 2007.

Revenues derived from Telefónica O2 Ireland decreased 3.4% to 957 million in 2008 compared to 991 million in 2007.

Revenues derived from Telefónica O2 Czech Republic, including Slovakia operations, increased to 2,581 million in 2008 from 2,257 million in 2007 (an increase of 2.9% in local currency driven by growth in Slovakia in the year after launch of mobile services in that market). Revenues in the Czech fixed line segment increased 0.2% in local currency compared to 2007, while mobile business was the key driver of growth with an increase of 2.8% in local currency.

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Telefónica Europe's expenses decreased 4.3% to 10,523 million in 2008 from 10,999 million in 2007.

Supplies decreased 2.6% to 6,611 million in 2008 from 6,787 million in 2007, mainly due to the decline of the sterling/euro exchange rate.

Personnel expenses decreased 14.9% to 1,340 million in 2008 from 1,575 million in 2007. 2007 expenses were affected by exceptional charges related to personnel reorganizations throughout Telefónica Europe's operating segments.

Other expenses decreased 2.4% to 2,573 million in 2008 from 2,637 million in 2007.

In the case of operating income before depreciation and amortization, or OIBDA, for Telefónica Europe decreased 16.0% to 4,180 million in 2008 from 4,977 million in 2007. 2007 OIBDA included the capital gain from the sale of Airwave of 1,296 million and personnel reorganization and other non-recurring charges totaling 338 million related to the United Kingdom, Ireland and German businesses. OIBDA 2008 included 174 million as the result of additional application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings once these risks had dissipated or had not materialized.

OIBDA in Telefónica O2 UK decreased 4.3% to 1,839 million in 2008 from 1,923 million in 2007 (an increase of 11.1% in local currency).

OIBDA in Telefónica O2 Germany increased 62.9% to 770 million in 2008 from 473 million in 2007.

OIBDA in Telefónica O2 Ireland decreased 4.7% to 301 million in 2008 from 316 million in 2007.

OIBDA in Telefónica O2 Czech Republic, including Slovakia operations, increased 14.7% to 1,159 million in 2008 from 1,010 million in 2007 (an increase of 3.2% in local currency).

Telefónica Europe's depreciation and amortization decreased 10.4% to 3,035 million in 2008 from 3,386 million in 2007.

Telefónica Europe's operating income decreased 28.1% to 1,145 million in 2008 from 1,591 million in 2007, primarily due to the previously described sale of Airwave.

**Table of Contents***United Kingdom Telefónica O2 UK*

The following table presents statistical data relating to our operations in the United Kingdom:

	2006	At December 31, 2007 (in thousands)	2008
Internet and data accesses	16.8	70.7	340.9
Broadband accesses	16.8	70.7	340.9
Mobile accesses	17,633.2	18,382.1	19,470.0
Pre-pay accesses	11,415.1	11,573.4	11,862.5
<b>Final clients accesses</b>	<b>17,650.0</b>	<b>18,452.8</b>	<b>19,810.8</b>
<b>Total accesses</b>	<b>17,650.0</b>	<b>18,452.8</b>	<b>19,810.8</b>

The mobile penetration rate in the United Kingdom increased 1 percentage point to 120% at September, 2008 from December 31, 2007.

Telefónica O2 UK, Telefónica Europe's operating company in the United Kingdom, had total net adds of 1.4 million accesses in 2008, 69.1% more than its net adds in 2007. Total accesses increased 7.4% to 19.8 million accesses at December 31, 2008 compared to 18.5 million accesses at December 31, 2007 (excluding the Tesco mobile customer base, which is the result of a joint venture in which Telefónica O2 UK holds a 50% stake and whose customers use the Telefónica O2 UK network).

Telefónica O2 UK added 0.8 million contract accesses in 2008, bringing the total at December 31, 2008 to 7.6 million contract accesses, an increase of 11.7% from December 31, 2007. Pre-pay accesses increased by 0.3 million accesses from December 31, 2007 to 11.9 million accesses at December 31, 2008. At December 31, 2008 contract accesses made up 39.1% of Telefónica O2 UK's mobile customer base, compared to 37.0% at December 31, 2007. At December 31, 2008 Telefónica O2 UK broadband had 0.3 million accesses compared to 0.01 million accesses at December 31, 2007.

Contract ARPU decreased to 53.3 in 2008 from 63.2 in 2007 (a decrease of 2.1% in local currency). Pre-pay ARPU decreased to 15.5 in 2008 from 18.1 in 2007 (a decrease of 0.6% in local currency). ARPU for the year was 30.0 in 2008 down from 34.4 in 2007 (an increase of 1.4% in local currency). This increase in local currency was caused by the higher proportion of contract accesses in the customer base, customer adoption of new products and services and the continued growth in data ARPUs. MOU increased 9.1% to 207 minutes in 2008.

In terms of sales and marketing, in the United Kingdom, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market Telefónica O2 UK's products and services.

In 2008, Telefonica O2 UK continued with its focus on high value customers across various segments with offerings such as Simplicity, the 3G iPhone and mobile broadband. Telefónica O2 UK topped the list of fixed and mobile broadband internet service providers (ISPs) in the United Kingdom for customer satisfaction, according to a recent report by JD Power and Associates. The marketing firm conducted two customer satisfaction studies based on five factors that drive overall satisfaction with the provision of mobile and fixed broadband: performance and reliability, billing, cost, customer service/technical support, and offerings/promotions.

O2 UK market share was 25.2% at Sept, 2008 compared with 24.6% at December 31, 2007, based on the number of mobile accesses.

In addition to Telefónica O2 UK, there are currently four other network operators in the UK mobile telecommunications market: Vodafone UK, a subsidiary of Vodafone plc, T-Mobile, a subsidiary of Deutsche Telekom, Orange, owned by France Telecom, and 3, owned by Hutchison Whampoa. MVNOs operating in the UK market include Virgin Mobile and Fresh, owned by Virgin Media and The Carphone Warehouse Group, respectively, which both use T-Mobile's network, and Tesco Mobile, a joint venture in which Telefónica O2 UK holds a 50% stake

and which uses the Telefónica O2 UK network.



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In terms of network and technology, Telefónica O2 UK's digital network in the United Kingdom is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 UK's international roaming agreements, enables Telefónica O2 UK customers to make and receive calls in more than 200 countries worldwide. At December 31, 2008, Telefónica O2 UK's GSM/GPRS digital network consisted of approximately 11,482 base stations. Telefónica O2 UK had rolled out ULL capabilities to 1,218 exchanges by the end of 2008, giving its broadband network population coverage of 65.9%.

*Germany Telefónica O2 Germany*

The following table presents statistical data relating to our operations in Germany:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Internet and data accesses	19.0	74.7	214.8
Broadband accesses	19.0	74.7	214.8
Mobile accesses	11,024.8	12,471.5	14,198.5
Pre-pay accesses	5,544.1	6,235.0	7,231.5
<b>Final clients accesses</b>	<b>11,043.8</b>	<b>12,546.2</b>	<b>14,413.3</b>
<b>Wholesale accesses</b>	<b>149.3</b>	<b>596.0</b>	<b>1,128.4</b>
<b>Total accesses</b>	<b>11,193.1</b>	<b>13,142.3</b>	<b>15,541.7</b>

The mobile penetration rate in Germany increased to 129% at September 30, 2008, an increase of 13 percentage points compared to the penetration rate at December 31, 2007.

Telefónica O2 Germany's total customer base, in terms of accesses, increased by 2.4 million accesses from December 31, 2007 to 15.5 million accesses at December 31, 2008. Telefónica O2 Germany's joint venture with Tchibo Mobile was responsible for 0.1 million of this increase in accesses from December 31, 2007 to 1.3 million accesses at December 31, 2008, while Telefónica O2 Germany's Fonice low-cost brand, added 0.5 million accesses from December 31, 2007, giving it a customer base of 0.7 million accesses at December 31, 2008. In addition at December 31, 2008, 3.1 million of Telefónica O2 Germany's accesses were on the Genion S/M/L/XL tariff structure, which is a flat rate tariff for calls made within and outside of the Homezone.

Throughout 2008 Telefónica O2 Germany continued its program of migrating customers from legacy to new tariffs such as Genion S/M/L/XL and Inklusivpakete, which offer significantly better value to the customer.

Telefónica O2 Germany had net adds of 0.7 million contract accesses and 1.0 million pre-pay accesses in 2008, bringing the pre-pay customer base at December 31, 2008 to 7.2 million accesses.

ARPU decreased 14.9% to 17.4 in 2008 from 20.4 in 2007, partly as a result of an approximately 10% cut in the interconnection rate in November 2007, the level of competition in the German market and the previously described migration program. Contract ARPU decreased 15.0% to 29.0 in 2008 from 34.1 in 2007. Pre-pay ARPU decreased 11.0% to 5.9 in 2008 from 6.7 in 2007. MOU in 2008 was 138 minutes, an increase of 5.3% compared to 2007.

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In terms of sales and marketing, Telefonica O2 Germany continued to build on its core strategy of increasing its distribution network, which was ahead of target with 725 shops at year end. During 2008 Telefónica O2 Germany also launched the O2 Handy flatrate with a minimum contract duration of only 6 months. The contract offers a flat rate for calls to other O2 customers and to fixed lines with a monthly fee of 15. Calls to other networks and SMSs are charged at 19 euro cents per minute or message.

At December 31, 2008 Telefónica O2 Germany had a customer base of 0.2 million broadband accesses. Telefónica O2 Germany reported 1.1 million ULL lines at December 31, 2008 from 0.6 million lines at December 31, 2007.

O2 Germany market share in Germany was 13.4% at September 30, 2008 compared with 13.0% at December 31, 2007, based on number of mobile accesses.

Telefónica O2 Germany competes primarily with three other companies in the German market for mobile telecommunications. These are Vodafone Germany, a subsidiary of Vodafone plc, T-Mobile, which is owned by Deutsche Telecom, and E-Plus, which is owned by KPN. Telefónica O2 Germany also competes with several MVNOs.

In terms of network and technology, Telefónica O2 Germany's digital network in Germany is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Germany's international roaming agreements, enables Telefónica O2 Germany customers to make and receive calls in more than 200 countries worldwide.

At September 30, 2008, O2 Germany's GSM/GPRS digital network consisted of approximately 8,215 base stations, the UMTS network consisted of approximately 3,326 base stations and there were approximately 5,549 shared GSM and UMTS base stations.

*Czech Republic and Slovakia – Telefónica O2 Czech Republic and Telefónica O2 Slovakia*

Telefónica Europe provides fixed line and mobile services in the Czech Republic and mobile services in Slovakia, where it launched operations during the first quarter of 2007.

The following table presents, at the dates indicated, selected statistical data relating to the Czech Republic:

	<b>2006</b>	<b>At December 31, 2007 (in thousands)</b>	<b>2008</b>
Fixed telephony accesses	2,402.5	2,069.2	1,893.4
Internet and Data accesses	560.3	719.1	779.5
Narrowband accesses	143.7	202.4	163.4
Broadband accesses	405.1	509.4	583.7
Other accesses	11.6	7.3	32.4
Mobile accesses	4,864.5	5,125.4	5,257.2
Pre-Pay accesses	2,989.7	2,881.5	2,737.9
Pay TV accesses	15.6	73.2	114.5
<b>Final clients accesses</b>	<b>7,842.9</b>	<b>7,986.8</b>	<b>8,044.6</b>
<b>Wholesale accesses</b>	<b>94.5</b>	<b>110.2</b>	<b>109.5</b>
<b>Total accesses</b>	<b>7,937.4</b>	<b>8,097.0</b>	<b>8,154.1</b>

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The mobile penetration rate in the Czech Republic increased to 127% at September 30, 2008, 1 percentage points higher than the penetration rate at December 31, 2007.

Telefónica O2 Czech Republic's fixed telephony accesses decreased by 8.5% to 1.9 million accesses at December 31, 2008 from 2.1 million accesses at December 31, 2007, mainly as the result of fixed-to-mobile substitution. On a net basis, Telefónica O2 Czech Republic lost 47.3% less fixed telephony accesses in 2008 compared to 2007. This improve is the result of the strategy of enhancing the quality of fixed lines by improving broadband (basic speed was upgraded up to 8 Mbps, four times higher with the same price) and aggressively priced bundled offers.

Telefónica O2 Czech Republic's final broadband accesses increased 14.6% compared to December 31, 2007 to 0.6 million accesses at December, 31 2008. The IPTV customer base increased to 0.1 million accesses at December 31, 2008. These increases are primarily as a result of increased demand for these services in the Czech Republic.

Telefónica O2 Czech Republic's mobile accesses increased 2.6% to 5.3 million accesses at December 31, 2008 from 5.1 million accesses at December 31, 2007. Contract accesses accounted for 47.9% of these accesses at December 31, 2008, up from 43.8% at December 31, 2007. The number of pre-pay accesses decreased 5.0% to 2.7 million accesses at December 31, 2008 from 2.9 million accesses at December 31, 2007.

ARPU increased to 20.7 in 2008 from 18.9 in 2007 (a reduction of 0.9% in local currency). Pre-pay ARPU increased to 9.8 in 2008 from 8.9 in 2007 (a reduction of 2.0% in local currency). Contract ARPU increased to 33.5 in 2008 from 32.7 in 2007 (a decrease of 6.7% in local currency).

MOU for the year stood at 121 minutes, 3.6% above the 2007 level. The increase in traffic is due to the growing number of contract customers generating higher average MOU and the launch of O2 Neon tariffs designed to stimulate traffic through a simplified, flat tariff structure. By the end of December 2008, 0.3 million customers subscribed for one of the O2 Neon tariffs and O2 Neon accesses accounted for 11% of voice contract accesses.

Regarding competition, there are currently two other primary competitors in the Czech Republic mobile telecommunications market. These are Vodafone Czech Republic, which is owned by Vodafone plc, and T-Mobile, which is part of Deutsche Telecom AG.

O2 Czech Republic had an estimated mobile market share of 38.7% at September 30, 2008 compared with approximately 39.2% at December 31, 2007 based on number of mobile accesses.

The fixed market consists of six large operators and a number of other smaller providers. In voice the major competitors are Ceske Radiokomunikacie, U:fon, UPC and other cable operators which also provide integrated voice, Internet and TV offers. Internet service is offered by all major mobile operators as well as a large volume of WiFi providers. Pay TV is dominated by a number of cable and satellite companies, the biggest being UPC.

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In terms of network and technology, Telefónica O2 Czech Republic's digital network in the Czech Republic is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Czech Republic's international roaming agreements, enables its customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2008, Telefónica O2 Czech Republic's GSM/GPRS digital network consisted of 12,676 base stations.

*Slovakia*

At December 31, 2008, Telefónica O2 Slovakia's total number of mobile accesses amounted to 0.5 million accesses, a decrease of 19.5% compared to December 31, 2007. In the second half of 2008 Telefónica O2 Slovakia launched the

O2 Fér, a simple tariff which unifies pre-pay and contract rates and offers SIM-only products without a handset subsidy.

In 2008, Telefónica O2 Slovakia continued to roll out its own network infrastructure and by December 31, 2008 the company had more than 850 base stations and thus fulfilled its license conditions. Its network currently covers close to 90 percent of population, which is nearly double that required by its license.

*Ireland Telefónica O2 Ireland*

The following table presents, at the dates indicated, selected statistical data relating to Ireland:

	<b>At December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<b>(in thousands)</b>		
<b>Total mobile accesses</b>	<b>1,631.7</b>	<b>1,646.1</b>	<b>1,727.7</b>
Pre-pay accesses	1,146.7	1,090.9	1,084.6

The mobile penetration rate in Ireland reached 116% at the end of September 2008, a 5 percentage point increase over the penetration rate at December 2007.

Telefónica O2 Ireland had net adds of 0.1 million in 2008. Telefónica O2 Ireland's customer base, in terms of accesses, increased 5.0% from December 31, 2007 to 1.7 million accesses at December 31, 2008. Of Telefónica O2 Ireland's total customer base, there were 0.1 million mobile broadband accesses at December 31, 2008, after a successful launch in July 2007.

Telefónica O2 Ireland had net adds of 0.1 million contract accesses in its mobile business in 2008, including the mobile broadband accesses mentioned above, an increase of 25.3% on December 31, 2007.

ARPU decreased by 5.9% in 2008 to 43.2 from 45.9 in 2007. Contract ARPU decreased 11.9% to 72.5 in 2008 from 82.3 in 2007 due to the introduction of new customer offers and promotions. Pre-pay ARPU decreased by 7.0% in 2008 to 27.0 in 2008 from 29.0 in 2007. MOU for the year was 245 minutes, with a year-on-year decrease of 1.1%.

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In terms of sales and marketing, during the second quarter of 2008, O2 Ireland launched O2 Clear an innovative new pay monthly option that gives customers the opportunity to sign up to post pay tariffs on a SIM only basis without having to commit to a long term contract. It was the first tariff of its kind in the Irish market. Later in the year O2 Ireland introduced the 3G version of the iPhone and in December launched the O2 Treats program, a card which allows customers to spend up to 100 on different treats/activities for themselves or a friend.

Regarding competition, there are currently three other primary competitors in the Irish mobile telecommunications market: Vodafone Ireland, which is part of Vodafone plc, Meteor, which is part of Babcock and Brown, and 3 Ireland, which is part of Hutchison Wampoa Ltd.

O2 Ireland had an estimated market share of the Irish mobile market of 32.9% at the end of September 2008 compared to approximately 32.3% at December 31, 2007 based on number of mobile accesses.

In terms of network and technology, Telefónica O2 Ireland's digital network in Ireland is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Ireland's international roaming agreements, enables Telefónica O2 Ireland customers to make and receive calls in more than 200 countries worldwide. At December 31, 2008, O2 Ireland's GSM/GPRS digital network consisted of approximately 1,662 base stations.

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**RESULTS BY REGIONAL BUSINESS UNITS**

***Other companies***

***ATENTO GROUP***

Atento offers integrated call center services coupled with sophisticated customer management services, such as the development and application of customer retention programs, telemarketing services and market research services. In addition, Atento rents out its call centers to third parties, manning them if needed. Atento has strategically diversified its customer base and now services companies in the financial, consumer goods and energy sectors, as well as public institutions. At December 31, 2008, Atento operated over 95 call centers, employing over 132,121 people at centers in 16 countries spanning three continents, including Europe (Spain and the Czech Republic), Latin America and North Africa (Morocco).

Revenue at Atento climbed 10.8% to 1,301 million in 2008 from 1,174 million in 2007. Revenue growth was driven by greater activity on behalf of Telefónica, mainly in Brazil, Peru, Morocco and Central America, which offset a slowdown in Spain.

Expenses at Atento climbed 10.0% to 1,120 million euros in 2008 from 1,018 million euros in 2007, pushed up primarily by higher overheads, namely leases to bring capacity in line with volume growth. This growth was partially mitigated by the migration of services from Spain to Latin America, a strategy which curtailed growth in personnel expenses.

OIBDA at Atento rose 15.4% in 2008 to 186 million euros from 161 million in 2007. This growth was led by increased activity and control over the pace of growth in operating costs.

Lastly, operating income (OI) at Atento rose 17.4% in 2008 to 154 million euros from 131 million in 2007.

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**RESEARCH, DEVELOPMENT AND INNOVATION**

Telefónica remains firmly committed to technological innovation as a core means to generating sustainable competitive advantages, anticipating market trends and the differentiation of our products. Through the introduction of new technologies and the development of new products and business processes, we seek to become a more effective, efficient and customer-oriented Group.

Telefónica has developed an open innovation model for the management of technology innovation that helps to improve the application of the results of technical research in the commercial services, focusing on certain applied research activities aligned with Telefónica's strategy. This model fosters open innovation initiatives such as the creation of a venture capital fund, business collaboration forums, etc. It also promotes the use of knowledge developed at technology centers, universities and start-ups, for example, and encourages innovation in collaboration with other agents that will become technology partners, including customers, universities, public administrations, suppliers, content providers and other companies.

We believe that we cannot rely solely on acquired technology in our quest to differentiate our products from those of our competitors and to improve our market positioning. We also believe that it is important to encourage research and development initiatives in an effort to achieve the desired level of differentiation and to foster other innovation activities. Our R&D policy is designed to:

- develop new products and services in order to win market share;
- boost customer loyalty;
- drive revenue growth;
- enhance management;
- improve business practices, and
- increase the quality of our infrastructure services to improve customer service and reduce costs.

In 2008, the technological innovation projects undertaken were focused on profitable innovation, process efficiency, creation of new revenue streams, customer satisfaction, consolidation of new markets and technological leadership. Our technological innovation activities were closely integrated, specially in our strategy of creating value through broadband, IP networks, wireless communication networks and new generation fiber optic networks.

In addition, projects were undertaken to promote the information society, new services focused on new internet business models, advanced user interfaces, mobile television and other broadband services. These lines of initiative, among others, were built on the basis of rapid identification of emerging technologies that could have a relevant impact on our businesses, and the testing of these technologies in new services, applications and platform prototypes.

In 2008, we developed new operational and business support systems and improved existing systems.

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Most of our R&D activities are carried out by our subsidiary Telefónica Investigación y Desarrollo, S.A.U., (Telefónica I+D), which works principally to benefit the businesses. In performing its duties, Telefónica I+D receives the assistance of other companies and universities. Telefónica I+D's mission is centered on enhancing the Company's competitive positioning by leveraging technological innovation and product development. Telefónica I+D undertakes experimental and applied research and new product development with the overriding goal of broadening the range of services offered and reducing operating costs. Telefónica I+D provides technical assistance to all the Group's businesses in Latin America and Europe. Telefónica I + D's activities include:

- development of new fixed telephony products and services, with special emphasis on the value added services such as broadband, the digital home, mobile communications and internet services for the general public, corporate customers and the mobile television and the multimedia sectors;
- development of new communication tools for communities, telemedicine, remote home/business monitoring and new infrastructure for the provision of these services, such as IP protocols and new generation networks such as fiber optic;
- development of innovative solutions for the real-time provisioning of network, and the operation and billing of our networks and services. This activity includes the management systems designed to strengthen the infrastructure and its quality level;
- development of business support systems, including customer profiling to provide innovative solutions;
- applied research to undertake, understand and develop the opportunities presented by emerging technologies for our various businesses.

In 2008, approximately 44% of Telefónica I+D's initiatives benefited businesses located in Spain, 28% for Latin American businesses, 22% for Telefónica (essentially the corporate innovation plan including projects co-sponsored by two or more business units with a medium- to long-term horizon); and 6% was dedicated to other subsidiaries, including Telefónica O2 Europe.

At December 31, 2008, Telefónica I+D had 1,233 employees. Qualified professionals from 84 companies and 54 universities also collaborated on its projects.

Our research and development costs amounted to 668 million euros in 2008 and 594 million euros in 2007, representing 1.2% and 1.1% of our consolidated revenue in these years, respectively. These figures were calculated using OECD measurement guidelines. These guidelines include R&D costs that, due to the timing of projects and/or accounting classification criteria, are not included in their entirety in our consolidated balance sheet.



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**FINANCING**

Outlined below are the main financing transactions undertaken by the Telefónica Group in 2008:

On January 15, 2008, Telefónica Móviles Colombia, S.A. drew down the entire amount of financing arranged on December 10, 2007, which was structured in two tranches. Tranche A, for 125 million US dollars, entailed bilateral financing with the Inter-American Development Bank (IDB) maturing in 7 years. Tranche B entailed a 5-year 475 million US dollar syndicated credit facility with a group of banks, in which the IDB acted as agent bank.

On January 30, 2008, Telefónica Finanzas, S.A.U. drew down the 450 million euros of facilities arranged with the European Investment Bank (EIB) related to the Telefónica Mobile Telephony II project, of which 375 million euros mature in seven years and the remaining 75 million euros in eight years.

On February 1, 2008, Vivo, S.A. drew down an additional 181 million euros of the financing arranged with the EIB on October 31, 2007 and maturing on December 19, 2014.

On May 1, 2008, Vivo, S.A. drew down an additional 750 million Brazilian reais of the financing arranged with the Brazilian Development Bank (BNDES) on August 9, 2007 and maturing on August 15, 2014.

On June 9, 2008, Compañía de Telecomunicaciones de Chile, S.A. (CTC) extended the maturity of a 150 million US dollar syndicated loan to May 13, 2013.

On June 12, 2008, Telefónica Emisiones, S.A.U. issued 1,250 million euros of bonds maturing June 12, 2013 under its EMTN program registered on the London Stock Exchange on July 8, 2005 and updated on July 3, 2008. These bonds are guaranteed by Telefónica, S.A.

On October 28, 2008, Telesp drew down an additional 886 million Brazilian reais of the financing arranged with the BNDES on October 23, 2007 and maturing on May 15, 2015.

The Group manages its short-term financing and liquidity requirements proactively and efficiently, as detailed in Note 16 to the 2008 consolidated financial statements.

**Table of Contents****RATING AGENCIES**

<b>Rating agency</b>	<b>Long-term debt</b>	<b>Short-term debt</b>	<b>Outlook</b>	<b>Date of last review</b>
JCR	A		Stable	December 17, 2008
Standard & Poor's	A-	A-2	Stable	December 2, 2008
Fitch	A-	F-2	Stable	November 25, 2008
Moody's	Baa1	P-2	Stable	May 3, 2007

At December 31, 2008, Telefónica, S.A.'s long-term debt was rated A-/stable outlook by Fitch, A-/stable outlook by JCR, Baa1/stable outlook by Moody's and A-/stable outlook by Standard & Poor's.

The main changes in Telefónica's long-term debt credit ratings and outlook in 2008 were as follows:

On December 17, 2008, Japanese rating agency JCR upgraded its credit rating for Telefónica, S.A. to A-/stable outlook, thanks to the operator's lower leverage, underpinned by its strong profitability and cash flow generation ability, in turn a reflection of its prominent position in its home market and healthy revenue growth in Latin America.

On December 2, 2008, Standard & Poor's upgraded its rating of Telefónica S.A. from BBB+/positive outlook to A-/stable outlook. The upgrade reflects ongoing deleveraging in recent years, Telefónica's robust and well-diversified revenue mix and its sustained capacity for significant cash flow generation.

On November 25, 2008, Fitch upgraded its rating from BBB+/positive outlook to A-/stable outlook. The upgrade was warranted by the Telefónica Group's financial and operating profile which, in the opinion of Fitch, places the operator comfortably within the A- notch, thanks to the Group's scale, diversification, revenue growth profile and free cash flow generation, which compare favorably with the equivalent parameters of Deutsche Telekom and France Telecom, the two similarly rated European incumbents that are most comparable to Telefónica.

Telefónica, S.A.'s leverage (net debt plus financial commitments/OIBDA), which stood at 2.0x at September 30, 2008, at the lower end of the targeted range of 2.0x to 2.5x, was key to the rating upgrade.

On May 3, 2007, Moody's upgraded Telefónica's long-term debt from Baa1/negative outlook to Baa1/stable outlook based on the Group's significant progress in extending the average maturity of its debt (including the refinancing of debt borrowed to finance the takeover of O2 in the UK), the widespread improvement in forecast cash flow and the Group's continued compliance with its commitment to financial discipline.

**Table of Contents****TRANSACTIONS WITH TREASURY SHARES**

At December 31, 2008 and 2007, Telefónica Group companies held the following shares in the Telefónica, S.A. parent company:

	No. of shares	Euros per share		Market Value	
		Acquisition price	Trading price	Millions of euros	%
<i>Treasury shares at 12/31/08</i>	<b>125,561,011</b>	<b>16.68</b>	<b>15.85</b>	<b>1,990</b>	<b>2.66867%</b>
<i>Treasury shares at 12/31/07</i>	<b>64,471,368</b>	<b>16.67</b>	<b>22.22</b>	<b>1,433</b>	<b>1.35061%</b>

Telefónica S.A. owns the only treasury shares in the Group. No other Group company owns any Telefónica treasury shares.

In 2008 and 2007, the following transactions involving treasury shares were carried out:

	No. of shares
<b>Treasury shares at 12/31/06</b>	<b>75,632,559</b>
Acquisitions	149,099,044
Disposals	(12,621,573)
Lycos and Endemol employee share option plans	(4,750)
Exchange of Telefónica, S.A. shares for Telefónica Móviles, S.A. shares	(147,633,912)
<b>Treasury shares at 12/31/07</b>	<b>64,471,368</b>
Acquisitions	129,658,402
Disposals	(68,759)
Share cancellation	(68,500,000)
<b>Treasury shares at 12/31/08</b>	<b>125,561,011</b>

The amount paid to acquire treasury shares in 2008 was 2,225 million euros (2,324 million euros in 2007). Meanwhile, 1 million euros of treasury shares were sold in 2008 (210 million euros in 2007).

At December 31, 2008, the Group held put options on 6 million treasury shares. At December 31, 2007 there were no call or put options on Telefónica, S.A. shares.

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**RISKS AND UNCERTAINTIES FACING THE COMPANY**

*Risks related to our Industry*

The Telefónica Group's business is conditioned both by intrinsic factors that affect exclusively to the Group as well as other external factors that are common to businesses of the same sector. The risks described below are the most important but not the only ones that we face.

*Highly competitive markets.* The Telefónica Group faces significant competition in all of the markets in which it operates, and the Group is therefore subject to the effects of actions by the competitors in these markets. These competitors could:

offer lower prices, more attractive discount plans or better services and features;

develop and deploy more rapidly new or improved technologies, services and products;

launch bundle offerings of one type of service with others;

in the case of the mobile industry, subsidize handset procurement; or

expand and enhance their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

greater brand name recognition;

greater financial, technical, marketing and other resources;

dominant position or significant market power;

better strategic alliances;

larger customer bases; and

well-established relationships with current and potential customers.

To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors, changes in consumer preferences and in general economic, political and social conditions. If the Telefónica Group is unable to effectively compete, it could result in price reductions, lower revenues, under-utilization of the Group's services, reduced operating margins and loss of market share.

*Highly regulated markets.* As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services. Furthermore, the licensing, construction, operation and interconnection arrangements of its communications systems are regulated to varying degrees by the European Union, national, state, regional and local authorities. Furthermore, the Company's activities are subject to strict regulation in many of the countries and market segments in which it operates, particularly in many areas of the fixed telephony business.

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Regulatory authorities regularly intervene in the offering and pricing of the Telefónica Group's products and services. Furthermore, they could also adopt regulations or take other actions that could adversely affect the Group, including revocation of or failure to renew any of its licenses, changes in the spectrum allocation, revocation of or failure to renew authorizations or concessions to offer services in a particular market, changes in the regulation of international roaming prices and mobile termination rates, introduction of virtual mobile operators, and regulation of the local loop. Such regulatory actions could place significant competitive and pricing pressure on the Group's operations, and could have a material adverse effect on its business, financial condition, results of operations and cash flow.

Regulatory policies applicable in many of the countries in which the Group operates are designed to increase competition in most of its market segments, especially in the fixed telephony, broadband and mobile telephony segments, including by, among other methods, granting new licenses in existing licensed territories in order to permit the entry of new competitors or imposing special rules and obligations upon currently present operators, such as the requirement for number portability in those countries where it has not yet been implemented. Since these regulatory policies are designed to favor the entry and establishment of new operators, they are likely to have the effect, over time, of reducing our market share in the relevant markets in which the Group operate.

In addition, since the Telefónica Group holds a leading market share in many of the countries where it operates, the Group could face regulatory actions by supranational or national antitrust or competition authorities if it is determined that the Company have prevented restricted or distorted competition in such markets. These authorities could prohibit the Group from taking further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and/ or in harm to its financial performance and future growth.

Furthermore, Telefónica can expect the regulatory landscape to change in Europe as a consequence of the revised regulations resulting from the review of the common regulatory framework currently in place in the European Union. These revised regulations are expected to be approved at the end of 2009 or the beginning of 2010 and could result in increases in the regulatory pressure on the local competitive environment. The Company may also face new regulatory initiatives in the area of mobile telecommunications in Europe, including increased regulatory pressure on international roaming tariffs for data and SMS services and on mobile termination rates. In addition, the Group may also face pressure from regulatory initiatives in some European countries regarding the reform of spectrum rights of use and spectrum allocation.

Finally, the recent adoption of new regulations regarding wholesale services (such as, access to ducts or dark fiber) in Spain may result in an increase of the competitive pressure in the provision of high speed telecommunication services.

*Services are provided under permits, licenses or concessions.* Most of Telefónica's operating companies require licenses, authorizations or concessions from the governmental authorities of the countries in which they operate. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Moreover, authorizations, licenses and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors.

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The terms of these licenses, authorizations and concessions granted to Telefónica's operating companies and conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms. As licenses, authorizations and concessions approach the end of their terms, the Company intends to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, though the Group can not guarantee that it will always complete this process successfully.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group's operating companies require to meet specified network build-out requirements and schedules. In particular, Telefónica's existing licenses, authorizations and concessions typically require to satisfy certain obligations, including, amongst others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession for the relevant area. In addition, the need to meet scheduled deadlines may require its companies to expend more resources than otherwise budgeted for a particular network build-out.

*Markets subject to constant technological development.* The Telefónica Group's future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. The Group expects that new products and technologies will emerge on a continuous basis and that existing products and technologies will further develop. These new products and technologies may reduce the prices for its existing services or may be superior to, and render obsolete, the products and services the Group offers and the technologies it uses, and may consequently reduce the revenues generated by its products and services and require investment in new technology. In addition, the Company may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for Telefónica to upgrade its products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect its business, financial condition, results of operations and cash flow.

In particular, the Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets, to enhance its financial performance and to satisfy regulatory requirements. Among other things, the Company could be required to upgrade the functionality of its networks to accommodate increased customization of services, to increase coverage in some of its markets, or to expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under the Group control and may be affected by applicable regulations. If the Group fails to execute these tasks successfully, its services and products may be less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect its business, financial condition, results of operations and cash flow.

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*Limitations on spectrum capacity could curtail growth.* Telefónica's mobile operations in a number of countries may rely on its ability to acquire additional spectrum. The failure to obtain sufficient capacity and spectrum coverage could have a material adverse impact on the quality of our services and on its ability to provide new services, adversely affecting its business, financial condition, results of operations and cash flow.

*Supplier issues.* The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Furthermore, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, the Group's business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect its ability to satisfy its license terms and requirements.

*Risks associated with unforeseen network interruptions.* Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Group's service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs and could harm its reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt its technical infrastructure. Although the Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses the Group may incur.

*Certain studies suggest that electromagnetic radio emissions are harmful.* Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has increased significantly. In many cases, this has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization, have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

Whether or not other research or studies conclude there is a link between radiofrequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Group's mobile companies and consequently on their financial condition, results of operations and cash flow. While the Group is not aware of any evidence confirming a link between radio-frequency emissions and health problems and Telefónica continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

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*Risk of asset impairment.* The Group reviews on an annual basis, or more frequently where the circumstances require, the value of each of its assets and subsidiaries, to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected, including, in some cases synergies included in their acquisition costs. The current economic environment and its development in the short and medium term, as well as changes in the regulatory, business or political environment may result in the necessity of introducing impairment changes in its goodwill, intangible assets or fixed assets.

Though the recognition of impairments of tangible, intangible and financial assets result in a non-cash charge on the income statement, it could adversely affect the Group's results of operations, and as a last consequence, may affect the achievement of its growth targets.

*Group related risks*

*Country risk (investments in Latin America).* At December 31, 2008 approximately 36.3% of the Telefónica Group's assets were located in Latin America. In addition, approximately 38.7% of its revenues from operations for 2008 were derived from its Latin American operations. The Group's operations and investments in Latin America (including the revenues generated by these operations, their market value and the dividends and management fees expected to be received from them) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

government regulation or administrative policies may change unexpectedly and negatively affect our interests in such countries;

currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;

the effects of inflation or currency depreciation may lead certain of its subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;

governments may expropriate or nationalize assets or increase their participation in the economy and companies;

governments may impose burdensome taxes or tariffs;

political changes may lead to changes in the economic conditions and business environment in which it operates; and

economic downturns, political instability and civil disturbances may negatively affect its operations.

Finally, the Group's operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which it operates.



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*Management of foreign currency and interest rate risk.* The Group is exposed to various types of market risk in the normal course of its business, including the impact of changes in foreign currency exchange rates, as well as the impact of changes in interest rates, as well as the impact of changes of credit risk in its treasury investments or in some structured financed transactions it enters. The Company employs risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group's risk management purposes, or if it cannot enter into arrangements of the type and for the amounts necessary to limit its exposure to currency exchange rate fluctuations, or if its banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect its cash financial condition, results of operations and cash flow. Also, Telefónica's other risk management strategies may not be successful which could adversely affect its financial condition, results of operations and cash flow. Moreover, if the rating of its counterparties in treasury investments or in its structured financed transactions deteriorates significantly or fails in their obligations the Group may suffer loss of value in its investments, incur in unexpected losses or/and assume additional financial obligations under this transactions, such failure could adversely affect its cash financial condition, results of operations and cash flow.

To illustrate the sensitivity of finance costs to variability in short-term interest rates, referred to December 31 2008, assuming a 100 basis point rise in all currencies in which the Company has a financial position and no change in the currency make-up and balance of the position at year end, the financial expense would increase by 178 million euros. On the other hand, if the exchange rate position affecting the income statement at the end of 2008 would remain constant in 2009 and Latin American currencies depreciated against the US dollar and the rest of the currencies against the Euro by 10%, the impact on the income statement would be an expense of 107 million euros. Consequently, the Group follows an active management policy to reduce, as far as possible, these impacts.

*Current global economic situation.* The Group's business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse economic environment and uncertainty about present global economic conditions may negatively affect the level of demand of existing and prospective customers, as Telefónica's services may not be deemed critical for these customers. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors. In addition, there could be other possible follow-on effects from the credit crisis on the Company's business, including insolvency of key suppliers or customers. A loss of customers or a reduction in purchases by its current customers could have a material adverse effect on its business financial condition, results of operations and cash flow and may negatively affect its ability to meet its growth targets.

*Dependence on external sources of financing* The development and distribution of the Group's services, as well as the operation, expansion and upgrading of its networks and the fulfillment of its dividend payout commitment to the Company's shareholders, require substantial financing. Moreover, its liquidity and capital resource requirements may increase if Telefónica participates in other fixed line or wireless license award processes or make acquisitions. The Group also have major capital resource requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

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If its ability to generate cash flow were to decrease, whether due to the current worldwide financial and economic crisis or otherwise, the Group may need to incur additional debt or rise other forms of capital to support its liquidity and resources requirements for the ongoing development and expansion of its business.

The current financial crisis affecting the international banking system and financial markets has resulted in a significant tightening of credit markets, a low level of liquidity in many financial markets and high volatility in credit, equity and currency markets. Existing or worsening conditions in the international credit markets may make it more difficult and more expensive to refinance the Telefónica Group's financial debt (debt maturities in 2009 are of 7,014 million euros) or to incur in additional debt. In January 2009 the Group issued 2 billion euros in five year bonds with a spread of 250 basis points over swaps, close to 150 basis points higher than that paid on the same maturity in May 2008. In addition, its capacity to raise capital in the international capital markets would be impaired if its credit ratings were downgraded, whether due to decreases in its cash flow or otherwise. Further, current market conditions make more challenging the renewal of its unused bilateral credit facilities which are scheduled to expire prior December 31, 2009 (an aggregate of more than 2,720 million euros).

The current financial crisis would also make more difficult and costly for the Company's current shareholders to launch rights issues or to ask investors for equity investments, even if further funds were needed for pursuing its business plans.

*Risks associated with relationships with venturers.* Telefónica's mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, which is jointly controlled by the Group and Portugal Telecom SGPS, S.A. (Portugal Telecom). As a result of the Group less than controlling interest in this joint venture, Telefónica does not have absolute control over the operations of the venture. As a result, there is an inherent risk for management or operational disruptions whenever a disagreement between the Company and its partner arises.

Therefore, the Group must cooperate with Portugal Telecom in order to implement and expand upon its business strategies and to finance and manage the operations of the venture. If Telefónica does not manage to obtain the cooperation of Portugal Telecom or if a disagreement or deadlock arises it may not achieve the expected benefits from this joint venture, including economies of scale and opportunities to achieve potential synergies and cost savings.

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*Other risks*

*Litigation and other legal proceedings.* The Group is party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of its business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs to the Company. Such disputes and litigation (or settlements thereof) may have a material adverse effect on its business, financial condition, results of operations and cash flow.

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**BUSINESS OUTLOOK**

Telefónica is an integrated and diversified telecommunications group which offers a broad range of services, primarily in Spain, Europe and Latin America. Its core business is the provision of fixed and mobile telephony, broadband, internet, data, pay TV and value added services, among others. In addition, the Group's investments in China Unicom and Telecom Italia open the door to strategic alliances that reinforce its competitive positioning, scale and productivity.

Telefónica is starting from a strong competitive position in its operating markets. Given prevailing uncertainty, the Group plans to defend or shore up its position by focusing with even greater intensity on satisfying its customers needs. Telefónica will tap growth opportunities such as the scope to further develop both its fixed and mobile broadband businesses, additional connectivity-driven services, IT services and knock-on businesses. The Group will lead the sector forward by anticipating market trends as we move into the new digital era.

Telefónica will continue to transform its operating model to raise productivity and exploit the synergies deriving from approaching the business, and its processes and technologies, as an integrated operator, maintaining a regional focus in order to ensure the transformation is as seamless as possible. Meanwhile, Telefónica will remain firmly committed to technological innovation as a core tool for generating sustainable competitive advantages, anticipating market trends and setting its products apart from the crowd. By introducing new technologies and developing new products and business processes, Telefónica strives to make the Group more efficient and customer-oriented.

In Spain, Telefónica will continue to step up its commercial efforts, focusing on the provision of higher quality services, increasing productivity in its sales channels and further upgrading its networks in order to increase customer satisfaction and stretch further ahead of its competitors. By segmenting its commercial propositions, Telefónica will seek to strengthen ties with its customers, developing new sales formulae and more effective ways of bundling services, focusing strategically on growth opportunities in broadband, fixed and wireless. Efficiency will play a leading part in all aspects of the business, both commercial and operational, including systems, networks and processes.

In Latin America, Telefónica's strategy is based on a regional model which taps into growth opportunities and leverages economies of scale without losing sight of the local customer relationship. The mobile business will continue to play a key role as regional growth engine. To this end, Telefónica will continue to add network capacity and extend coverage, hone its distribution network and boost customer retention policies. In the fixed line business, the focus will be to increase broadband speed and extend the range of bundled services. Global, regional and local projects will be implemented to raise operating and commercial efficiency and to unlock synergies.

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In the European business, the company will remain customer-driven, offering the best value proposition and boosting mobile and fixed broadband in order to keep customer satisfaction above that of our competitors. Various initiatives will be put in place to improve operating efficiency at these businesses.

In short, Telefónica will continue to fine-tune its operating model to make it more productive and to unlock the synergies deriving from approaching the business and its processes and technologies as an integrated operator, maintaining unwavering commitment to technological innovation and reinforcing its competitive positioning by becoming even more customer fixated.

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**EVENTS AFTER THE BALANCE SHEET DATE**

Significant events affecting Telefónica taking place from December 31, 2008 to the date of preparation of these consolidated financial statements include:

**Second tender offer for CTC shares:**

Upon completion of the tender offer launched on September 17, 2008 by Telefónica Internacional Holding, Ltda., for Compañía de Telecomunicaciones de Chile, S.A. (CTC), and pursuant to Chilean law, on December 1, 2008, Telefónica Internacional Holding, Ltda., presented a second tender offer to acquire all the outstanding shares of CTC that Telefónica did not own, directly or indirectly, after settlement of the first offer (representing 3.25% of CTC's capital), on the same economic terms as the initial bid.

Upon completion of the acceptance period of the second offer on January 7, 2009, Telefónica's indirect stake in CTC had increased to 97.89%.

**Dividends:**

At its meeting of January 28, 2009, the Board of Directors of Telefónica, S.A. analyzed and passed a resolution to change the amount of the dividend to be paid and charged to 2009 profit to 1.15 euros per share. The proposal for adoption of the related resolutions will be made in due time.

At its meeting of February 25, 2009, the Company's Board of Directors agreed to propose at the Shareholders' Meeting the payment of a dividend against 2008 profit with a charge to reserves of a gross amount of 0.5 euros per outstanding share carrying dividend rights, up to a maximum total amount of 2,352 million euros.

**Financing:**

On February 3, 2009, Telefónica Emisiones, S.A.U. issued 2,000 million euros of bonds maturing February 3, 2014 with an annual coupon of 5.431% under the issuance program (EMTN) registered on the London Stock Exchange on July 5, 2005 and renewed on July 8, 2008. These bonds are guaranteed by Telefónica, S.A.

On February 13, 2009, Telefónica, S.A. signed an agreement with the banks involved in the 6,000 million euro credit facility granted on June 28, 2005 and maturing on June 28, 2011, to extend the maturity of 4,000 million euros of the 6,000 million euros drawn down, 2,000 million euros for one year and the remaining 2,000 million euros for two years.

On February 17, 2009, Moody's affirmed Telefónica, S.A.'s long-term Baa1 rating, and changed the outlook to positive from stable, reflecting Moody's expectation that, going forward, Telefónica will sustain an improved financial risk profile, in line with Telefónica Group management's publicly stated targets.

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**Guarantees provided for Ipse 2000 S.p.A.:**

After the Italian courts rejected Ipse 2000 S.p.A.'s case regarding the UMTS license this company held, on January 7, 2009, Telefónica paid 241.3 million euros corresponding to the annual payments of 2006, 2007 and 2008. At the date of approval of these financial statements, the Telefónica Group still owes 151.7 million euros in this respect.

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**Table of Contents****DISCLOSURES REQUIRED UNDER ARTICLE 116 BIS OF THE SPANISH  
SECURITIES MARKET LAW**

Disclosures required under Article 116.bis of the Spanish Securities Market Law:

**a.- Capital structure.**

At December 31, 2008, the share capital of Telefónica was 4,704,996,485 euros, represented by 4,704,996,485 fully paid ordinary shares of a single series, par value of 1 euro each, all recorded under the book-entry system.

At that date they were admitted to trading on the Spanish electronic trading system (the Continuous Markets ) where they form part of the Ibex 35 index, on the four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Tokyo, Buenos Aires, Sao Paulo and Lima stock exchanges. In the first quarter of 2008, Telefónica s shares were effectively delisted from the Paris and Frankfurt stock exchanges.

All shares are ordinary, of a single series and confer the same rights and obligations on their shareholders.

At the time of writing, there were no securities in issue that are convertible into Telefónica shares.

**b.- Restrictions on the transfer of securities.**

Nothing in the Company bylaws imposes any restriction or limitation on the free transfer of Telefónica shares.

**c.- Significant shareholdings.**

The table below lists shareholders who, at December 31, 2008, to the best of the Company s knowledge, had significant direct or indirect shareholdings in the Company as defined in Royal Decree 1362/2007 implementing the Spanish Securities Markets Law 24/1998 as it relates to the need for transparent information on issuers whose securities are listed for trading in an official secondary market or other regulated market of the European Union :

	Total		Direct shareholding		Indirect holding	
	%	Shares	%	Shares	%	Shares
BBVA <sup>(1)</sup>	5.170	243,263,872	5.170	243,243,144	0.000	20,728
la Caixa <sup>(2)</sup>	5.013	235,880,793	0.003	160,312	5.010	235,720,481

(1) Based on the information contained in Banco Bilbao Vizcaya Argentaria, S.A. s 2008 Annual Report on Corporate Governance at December 31, 2008.

(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, la Caixa as at December 31, 2008 for the 2008 Annual



Report on  
Corporate  
Governance.  
The 5.010%  
indirect  
shareholding in  
Telefónica is  
owned by  
Criteria  
CaixaCorp, S.A.

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**d.- Restrictions on voting rights.**

According to Article 21 of the Company's bylaws, no shareholder can exercise votes in respect of more than 10 per cent of the total shares with voting rights outstanding at any time, irrespective of the number of shares they may own. This restriction on the maximum number of votes that each shareholder can cast refers solely to shares owned by the shareholder concerned and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The 10 per cent limit described above also applies to the number of votes that can be cast either jointly or separately by two or more legal entity shareholders belonging to the same corporate group and to the number of votes that may be cast altogether by an individual or legal entity shareholder and any entity or entities that they directly or indirectly control and which are also shareholders.

**e.- Agreements between shareholders.**

Telefónica has received no communication notifying the existence of shareholder pacts that affect the exercise of voting rights at Shareholders' Meetings or that impose restrictions or conditions on the free transfer of Telefónica shares.

**f.- Rules governing the appointment and replacement of Directors and the amendment of the Company's bylaws.**

*Appointment, reappointment and ratification.*

Telefónica's bylaws state that the Board of Directors shall have between five and twenty Directors who are appointed by shareholders at the Shareholders' Meeting. The Board of Directors may, in accordance with Spanish Corporation Law and the Company bylaws, provisionally co-opt Directors to fill any vacant seats.

The appointment of Directors to Telefónica is as a general rule submitted for approval to the Shareholders' Meeting. Only in certain circumstances, when seats fall vacant after the conclusion of the General Meeting is it therefore necessary to co-opt Directors onto the board in accordance with the Spanish Corporation Law. Any such co-opted appointment is then ratified at the next Shareholders' Meeting.

Also, in all cases, proposals to appoint Directors must follow the procedures set out in the Company's Board of Directors' Regulations and be preceded by the appropriate favorable report by the Appointments, Compensation and Good Governance Committee and in the case of independent Directors, by the corresponding proposal by the committee.

Therefore, in exercise of the powers delegated to it, the Appointments, Compensation and Good Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

As a result, in accordance with its Regulations, the Board of Directors, exercising the rights to co-opt and propose appointments to the Shareholders' Meeting, shall ensure that external or non-executive Directors are in an ample majority over the executive Directors. Similarly, it shall ensure that independent Directors make up at least one third of the total Board members.

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In all circumstances, where a Director is proposed to the Shareholders Meeting for reappointment or ratification, the report of the Appointments, Compensation and Good Governance Committee, or in the case of independent Directors the proposal of this committee, shall include an assessment of the Director's past work and diligence in discharge of their duties during their period in office.

Also, both the Board of Directors and the Appointments, Compensation and Good Governance Committee shall ensure, in fulfilling their respective duties, that all those proposed for appointment as Directors should be persons of acknowledged solvency, competence and experience who are willing to devote the time and effort necessary to the discharge of their functions, with particular attention paid to the selection of independent Directors.

Directors are appointed for a period of five years, renewable for one or more subsequent five-year periods.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Appointments, Compensation and Good Governance Committee, and in the case of independent Directors by the corresponding proposal by the committee.

*Termination of appointment or removal*

Directors' appointments shall end at the expirations of the period for which they were appointed or when shareholders at the General Shareholders Meeting so decide in exercise of their powers under the law.

Also, in accordance with Article 12 of the Board Regulations, Directors must submit their resignation to the Board of Directors and formalize their resignation in the following circumstances:

- a) If they leave the executive post by virtue of which they sat on the Board or when the reasons for which they were appointed cease to apply.
- b) If their circumstances become incompatible with their continued service on the Board or prohibit them from serving on the Board for one of the reasons specified under Spanish law.
- c) If they are severely reprimanded by the Appointments, Compensation and Good Governance Committee for failure to fulfill any of their duties as Director.
- d) If their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company's interests.

The Board of Directors shall not propose the termination of the appointment of any independent Director before the expirations of their statutory term, except in the event of just cause, recognized by the Board on the basis of a prior report submitted by the Appointments, Compensation and Good Governance Committee. Just cause shall be specifically understood to include cases where the Director has failed to fulfill their duties as Board member.

The Board may also propose the termination of the appointment of independent Directors in the case of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company's capital.

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*Amendments to the Company Bylaws.*

The procedure for amending the Bylaws is governed by Article 144 of the Spanish Corporation Law and requires any change to be approved by shareholders at the General Shareholders Meeting with the majorities stated in Article 103 of the same law. Article 14 of Telefónica's Bylaws upholds this principle.

**g.-** Powers of Directors and, specifically, powers to issue or buy back shares.

*Powers of Directors.*

The Chairman of the Company, as Executive Chairman, is delegated all powers by the Board of Directors except where such delegation is prohibited by Law, by the Company Bylaws or by the Regulations of the Board of Directors, whose Article 5.4 establishes the powers reserved to the Board of Directors. Specifically, the Board of Directors reserves the powers, inter alia, to: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Meanwhile, the Chief Operating Officer has been delegated all the Board's powers to conduct the business and act as the senior executive for all areas of the Company's business, except where such delegation is prohibited by law, by the Company Bylaws, or by the Regulations of the Board of Directors.

In addition, the other Executive Directors are delegated the usual powers of representation and administration appropriate to the nature and needs of their roles.

*Powers to issue shares.*

At the Ordinary General Shareholders Meeting of Telefónica on June 21, 2006, the Board of Directors was authorized under Article 153.1.b) of the Spanish Corporation Law, to increase the Company's capital by up to 2,460 million euros, equivalent to half the Company's subscribed and paid share capital at that date, one or several times within a maximum of five years of that date. The Board of Directors has not exercised these delegated powers to date.

Also, at the General Shareholders Meeting of May 10, 2007, the Board of Directors was authorized under Articles 153.1.b) and 159.2 of the Spanish Corporation Law to issue bonds exchangeable for or convertible into shares in the Company, this power being exercisable one or several times within a maximum of five years of that date. The Board of Directors has not exercised this power to date.

*Powers to buy back shares.*

At the General Shareholders Meeting of Telefónica of April 22, 2008, the Board of Directors was authorized, in accordance with articles 75 of the Spanish Corporation Law, to buy back its own shares either directly or via companies belonging to the Group. This authorization was granted for 18 months from that date and includes the specific limitation that at no point may the nominal value of treasury shares acquired, added to those already held by Telefónica and those held by any of the subsidiaries that it controls, exceed five per cent of the share capital at the time of acquisition.

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**h.-** Significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

The Company has no significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

**i.-** Agreements between the Company and its directors, managers or employees that provide for compensation in the event of resignation or unfair dismissal or if the employment relationship should be terminated because of a Takeover Bid.

In general, the contracts of Executive Directors and some managers of the steering committee include a clause giving them the right to receive the economic compensation indicated below in the event that their employment relationship is ended for reasons attributable to the Company and/or due to objective reasons such as a change of ownership. However, if the employment relationship is terminated for a breach attributable to the executive director or director, the director will not be entitled to any compensation whatsoever. That notwithstanding, in certain cases the severance benefit to be received by the Executive Director or Director, according to their contract, does not meet these general criteria, but rather are based on other circumstances of a personal or professional nature or on when the contract was signed. The agreed economic compensation for the termination of the employment relationship, where applicable, consists of three years of salary plus another year based on length of service at the Company. The annual salary on which the indemnity is based is the Director's last fixed salary and the average amount of the last two variable payments received by contract.

Meanwhile, contracts that tie employees to the Company under a common employment relationship do not include indemnity clauses for the termination of their employment. In these cases, the employee is entitled to any indemnity set forth in prevailing labor legislation. This notwithstanding, contracts of some Company employees, depending on their level and seniority, as well as their personal or professional circumstances or when they signed their contracts, establish their right to receive compensation in the same cases as in the preceding paragraph, generally consisting of a year and a half of salary. The annual salary on which the indemnity is based is the last fixed salary and the average amount of the last two variable payments received by contract.

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**ANNUAL REPORT ON CORPORATE GOVERNANCE**

**LISTED COMPANIES**

ISSUER'S IDENTIFICATION DETAILS

DATE OF FINANCIAL YEAR ENDED 31/12/08

TAX ID CODE: A28015865

Company Name: TELEFÓNICA, S.A.

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**Table of Contents****MODEL OF ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES**

**For a full understanding of this model and the subsequent drafting of the report, please read the instructions for its completion provided at the end of this report.**

**A SHAREHOLDING STRUCTURE**

A.1 Fill in the following table regarding the company's share capital:

<b>Date of latest change</b>	<b>Share capital ( )</b>	<b>No. of shares</b>	<b>Number of voting rights</b>
07/18/08	4,704,996,485.00	4,704,996,485	4,704,996,485

Please state whether there are different classes of shares, with different associated rights:

**No**

A.2 Please list the direct and indirect holders of significant shareholdings in your organization at financial year end, excluding members of its Board of Directors:

<b>Name or company name of shareholder</b>	<b>Number of direct voting rights</b>	<b>Number of indirect voting rights (*)</b>	<b>% of total voting rights</b>
Banco Bilbao Vizcaya Argentaria, S.A.	243,243,144	20,728	5.170
Caja de Ahorros y Pensiones de Barcelona, la Caixa	160,312	235,720,481	5.013

**Through: name or**

<b>Name or company name of indirect shareholder</b>	<b>company name of direct shareholder</b>	<b>Number of direct voting rights</b>	<b>% of total voting rights</b>
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Seguros, S.A. de Seguros y Reaseguros	20,728	0.000
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Criteria CaixaCorp, S.A.	235,720,481	5.010

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Please state the most significant movements in the shareholding structure during the financial year:

A.3 Please fill in the following tables regarding members of the Board of Directors of the company who hold voting rights on company shares:

<b>Name or company name of director</b>	<b>Number of direct voting rights</b>	<b>Number of indirect voting rights (*)</b>	<b>% of total voting rights</b>
César Alierta Izuel	3,837,003	78,000	0.083
Isidro Fainé Casas	311,966	0	0.007
Vitalino Manuel Nafría Aznar	11,300	0	0.000
Julio Linares López	185,922	1,840	0.004
Alfonso Ferrari Herrero	569,563	20,800	0.013
Antonio Massanell Lavilla	2,274	0	0.000
Carlos Colomer Casellas	564	63,190	0.001
David Arculus	10,500	0	0.000
Francisco Javier de Paz Mancho	1,000	0	0.000
Gonzalo Hinojosa Fernández de Angulo	85,476	436,000	0.011
José Fernando de Almansa Moreno-Barreda	19,349	0	0.000
José María Abril Pérez	300	18,402	0.000
José María Álvarez-Pallete López	134,481	1,036	0.003
Luiz Fernando Furlán	100	0	0.000
María Eva Castillo Sanz	58,450	0	0.001
Pablo Isla Álvarez de Tejera	8,601	0	0.000
Peter Erskine	69,259	0	0.001

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<b>Name or company name of indirect shareholder</b>	<b>Through: Name or company name of direct shareholder</b>	<b>Number of direct voting rights</b>	<b>% of total voting rights</b>
César Alierta Izuel	Grupo Arce de Inversiones, S.A. SICAV	78,000	0.002
Julio Linares López	Judbem de Inversiones, S.A. SICAV	1,700	0.000
Julio Linares López	María Jesús Romaña Pescador	140	0.000
Gonzalo Hinojosa Fernández de Angulo	Eletres, S.L.	436,000	0.009
Carlos Colomer Casellas	Ahorro Bursátil, S.A. SICAV	49,920	0.001
José María Álvarez-Pallete López	Alvaro Álvarez-Pallete Samaniego	302	0.000
Carlos Colomer Casellas	Inversiones Mobiliarias Urquiola S.A. SICAV	13,270	0.000
Alfonso Ferrari Herrero	Inversiones Singladura, S.A. SICAV	20,800	0.000
José María Álvarez-Pallete López	José María Álvarez-Pallete Samaniego	432	0.000
José María Abril Pérez	María Teresa Arandia Urigüen	18,402	0.000
José María Álvarez-Pallete López	Purificación Samaniego Linares	302	0.000
<b>Total % of voting rights held by the Board of Directors</b>			<b>0.126</b>

Please fill in the following tables regarding members of the Board of Directors of the company holding company share options:

<b>Name or company name of director</b>	<b>Number of direct share option rights</b>	<b>Number of indirect share option rights</b>	<b>Equivalent number of shares</b>	<b>% of total voting rights</b>
César Alierta Izuel	394,240	0	394,240	0.008
César Alierta Izuel 2	10,200,000	0	0	0.217
Julio Linares López	224,375	0	224,375	0.005
Alfonso Ferrari Herrero	485,000	0	0	0.010
José María Álvarez-Pallete López	183,202	0	183,202	0.004

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A.4 Where applicable, please state any family, commercial, contractual or corporate relationships between owners of significant shareholdings, as far as the Company is aware, unless of little relevance or ensuing from ordinary trading or exchange:

A.5 Where applicable, please state any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, unless of little relevance or ensuing from ordinary trading or exchange:

**Name or company name of related party**

**Type of relationship**

**Brief description**

Banco Bilbao Vizcaya Argentaria, S.A.

Corporate

Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A.

Joint shareholding with Telefónica, S.A. in Mobipay Internacional, S.A.

A.6 Please indicate any shareholders agreements reported to the company subject to article 112 of the Securities Market Law. Please provide a brief description of the agreement and list the shareholders involved:

**No**

Please indicate any concerted actions among company shareholders of which the company is aware. If any, please provide a brief description:

**No**

Please state explicitly any change in or break-up of said concerted actions or agreements that has taken place during the financial year:

A.7 Please state whether there is any person or organization that exercises or may exercise control over the company pursuant to Article 4 of the Securities Market Law. If so, please specify:

**No**

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A.8 Please fill in the following tables regarding the company's treasury stock:

At financial year end:

<b>Number of shares held directly</b>	<b>Number of shares held indirectly (* )</b>	<b>Total % of share capital</b>
125,561,011	0	2.669

(\* ) Through:

Total: 0

Please list any significant variations that may have occurred during the financial year, in accordance with Royal Decree 1362/2007:

<b>Date of notification</b>	<b>Total number of direct shares acquired</b>	<b>Total number of indirect shares acquired</b>	<b>Total % of share capital</b>
03/17/08	48,842,100	0	1.016
07/17/08	48,824,503	0	1.014
11/03/08	49,626,522	0	1.057

**Gain / (Loss) from sale of treasury stock during the period (thousands ) 83**

A.9. Please detail the conditions and effective term of any authorization(s) conferred by the General Shareholders Meeting to the Board of Directors to purchase and/or transfer treasury stock.

The Ordinary General Shareholders Meeting of Telefónica, at its session held on 22 April 2008 solved to renew the authorization granted by the GSM of 21 June 2006, for the derivative acquisition of treasury stock, either directly or through Group companies, in the terms literally transcribed below:

To authorize, as set forth in Articles 75 and following, and in the additional provision one, section 2, of the current Spanish Companies Law (LSA for its acronym in Spanish), the acquisition, at any moment and as many times as considered necessary by Telefónica, S.A. either directly or through any of the subsidiary companies of which it is the controlling company of fully paid treasury stock, through a purchase-sale transaction or for any other legal valuable consideration.

The minimum acquisition price or compensation will be equivalent to the nominal value of the treasury stock acquired and the maximum acquisition price or compensation will be equal to the market value of the treasury stock on an official secondary market at the time of the acquisition.

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Said authorization is granted for a period of 18 months, as from the date of the current Annual General Shareholders Meeting, and is expressly subject to the limitation that, at any time, the nominal value of the treasury stock acquired under this authorization, added to that already held by Telefónica, S.A. and any of the controlled subsidiary companies, may exceed 5 percent of the share capital at the time of the acquisition, respecting the limitations set for the acquisition of treasury stock as imposed by the regulatory authorities of the markets on which Telefónica, S.A. shares are listed.

It is expressly noted that the authorization granted for the acquisition of treasury stock can be used wholly or partially for the acquisition of shares of Telefónica, S.A. which the Company must deliver or transfer to its directors or employees, or to those of the companies in its Group, directly or as a consequence of them having exercised their option rights, within the framework of the remuneration systems linked to the market value of the company shares, duly approved.

To empower the Board of Directors, in the broadest possible terms, to exercise the authorization derived from this resolution and to execute the remaining items included herein, enabling the Board of Directors to delegate in the Executive Committee, the Executive Chairman of the Board or any other person expressly empowered by the Board to this effect.

The unexecuted part of the resolution adopted by the Company's Ordinary General Shareholders Meeting of May 10, 2007, in relation to point V of the Agenda of this same Meeting, shall remain null and void.

A.10 Please indicate any restrictions under law or the company bylaws regarding the exercise of voting rights and any legal restrictions regarding the acquisition and/or transfer of company stock.

Indicate any legal restrictions on exercising voting rights:

**No**

**Maximum percentage of voting rights a shareholder may exercise by legal restriction** **0**

Please state whether there are any restrictions in the company bylaws with regard to the exercise of voting rights:

**Yes**

**Maximum percentage of voting rights a shareholder may exercise, according to restrictions established in the Company's bylaws** **10.000**

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**Description of legal and company bylaws restrictions regarding the exercise of voting rights**

In accordance with Article 21 of the Company By-Laws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

Please state whether there are any legal restrictions regarding the acquisition or transfer of company stock:

**No**

A.11 Please state whether the General Shareholders Meeting has agreed to adopt measures to neutralize a public purchase offer by virtue of Law 6/2007.

**No**

If so, please explain the measures approved and the terms of inefficiency of the restrictions

**B STRUCTURE OF CORPORATE ADMINISTRATION**

B.1 Board of Directors

B.1.1 Detail the maximum and minimum number of directorships established under the bylaws

<b>Maximum number of directors</b>	<b>20</b>
<b>Minimum number of directors</b>	<b>5</b>

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B.1.2 Complete the following table with the Board members:

<b>Name or company name of director</b>	<b>Represented by</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
César Alierta Izuel		Chairman	01/29/97	05/10/07	Vote at General Shareholders Meeting
Isidro Fainé Casas		Vice Chairman	01/26/94	06/21/06	Vote at General Shareholders Meeting
Vitalino Manuel Nafría Aznar		Vice Chairman	12/21/05	06/21/06	Vote at General Shareholders Meeting
Julio Linares López		Chief Operating Officer	12/21/05	06/21/06	Vote at General Shareholders Meeting
Alfonso Ferrari Herrero		Director	03/28/01	06/21/06	Vote at General Shareholders Meeting
Antonio Massanell Lavilla		Director	04/21/95	06/21/06	Vote at General Shareholders Meeting
Carlos Colomer Casellas		Director	03/28/01	06/21/06	Vote at General Shareholders Meeting
David Arculus		Director	01/25/06	06/21/06	Vote at General Shareholders Meeting
Francisco Javier de Paz Mancho		Director	12/19/07	04/22/08	Vote at General Shareholders Meeting
Gonzalo Hinojosa Fernández de Angulo		Director	04/12/02	05/10/07	Vote at General Shareholders Meeting
José Fernando de Almansa Moreno-Barreda		Director	02/26/03	04/22/08	Vote at General Shareholders Meeting

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José María Abril  
Pérez

Director

07/25/07

04/22/08

Vote at General  
Shareholders  
Meeting

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<b>Name or company name of director</b>	<b>Represented by</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
José María Álvarez-Pallete López		Director	07/26/06	05/10/07	Vote at General Shareholders Meeting
Luiz Fernando Furlán		Director	01/23/08	04/22/08	Vote at General Shareholders Meeting
María Eva Castillo Sanz		Director	01/23/08	04/22/08	Vote at General Shareholders Meeting
Pablo Isla Álvarez de Tejera		Director	04/12/02	05/10/07	Vote at General Shareholders Meeting
Peter Erskine		Director	01/25/06	06/21/06	Vote at General Shareholders Meeting

**Total Number of Directors****17**

Please indicate any members who have left the Board during this period:

<b>Name or company name of director</b>	<b>Type of directorship at time of leaving</b>	<b>Date of leaving</b>
Manuel Pizarro Moreno	Independent	01/23/08
Antonio Viana-Baptista	Executive	01/23/08



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B.1.3 Fill in the following tables regarding the Board members and their different directorships:

**EXECUTIVE DIRECTORS**

<b>Name or company name of director</b>	<b>Committee proposing appointment</b>	<b>Post held in the company</b>
César Alierta Izuel	Nominating, Compensation and Corporate Governance Committee	Executive Chairman
Julio Linares López	Nominating, Compensation and Corporate Governance Committee	Chief Operating Officer (COO)
José María Álvarez-Pallete López	Nominating, Compensation and Corporate Governance Committee	General Manager of Telefónica Latinoamérica
<b>Total number of executive directors</b>		<b>3</b>
<b>% of total number of members of Board</b>		<b>17.647</b>

**EXTERNAL PROPRIETARY DIRECTORS**

<b>Name or company name of director</b>	<b>Committee proposing appointment</b>	<b>Name or company name of significant shareholder represented or who proposed the appointment</b>
Isidro Fainé Casas	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, la Caixa
Vitalino Manuel Nafría Aznar	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
Antonio Massanell Lavilla	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, la Caixa
José María Abril Pérez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
<b>Total number of proprietary directors</b>		<b>4</b>
<b>% of the Board</b>		<b>23.529</b>

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**EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of director</b>	<b>Profile</b>
Alfonso Ferrari Herrero	Industrial Engineer. Formerly Executive Chairman of Beta Capital, S.A. and senior manager at Banco Urquijo.
Carlos Colomer Casellas	Economics Degree. Chairman of the Colomer Group.
David Arculus	Engineering and Economics Degree. Director of Telefónica Europe, Plc. and Pearson, Plc. Chairman of the Royal Institution of Great Britain.
Francisco Javier de Paz Mancho	Information and Advertising Degree. Law Studies. IESE Business Management Program. Formerly Chairman of the State-owned company MERCASA.
Gonzalo Hinojosa Fernández de Angulo	Industrial Engineer. Formerly Chairman and CEO of Cortefiel Group.
Luiz Fernando Furlán	Degrees in Chemical Engineering and Business Administration, specializing in Financial Administration. From 2003 to 2007 he was Minister of Development, Industry and Foreign Trade of Brazil.
María Eva Castillo Sanz	Degrees in Business, Economics and Law. Head of Merrill Lynch's Global Wealth Management business operations in Europe, the Middle East, & Africa.
Pablo Isla Álvarez de Tejera	Law Degree. Member of the Body of State Lawyers (on leave of absence). First Vice Chairman and CEO of Inditex, S.A.
<b>Total number of independent directors</b>	<b>8</b>
<b>% of the Board</b>	<b>47.059</b>

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**OTHER EXTERNAL DIRECTORS**

<b>Name or company name of director</b>	<b>Committee proposing appointment</b>
José Fernando de Almansa Moreno-Barreda	Nominating, Compensation and Corporate Governance Committee
Peter Erskine	Nominating, Compensation and Corporate Governance Committee

<b>Total number of other external directors</b>	<b>2</b>
<b>% of the Board</b>	<b>11.765</b>

List the reasons why they cannot be considered proprietary or independent and their relationship with the company, Board members or shareholders:

<b>Name or company name of director</b>	<b>Reasons</b>	<b>Company, director or shareholder with whom relationship is held</b>
Peter Erskine	On 31 December 2007, Peter Erskine relinquished his executive functions in the Telefónica Group. Therefore his classification has been changed from Executive Director to Other External Director.	Telefónica, S.A.
José Fernando de Almansa Moreno-Barreda	<p>Mr. de Almansa was appointed a Member of the Board of Directors of Telefónica, S.A. with the qualification of independent Director, on 26 February 2003, following a favorable report from the Nominating, Compensation and Corporate Governance Committee.</p> <p>In accordance with the criteria established in the Unified Code on Good Governance with regard to the qualification of Directors and taking into account the concurrent circumstances in this specific case, the Company considers that Mr. Almansa belongs to the category of Other External Directors, for the following reasons:</p> <p style="padding-left: 40px;">He is an Alternate Director (independent and non-proprietary) of BBVA Bancomer México, S.A. de C.V., and has never held an executive role.</p> <p style="padding-left: 40px;">Until March 2008, he was the CEO of the Mexican company Servicios Externos de Apoyo Empresarial, S.A. de C.V., of Group BBVA.</p>	Alternate Director of BBVA Bancomer México, S.A. de C.V.



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Please indicate any variations that have occurred in the type of directorship held by each director during the period:

<b>Name or company name of director</b>	<b>Date of change</b>	<b>Previous type</b>	<b>Current type</b>
Peter Erskine	12/31/07	Executive	Other External

B.1.4 Please explain, if applicable, the reasons why proprietary directors have been appointed at the request of shareholders whose stake is less than 5% of the share capital:

Please indicate whether any formal requests for inclusion in the Board from other shareholders with a stake the same or larger than the others at whose requests proprietary directors have been appointed, have been dismissed. If so, please explain the reasons why the requests have been dismissed:

**No**

B.1.5 Please indicate whether any director has left his/her position on the board before the end of his/her mandate, whether he/she explained their reasons to the Board, and by which means, and in the case that the explanation was provided in writing to all the Board, please explain below, at least the reasons given by the director:

Yes

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**Name of director**

**Reason for leaving**

Antonio Viana-Baptista

Handed in voluntary resignation verbally to the Chairman of the Board of Directors, citing personal reasons. The rest of the Board was duly notified at the meeting held on 23 January, 2008.

Manuel Pizarro Moreno

Handed in voluntary resignation verbally to the Chairman of the Board of Directors, citing personal reasons. The rest of the Board was duly notified at the meeting held on 23 January, 2008.

B.1.6 Indicate, if applicable, any powers delegated to the Managing Director(s):

César Alierta Izuel Executive Chairman (Chief Executive Officer):

The Chairman of the Company, as the Chief Executive Officer, has been expressly delegated all the powers of the Board of Directors, except those that cannot be delegated by Law, by the Company By-Laws, or by the Regulations of the Board of Directors which establishes, in Article 5.4, the competencies that the Board of Directors reserves itself, and may not delegate.

Article 5.4 specifically stipulates that the Board of Directors reserves the power to approve: (i) the general policies and strategies of the Company; (ii) the evaluation of the Board, its Committees and its Chairman; (iii) the appointment of senior executive officers, as well as the compensation policy for Directors and senior executive officers; and (iv) strategic investments.

Julio Linares López Chief Operating Officer:

The Chief Operating Officer has been delegated those powers of the Board of Directors related with the management of the business and the performance of the highest executive functions over all the Company's business areas, except those which cannot be delegated by Law, by the Company By-Laws or by the Regulations of the Board of Directors.

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B.1.7 Identify any board members holding senior management or directorships in other companies belonging to the listed company's group:

<b>Name or company name of director</b>	<b>Corporate name of the group company</b>	<b>Position</b>
Julio Linares López	Telefónica de España, S.A.U.	Director
	Telefónica Europe, Plc.	Director
	Telefónica Móviles España, S.A.U.	Director
Alfonso Ferrari Herrero	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles Chile, S.A.	Director
David Arculus	Telefónica Europe, Plc.	Director
Francisco Javier de Paz Mancho	Atento Holding, Inversiones y Teleservicios, S.A.	Non-executive Chairman
	Telecomunicações de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
José Fernando de Almansa Moreno-Barreda	Telecomunicações de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles México, S.A. de C.V.	Director

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<b>Name or company name of director</b>	<b>Corporate name of the group company</b>	<b>Position</b>
José María Álvarez-Pallete López	Brasilcel, N.V.	Chairman of Supervisory Board
	Colombia Telecomunicaciones, S.A. ESP	Director
	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director
	Telecomunicações de Sao Paulo, S.A.	Director/Vice Chairman
	Telefónica DataCorp, S.A.U.	Director
	Telefónica de Argentina, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional Chile, S.A.	Director
	Telefónica Internacional, S.A.U.	Executive Chairman
	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
	Telefónica Móviles Chile, S.A.	Acting Director
	Telefónica Móviles Colombia, S.A.	Acting Director
	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman
	Telefónica USA, Inc.	Director
Luz Fernando Furlán	Telecomunicações de Sao Paulo, S.A.	Director
Peter Erskine	Telefónica Europe, Plc.	Director



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B.1.8 List any company board members who are also members of the board(s) of directors in other companies listed on official securities markets in Spain, other than your own group, that have been reported to the company:

<b>Name or company name of director</b>	<b>Company name of listed company</b>	<b>Position</b>
Isidro Fainé Casas	Criteria CaixaCorp, S.A.	Director
	Abertis Infraestructuras, S.A.	Chairman
	Repsol YPF, S.A.	2nd Vice Chairman
Carlos Colomer Casellas	Indo Internacional, S.A.	Director
	Inversiones Mobiliarias Urquiola S.A. SICAV	Chairman
	Ahorro Bursátil, S.A. SICAV	Chairman
Gonzalo Hinojosa Fernández de Angulo	Dinamia Capital Privado, S.A., SCR	Director
Pablo Isla Alvarez de Tejera	Inditex, S.A.	Vice Chairman-Chief Executive Officer

B.1.9 Please indicate whether, and if so, explain, the company has established rules regarding the number of Boards its directors can belong to:

**Yes**

Explanation of rules

The Nominating, Compensation and Corporate Governance Committee establishes as one of the obligations of the Directors (Article 29 of the Regulations of the Board of Directors) that Directors must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors.

In addition (Article 32.g of the Regulations of the Board of Directors), the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, may forbid Directors from holding significant positions within entities that are competitors of the Company or of any of the companies in its Group.

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B.1.10 In accordance with recommendation number 8 of the Unified Code, please indicate the general policies and strategies of the company which must be approved by the Board in full:

The investment and financing policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
The strategic or business Plan, as well as the management aims and annual budgets	Yes
The remuneration policy and performance assessment of senior management	Yes
The policy of risk management and control, as well as the periodic monitoring of the internal information and control systems	Yes
Policy on dividends, treasury and, specifically, on the limits to apply.	Yes

B.1.11 Please fill in the following tables regarding the accrued aggregate remuneration of Directors during the financial year:

a) In the company subject of this report:

<b>Remuneration item</b>	<b>Thousand euros</b>
Fixed remuneration	8,298
Variable remuneration	6,409
Attendance fees	215
Token Payments	0
Stock options and/or other financial instruments	0
Other	1,602
<b>TOTAL:</b>	<b>16,524</b>

<b>Other Benefits</b>	<b>Thousand euros</b>
Advances	0
Loans granted	0
Pension Plans and Funds: Contributions	18
Pension Plans and Funds: Commitments	0
Life Insurance premiums	59
Guarantees constituted by the company in favor of directors	0

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b) For belonging to other Boards of Directors and/or senior management of group companies:

<b>Remuneration item</b>	<b>Thousand euros</b>
Fixed remuneration	2,678
Variable remuneration	1,477
Attendance fees	0
Token Payments	0
Stock options and/or other financial instruments	0
Other	353
<b>TOTAL</b>	<b>4,508</b>

<b>Other Benefits</b>	<b>Thousand euros</b>
Advances	0
Loans granted	0
Pension Plans and Funds: Contributions	7
Pension Plans and Funds: Commitments	0
Life Insurance premiums	12
Guarantees constituted by the company in favor of directors	0

c) Total remuneration by type of directorship:

<b>Type of director</b>	<b>By company</b>	<b>By group</b>
Executive	12,698	3,264
External Proprietary	1,201	0
External Independent	2,128	760
Other external	497	484
<b>Total</b>	<b>16,524</b>	<b>4,508</b>

d) With regard to the profit attributed to the controlling company:

Total directors remuneration (thousand euros)	21,032
Total directors remuneration/benefits attributed to the controlling company (in %)	0.3

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B.1.12 Please identify the members of senior management who are not also executive directors and indicate total remuneration accruing to them during the year:

<b>Name or company name</b>	<b>Position</b>
Santiago Fernández Valbuena	General Manager of Finance and Corporate Development
Luis Abril Pérez	Technical General Secretary to the Chairman
Ramiro Sánchez de Lerín García-Ovies	General Legal Secretary and of the Board of Directors
Calixto Ríos Pérez	Internal Auditing Manager
Guillermo Ansaldo Lutz	General Manager Telefónica España
Matthew Key	General Manager Telefónica España

**Total remuneration of senior management (thousand euros) 14,135**

B.1.13 Identify in aggregate terms any guarantees or golden parachute clauses in case of dismissal or changes in control benefiting senior managers (including executive directors) of the company or its group. Indicate whether these contracts must be reported to and/or approved by the governing bodies of the company or its group:

<b>Number of beneficiaries</b>	<b>9</b>
	<b>General Shareholders</b>
	<b>Board of Directors</b>
	Yes
	<b>Meeting</b>
Body authorizing the clauses	No

**Is the General Shareholders Meeting informed of these clauses? Yes**

B.1.14 Indicate the process for establishing board members remuneration and any relevant clauses in the Bylaws.

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**Process for establishing board members remuneration and any relevant clauses in the By-laws**

In accordance with Article 28 of the By-Laws, Directors' compensation shall consist of a fixed and specific monthly remuneration and of fees for attending meetings of the Board of Directors and the executive and advisory Committees thereof. The compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. To this effect, the General Shareholders' Meeting held on 11 April 2003 fixed the maximum gross annual sum for remuneration to the Board of Directors at 6 million euros. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors.

In accordance with Article 35 of the Regulations of the Board of Directors, Directors shall be entitled to receive the compensation set by the Board of Directors in accordance with the By-Laws and following a report of the Nominating, Compensation and Corporate Governance Committee.

In accordance with Article 5 of this same regulatory text, the Board of Directors expressly reserves the power to approve both the Directors' compensation policy and the decisions related thereof.

The Nominating, Compensation and Corporate Governance Committee has the following competencies (Article 22 of the Regulations of the Board of Directors):

To propose to the Board of Directors the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them.

To propose to the Board of Directors the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.

To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

Additionally, apart from such remuneration as is provided for under the previous section, other remuneration systems may be established that may either be indexed to the market value of the shares, or consist of stock or of stock options for the Directors. The application of said remuneration systems must be authorized by the General Shareholders Meeting, which shall fix the share value that is to be taken as the term of reference thereof, the number of shares to be given to each Director, the exercise price of the stock options, the term of such remuneration system and such other terms and conditions as deemed appropriate.

The remuneration systems set out in the preceding paragraphs, arising from membership of the Board of Directors, shall be deemed compatible with any and all other professional or work-based compensations to which the Directors may be entitled in consideration for whatever executive or advisory services they may provide for the Company other than such supervisory and decision-making duties as may pertain to their posts as Directors, which shall be subject to the applicable legal provisions.

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Please state whether the Board in full has reserved the right to approve the following decisions:

**At the proposal of the company's chief executive, the appointment and removal of senior officers, and their termination clauses.** **Yes**

**Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and the approval of their contracts.** **Yes**

B.1.15 Please state whether the Board of Directors approves a detailed remuneration policy and specify the matters on which it issues an opinion:

**Yes**

**Amount of fixed remuneration items, with breakdown, if applicable of allowances for belonging to the Board and its Committees and an estimate of the resulting fixed annual remuneration** **Yes**

**Variable remuneration items** **Yes**

**Main characteristics of the benefits system, with an estimate of their amount or equivalent annual cost.** **Yes**

**Conditions that must be respected in contracts of those who exercise senior management functions as executive directors** **Yes**

B.1.16 Please state whether the Board puts to vote at the General Shareholders' Meeting, as a separate point in the order of the day, and for consultation purposes, a report on the board member remuneration policies. If applicable, explain the aspects of the report with regard to the remuneration policy approved by the Board for future years, the most significant changes of said policies with regard to that applied during this financial year and a global summary of how the remuneration policy was applied during the financial year. Please provide details of the role played by the Compensation Committee and, if external advice was sought, the identity of the external consultants who provided said advice:

**No**

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**Role played by Compensation Committee**

To propose to the Board of Directors, in the framework established in the Company By-Laws, the compensation for the Directors.

To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

The report regarding the Director compensation policy of Telefónica, S.A. deals with the following:

Aims of remuneration policy.

Detailed structure of remuneration.

Scope of application and reference parameters for variable remuneration.

Relative importance of variable remuneration with regard to fixed remuneration.

Basic conditions of contracts of Executive Directors.

Remuneration performance.

Process of drawing up remuneration policy.

**Was external advice sought?**

**Yes**

**Identify the external consultants**

**Towers  
Perrin**

B.1.17 Indicate the identity of any board members who sit on board(s) of directors or hold senior management posts in companies having significant shareholdings in the listed company and/or its group companies:

<b>Name or company name of director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>
Isidro Fainé Casas	Caja de Ahorros y Pensiones de Barcelona, la Caixa	Chairman of Caja de Ahorros y Pensiones de Barcelona, la Caixa
		Director of Criteria CaixaCorp, S.A.
Antonio Massanell Lavilla	Caja de Ahorros y Pensiones de Barcelona, la Caixa	Director of Boursorama, S.A.
		Executive Deputy General Manager of Caja de Ahorros y Pensiones de Barcelona, la Caixa
		Director of Caixa Capital Risc, S.G.E.C.R., S.A.

Executive Chairman of Serveis  
Informàtics la Caixa, S.A. (SIIK)

Director of e-la Caixa 1, S.A.

Director of Espacio Pyme, S.A.

Director of Port Aventura, S.A.

José Fernando de Almansa  
Moreno-Barreda

Banco Bilbao Vizcaya  
Argentaria, S.A.

Alternate Director of BBVA  
Bancomer México, S.A. de C.V.



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Please detail, if applicable, any relevant relationships other than those mentioned in the previous paragraph, of the members of the Board of Directors whereby they are related with significant shareholders and/or companies of the group:

<b>Name or company name of director with relationship</b>	<b>Name or company name of significant shareholder with relationship</b>	<b>Description of relationship</b>
Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Retail Banking Manager for Spain and Portugal.
José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Wholesale and Investment Banking Manager.

B.1.18 Please indicate whether there have been any changes to the Board regulations during the financial year:

**Yes**

**Description of changes**

The Board of Directors, at its meeting held on February 27, 2008, approved a new amendment of the Regulations of the Board of Directors, which affects only the composition of the Board Committees listed below. Specifically, it affects, the maximum number of Directors each may contain. In all cases the minimum number of Directors necessary for each Committee is three, and it is a requirement that a majority of them are external Directors.

Regulation Committee (Article 23)

Human Resources and Corporate Reputation and Responsibility Committee (Article 24)

Service Quality and Customer Service Committee (Article 25)

International Affairs Committee (Article 26)

The main justification for this change is the need to provide the Board of Directors with more flexibility as regards the maximum number of members that should form part of each of the Committees at any given time, being able to establish the composition of the committees in the manner it deems most convenient, on the basis of the powers and duties assigned to each of them.

These modifications were notified to the CNMV and inscribed in the Mercantile Register of Madrid on April 2, 2008.

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B.1.19 Indicate any procedures for appointment, re-election, assessment and removal of Directors. List the competent bodies, the steps to be followed and the criteria to be applied in each of the procedures.

**Appointment**

Telefónica's By-Laws establish that the Board of Directors shall be composed of a minimum of five members and a maximum of twenty, to be appointed at the General Shareholders Meeting. The Board of Directors may, in accordance with the provisions set out in the Spanish Companies Law and in the Company By-Laws, fill vacant positions temporarily by interim appointment.

It is only on certain occasions that the Board of Directors shall have the power to fill, on an interim basis, any vacancies that may occur therein, by appointing, in such manner as is legally allowed, the persons who are to fill such vacancies until the holding of the next General Shareholders Meeting.

In all other cases, the proposed appointments must follow the procedure set out in the Regulations of the Board of Directors, and must be preceded by the relevant favorable report from the Nominating, Compensation and Corporate Governance Committee, and in the case of independent Directors, by the corresponding proposal.

Thus, in accordance with the duties assigned to the Nominating, Compensation and Corporate Governance Committee, it should report, with objectivity and in line with social interests, the proposals for nominating, re-electing and removal of Company Directors, assessing the necessary competencies, knowledge and experience of the candidates to cover the vacancies.

In line with the provisions of the Regulations, the Board of Directors, exercising the right to fill vacancies by interim appointment and to propose appointments to the shareholders at the General Shareholders Meeting, shall ensure that, in the composition of the Board of Directors, external or non-executive Directors represent an ample majority over executive Directors. In addition, the Board shall ensure that the total number of independent Directors represents at least one-third of the total number of members of the Board.

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Likewise, the type of directorship of each Director will be explained by the Board of Directors before the General Shareholders Meeting that must carry out or ratify their appointment. The type of directorship will be revised on an annual basis by the Board, subsequent to the verification by the Nominating, Compensation and Corporate Governance Committee, providing information of this in the Annual Corporate Governance Report.

In any case, and in the event of re-election or ratification of Directors by the General Shareholders Meeting, the report of the Nominating, Compensation and Corporate Governance Committee, or, in the case of independent Directors, the proposal of said Committee, will contain an assessment of the work and effective time devoted to the post during the last period in which it was held by the proposed Director.

Lastly, both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their competencies, that the election of whoever has been proposed for the post of Director corresponds to people of recognized solvency, competence and experience, who are willing to devote the time and effort necessary to carrying out their functions, it being essential to be rigorous in the election of those people called to cover the posts of independent Directors.

**Re-election**

Directors shall serve in their position for a period of five years. They may be re-elected one or more times to terms of the same duration.

As with proposals for appointment, proposals for re-election of Directors must be preceded by the relevant favorable report issued by the Nominating, Compensation and Corporate Governance Committee, and, in the case of independent Directors, by the corresponding proposal.

**Assessment**

In accordance with the Regulations of the Board of Directors, the latter reserves expressly the duty to approve on a regular basis its functioning and the functioning of its Committees, it being the duty of the Nominating, Compensation and Corporate Governance Committee to organize and coordinate, together with the Chairman of the Board of Directors, the regular assessment of said Body.

In accordance with the above, it should be noted that the Board of Directors and its Committees carry out a periodic evaluation of the operation of the Board of Directors and of the Committees thereof in order to determine the opinion of Directors regarding the workings of these bodies and to establish any proposals for improvements to ensure the optimum working of the company's governing bodies.

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***Removal***

Directors shall cease to hold office when the term for which they were appointed elapses, or when such removal is resolved by the General Shareholders Meeting, in the exercise of the powers granted to this body by law.

The Board of Directors will not propose the removal of any independent Director before the established period for which they were nominated has been completed, save in cases of fair cause, as judged by the Board subsequent to a report by the Nominating, Compensation and Corporate Governance Committee. In particular, it will be deemed that there is fair cause when the Director has failed to comply with the duties inherent to their post.

The removal of independent Directors may also be proposed as a result of Public Tender Offers, mergers or other similar corporate transactions that entail a change in the company's capital structure.

**B.1.20** Indicate under what circumstances directors are obliged to resign.

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation in the following cases:

- a) When they cease to hold the executive positions to which their appointment as Directors is linked, or when the reasons for which they were appointed no longer exist.
- b) When they are affected by any of the cases of incompatibility or prohibition established by statute.
- c) When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for having failed to fulfill any of their obligations as Directors.
- d) When their remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

The conditions listed above under Recommendation B.1.19 Removal must also be taken into consideration.

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- B.1.21 Explain whether the duties of the chief executive officer fall upon the Chairman of the Board. If so, indicate the measures taken to limit the risk of the accumulation of powers in a single person:

**Yes**

**Measures to limit risks**

Pursuant to the provisions of the Regulations of the Board of Directors, the actions of the Chairman must follow the criteria established by the General Shareholders Meeting, the Board of Directors and the Board Committees at all times.

Likewise, all agreements or decisions of particular significance for the Company must be previously submitted for the approval of the Board of Directors or the relevant Board Committee, as the case may be.

The Board of Directors reserves the power to approve: the general policies and strategies of the Company; the evaluation of the Board, its Committees and its Chairman; the appointment of senior executive officers, as well as the compensation policy for Directors and senior executive officers; and strategic investments.

In addition, reports and proposals from the different Board Committees are required for the adoption of certain resolutions.

It is important to note that the Chairman does not hold the casting vote within the Board of Directors.

The Board of Directors of the Company, at its meeting held on December 19, 2007, agreed to appoint Julio Linares López Chief Operating Officer of Telefónica, S.A., reporting directly to the Chairman and with responsibility over all of Telefónica Group's Business Units.

Please indicate and, if applicable, explain, whether regulations have been established enabling one of the independent directors to request that a Board Meeting be called or to include new points in the order of the day, to coordinate and reflect the concerns of external directors and direct the assessment by the Board of Directors.

**No**

- B.1.22 Are qualified majorities other than those established by law, required for certain decisions?

**No**

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Indicate how the Board of Directors adopts resolutions, including at least the minimum quorum of attendees and the types of majorities required to pass resolutions:

**Adoption of resolutions**

Description of resolution	Quorum	Type of Majority
All resolutions	Personal or proxy attendance of one half plus one of all Directors.	Resolutions shall in all cases be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions and in particular for: (i) the appointment of Directors not holding a minimum of shares representing a nominal value of 3,000 euros, (Article 25 of the Company By-Laws) and (ii) for the appointment of Chairman, Vice Chairman, CEO or member of the Executive Committee, in accordance with the requirements explained in the following section.

B.1.23 Explain whether there are other requirements, other than those for Directors, for being appointed Chairman.

**Yes**

**Description of requirements**

In order for a Director to be appointed Chairman, he/she must have been a member of the Board for at least three years prior to such appointment. However, this requirement shall not be applicable if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

B.1.24 Indicate whether the Chairman has the casting vote:

**No**

B.1.25 Please indicate whether the Company Bylaws or the Board regulations establish an age limit for Directors:

**No**

**Age limit for Chairman**

**Age limit for CEO**

**Age limit for Directors**

0

0

0

B.1.26 Please indicate whether the Company Bylaws or the Board Regulations establish a limit on the term of office of independent Directors:

**No**

**Maximum number of years in office**

**0**

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B.1.27 When women directors are few or non existent, state the reasons for this situation and the measures taken to correct it.

***Explanation of reasons and measures***

The search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, María Eva Castillo Sanz as an Independent Member of the Board of Telefónica. This appointment was ratified by the Ordinary General Shareholders Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a period of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ( recognized caliber, qualifications and experience ) and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of female directors, if, within the potential candidates, there are female candidates who meet the professional profile sought at each moment.

Specifically, please indicate whether the Nominating and Compensation Committee has established procedures to ensure that the selection processes are not implicitly biased against the selection of female directors and that they deliberately seek female candidates that meet the required profile:

**Yes**

**Description of the main procedures**

Article 10.3 of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company.

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B.1.28 Indicate whether there are formal processes for proxy voting in the Board of Directors. If so, please describe briefly.

In accordance with Article 18 of the Regulations of the Board of Directors, Directors must attend meetings of the Board in person, and when unable to do so in exceptional cases, they shall endeavor to ensure that the proxy they grant to another member of the Board includes, as the extent practicable, appropriate instructions. Such proxies may be granted by letter or any other means that, in the Chairman's opinion, ensures the certainty and validity of the proxy granted.

B.1.29 Indicate the number of meetings held by the Board of Directors during the financial year. Likewise, indicate the number of times, if any, the Board has met in the absence of its Chairman:

Number of Board meetings	11
Number of Board meetings held in the absence of its chairman	0
Indicate the number of Board Committees meetings held during the financial year:	
Number of Executive or Delegated Commission meetings	18
Number of Audit Committee meetings	12
Number of Nominating and Compensation Committee meetings	9
Number of Nominating Committee meetings	0
Number of Remuneration Committee meetings	0

B.1.30 Please state the number of Board meetings held during the financial year in which all its members did not attend. Representatives sent without specific instructions count towards the final count:

Number of absences of board members during the year	1
% of absences with regard to total number of votes during the exercise	0.534

B.1.31 Indicate whether the individual and consolidated accounts are certified prior to their presentation to the Board of Directors for their approval:

**No**



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Identify, if applicable, the person(s) certifying the individual and consolidated accounts for their formulation by the Board:

- B.1.32 Explain the mechanisms, if any, established by the Board of Directors to ensure the individual and consolidated accounts are not presented at the General Shareholders Meeting with qualifications in the auditor's report.

Through the Audit and Control Committee, the Board of Directors plays an essential role supervising the preparation of the Company financial information, controlling and coordinating the various players that participate in this process.

In this regard, and in order to achieve this objective, the Audit and Control Committee's work addresses the following basic questions:

- 1) to know the process for gathering financial information and the internal control systems. With respect thereto:
  - a) To supervise the process of preparation and the integrity of the financial information relating to the Company and the Group, reviewing compliance with regulatory requirements, the proper determination of the scope of consolidation, and the correct application of accounting standards, informing the Board of Directors thereof.
  - b) To propose to the Board of Directors the risk management and control policy.
- 2) to ensure the independence of the External Auditor, supervising their work and acting as a channel of communication between the Board of Directors and the External Auditor, as well as between the External Auditor and the Company management team;
- 3) to supervise the internal audit services; and, in particular:
  - a) To ensure the independence and efficiency of the internal audit function;
  - b) To propose the selection, appointment and removal of the person responsible for the internal audit;
  - c) To propose the budget for such service;
  - d) To review the internal audit work plan and its annual activities report;
  - e) To receive periodic information of its activities; and
  - f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

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The Audit and Control Committee verifies both the periodical financial information and the Annual Financial Statements, ensuring that all financial information is drawn up according to the same professional principles and practices. To this effect, the Audit and Control Committee meets whenever appropriate, having held twelve (12) meetings in the course of 2008.

Furthermore, the External Auditor participates regularly in the Audit and Control Committee meetings, when called to do so by the Committee, to explain and clarify different aspects of the audit reports and other aspects of its work. Additionally, and at the Committee's request, other members of the Company management team and that of its subsidiary companies have also been called to Committee meetings to explain specific matters that are directly within their scope of competence. In particular, managers from the finance, planning and controlling areas, as well as those in charge of internal audits, are often convened to participate in these meetings. The members of the Committee have held separate meetings with each of these when it was deemed such a measure was necessary to closely monitor the preparation of the Company's financial information.

Notwithstanding the above, Article 41 of the Regulations of the Board of Directors stipulates that the Board of Directors shall endeavor to prepare the final financial statements in a manner that that will create no reason for qualifications from the Auditor. However, whenever the Board considers that it should maintain its standards, it shall publicly explain the contents and scope of the discrepancies.

B.1.33 Is the secretary of the Board a director?

**No**

B.1.34 Explain the procedures for the appointment and removal of the Secretary of the Board, stating whether their appointment and removal have been reported by the Nominating Committee and approved in full by the Board.

**Procedure of appointment and removal**

In accordance with Article 15 of the Regulations of the Board of Directors, the Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, shall appoint a Secretary of the Board, and shall follow the same procedure for approving the removal thereof.

Does the Nominating Committee notify the appointment?	<b>Yes</b>
Does the Nominating Committee notify the removal?	<b>Yes</b>
Does the Board in full approve the appointment?	<b>Yes</b>
Does the Board in full approve the removal?	<b>Yes</b>

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Is the secretary of the Board responsible for safeguarding the good governance recommendations?

**Yes**

**Comments**

In any case, the Secretary of the Board shall attend to the formal and substantive legality of the Board's actions, the conformance thereof to the By-Laws, the Regulations for the General Shareholders' Meeting and of the Board, and maintain in consideration the corporate governance recommendations assumed by the Company in effect from time to time (Article 15 of the Regulations of the Board of Directors).

B.1.35 Please state the mechanisms, if any, established by the company to preserve the independence of the auditor, of financial analysts, investment banks and rating agencies.

With regards to the independence of the external Auditor of the Company, Article 41 of the Regulations of the Board of Directors stipulates that the Board of Directors shall, through the Audit and Control Committee, establish a stable, professional relation with the Company's Auditor, strictly respecting the independence thereof. Thus, one of the fundamental duties of the Audit and Control Committee is to maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof.

In addition, in accordance with Article 21 of the Regulations of the Board of Directors, it is the Audit and Control Committee that proposes to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor as well as, where appropriate, appropriate terms of for the hiring thereof, the scope of its professional engagement and revocation or renewal of its appointment.

Likewise, the External Auditor has direct access to the Audit and Control Committee and participates regularly in its meetings, in the absence of the Company management team when this is deemed necessary. To this effect, and in keeping with United States legislation on this matter, the external Auditors must inform the Audit and Control Committee at least once a year on the most relevant generally accepted auditing policies and practices followed in the preparation of the Company's financial and accounting information that affect relevant elements in the financial statements which may have been discussed with the management team, and of all relevant communications between the Auditors and the Company management team.

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In accordance with internal Company regulations and in line with the requirements imposed by US legislation, the engagement of any service from the external Company Auditors must always have the prior approval of the Audit and Control Committee. Moreover, the engagement of non-audit services must be done in strict compliance with the Accounts Audit Law (in its version established in Law 44/2002 of 22 November, on Financial System Reform Measures) and the Sarbanes-Oxley Act published in the United States and subsequent regulations. For this purpose, and prior to the engagement of the Auditors, the Audit and Control Committee studies the content of the work to be done, weighing the situations that may jeopardize independence of the Company Auditor and specifically supervises the percentage the fees paid for such services represent in the total revenue of the auditing firm. Thus, the Company reports the fees paid to the external Company Auditor, including those paid for non-audit services, in its Notes to the Financial Statements, in accordance with the legislation in effect.

B.1.36 Please state whether during the financial year, the Company has changed external auditor. Is so, please specify the incoming and outgoing auditors:

**No**

Outgoing Auditor

Incoming Auditor

In the case that there were discrepancies with the outgoing auditor, please explain the content of said discrepancies:

**No**

B.1.37 Please indicate whether the auditing firm does non-audit work for the company and/or its group. If so, state the fees it receives for such work and the percentage represented by such fees of the total fees invoices by the company and/or its group:

**Yes**

	<b>Company</b>	<b>Group</b>	<b>Total</b>
Amount from non-audit work (thousand euros)	0	14	14
Amount from non-audit work / total amount invoiced by the auditing firm (in %)	0	0.067	0.058

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B.1.38 Indicate whether the audit report of the previous year's annual accounts is qualified or has reservations. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

**No**

B.1.39 Please state how many consecutive years the current auditing firm has been auditing the annual accounts of the company and/or its group. In addition, indicate how many years the current auditing firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	4	4
	Company	Group
Number of years audited by current auditing firm/number of years the company accounts have been audited (in %)	15.4	22.2

B.1.40 Please list the stock holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activities of the company and/or its group, and which have been reported to the company. In addition, list the posts or duties they hold in such companies:

Name or company name of director	Corporate name of the company in question	% share	Post or Duties
Isidro Fainé Casas	Abertis Infraestructuras, S.A.	0.002	Chairman
David Arculus	BT Group Plc. British Sky Broadcasting Group Plc.	0.000 0.000	

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B.1.41 Please indicate and, where appropriate, explain any procedures through which Directors may receive external advice:

**Yes**

**Details of procedure**

Article 28 of the Regulations of the Board of Directors stipulates that in order to receive assistance in the performance of their duties, the Directors or any of the Committees of the Board may request that legal, accounting, financial or other experts be retained at the Company's expense. Such engagement must necessarily be related to specific problems of certain significance and complexity that arise in the performance of their duties. The Chairman of the Company must be informed of the decision to retain such services, which shall be implemented through the Secretary of the Board, unless the Board of Directors does not consider such engagement to be necessary or appropriate.

B.1.42 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

**Yes**

**Details of procedure**

The Company adopts the measures necessary to ensure that the Directors receive the necessary information, specially drawn up and geared to preparing the sessions of the Board and its Committees, with sufficient time. Under no circumstances shall such requirement not be fulfilled on the grounds of the importance or the confidential nature of the information except in absolutely exceptional cases.

In this regard, at the beginning of each year the Board of Directors and its Committees shall set the calendar of ordinary meetings to be held during the year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable.

Also, and in accordance with Recommendation 19 of the Unified Good Governance Code, at the beginning of the year the Board and its Committees shall prepare an Action Plan detailing the actions to be carried out and their timing for each year, as per their assigned powers and duties.

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Likewise, all the meetings of the Board and the Board Committees have a pre-established Agenda, which is communicated at least three days prior to the date scheduled for the meeting together with the call for the session. For the same purpose, Directors are sent the documentation relating to the meetings with sufficient time. Such information is subsequently completed by the written documentation and presentations handed to the Directors during the session itself.

To provide all the information and clarifications necessary in relation to certain points deliberated, the Group's senior executive officers attend nearly all the Board and committee meetings to explain the matters within their competencies.

Furthermore, and as a general rule, the Regulations of the Board of Directors expressly establish that Directors have the broadest powers to obtain information on any aspect of the Company, to examine its books, records, documents and other background information on corporate transactions. The exercise of the right to receive information shall be channeled through the Chairman or Secretary of the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

- B.1.43 Please state whether, and if so provide corresponding details, the company has established rules by which the directors must notify and, if applicable, resign in those cases in which they are at risk of damaging the good name and reputation of the company:

**Yes**

**Explanation of rules**

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation when their remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

Likewise, Article 32. h) of the Regulations stipulates that Directors must report to the Board any circumstances related to them that might damage the credit and reputation of the Company as soon as possible.

- B.1.44 Indicate whether any director has notified the company that he has been indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Law:

**Yes**

Name of Director	Criminal proceedings	Comments
César Alierta Izuel	Summary Proceedings 7721/2002 Magistrate's Court number 32 of Madrid	

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Please indicate whether the Board of Directors has analyzed the case. If the answer is yes, please explain in a reasoned manner the decision made with regard to whether or not the director should continue holding their post.

**Yes**

**Decision adopted**

**Reasoned explanation**

May continue

There have been no circumstances that merit the adoption of any action or decision to this regard.

B.2. Board of Directors Committees

B.2.1 List of all Board of Directors Committees and their members:

**NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE  
COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Alfonso Ferrari Herrero	Chairman	Independent
Carlos Colomer Casellas	Member	Independent
Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Pablo Isla Álvarez de Tejera	Member	Independent
Peter Erskine	Member	Other External

**AUDIT AND CONTROL COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Alfonso Ferrari Herrero	Member	Independent
Antonio Massanell Lavilla	Member	Proprietary
Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Vitalino Manuel Nafría Aznar	Member	Proprietary



**Table of Contents****HUMAN RESOURCES, CORPORATE REPUTATION AND  
RESPONSIBILITY COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Francisco Javier de Paz Mancho	Chairman	Independent
Alfonso Ferrari Herrero	Member	Independent
Antonio Massanell Lavilla	Member	Proprietary
Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Pablo Isla Álvarez de Tejera	Member	Independent
Vitalino Manuel Nafría Aznar	Member	Proprietary

**REGULATION COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Pablo Isla Álvarez de Tejera	Chairman	Independent
Alfonso Ferrari Herrero	Member	Independent
David Arculus	Member	Independent
Francisco Javier de Paz Mancho	Member	Independent
José Fernando de Almansa Moreno-Barreda	Member	Other External
Vitalino Manuel Nafría Aznar	Member	Proprietary

**SERVICE QUALITY AND CUSTOMER SERVICE COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Gonzalo Hinojosa Fernández de Angulo	Chairman	Independent
Antonio Massanell Lavilla	Member	Proprietary
Carlos Colomer Casellas	Member	Independent
Pablo Isla Álvarez de Tejera	Member	Independent

**Table of Contents****INTERNATIONAL AFFAIRS COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
José Fernando de Almansa Moreno-Barreda	Chairman	Other External
Alfonso Ferrari Herrero	Member	Independent
David Arculus	Member	Independent
Francisco Javier de Paz Mancho	Member	Independent
Gonzalo Hinojosa Fernández de Angulo	Member	Independent
José María Abril Pérez	Member	Proprietary
Luiz Fernando Furlán	Member	Independent
Vitalino Manuel Nafría Aznar	Member	Proprietary

**EXECUTIVE COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
César Alierta Izuel	Chairman	Executive
Isidro Fainé Casas	Vice Chairman	Proprietary
Alfonso Ferrari Herrero	Member	Independent
Carlos Colomer Casellas	Member	Independent
Francisco Javier de Paz Mancho	Member	Independent
Gonzalo Hinojosa Fernández de Angulo	Member	Independent
José María Abril Pérez	Member	Proprietary
Julio Linares López	Member	Executive
Peter Erskine	Member	Other External

**STRATEGIC COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Peter Erskine	Chairman	Other External

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Gonzalo Hinojosa Fernández de Angulo	Member	Independent
José Fernando de Almansa Moreno-Barreda	Member	Other External
María Eva Castillo Sanz	Member	Independent

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**Table of Contents****INNOVATION COMMITTEE**

<b>Director</b>	<b>Position</b>	<b>Type</b>
Carlos Colomer Casellas	Chairman	Independent
Antonio Massanell Lavilla	Member	Proprietary
Julio Linares López	Member	Executive
Pablo Isla Álvarez de Tejera	Member	Independent
Peter Erskine	Member	Other External

B.2.2 Please state whether any of the following duties are responsibility of the Audit Committee:

To supervise the process of preparation and the integrity of the financial information regarding the company and, if applicable, the group, revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and the correct application of the accounting criteria. Yes

To periodically revise the internal control and risk management systems so that the main risks are identified, managed and notified correctly. Yes

To safeguard the independence and efficacy of the internal auditing function; to propose the selection, appointment, re-election and removal of the head of internal auditing; to propose the budget of that service; to receive periodic information regarding its activities; and to verify that the senior management bears in mind the conclusions and recommendations of its reports. Yes

To establish and supervise a mechanism by which the employees may notify, confidentially and, if deemed appropriate, anonymously, any irregularities that are potentially significant, especially financial and accounting irregularities, that they may detect in the company. Yes

To submit to the Board proposals of selection, appointment, re-election and replacement of the external auditor, as well as the corresponding engagement conditions. Yes

To receive regularly from the external auditor information regarding the auditing plan and the results of its execution, and to verify that the senior management takes into account its recommendations. Yes

To ensure the independence of the external auditor. Yes

In the case of groups, to encourage the group auditor to assume the responsibility for the audits of the companies it comprises. Yes



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B.2.3 Describe the organizational and operational rules and responsibilities attributed to each of the Board Committees.

**International Affairs Committee.**

a) Composition.

The International Affairs Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the International Affairs Committee shall be appointed from among its members.

b) Duties.

Notwithstanding other duties that the Board of Directors may assign thereto, the primary mission of the International Affairs Committee shall be to strengthen and bring relevant international issues to the attention of the Board of Directors for the proper development of the Telefónica Group. In that regard, it shall have the following duties, among others:

- (i) To pay special attention to institutional relations in the countries companies of the Telefónica Group do business.
- (ii) To review important issues affecting it at international or economic integration organizations and forums.
- (iii) To review regulatory and competition issues and alliances.
- (iv) To evaluate the programs and activities of the Company's various Foundations and the resources used to promote its image and international social presence.

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c) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the International Affairs Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the International Affairs Committee in order to properly exercise its duties.

*Audit and Control Committee.*

Pursuant to the provisions set out in Article 31 bis of the Company By-Laws of Telefónica, S.A., Article 21 of the Regulations of the Board of Directors regulates the Audit and Control Committee in the following terms:

a) Composition.

The Audit and Control Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All Committee members shall be external Directors. When appointing such members, the Board of Directors shall take into account the appointees' knowledge and experience in matters of accounting, auditing and risk management.

The Chairman of the Audit and Control Committee, who shall in all events be an independent Director, shall be appointed from among its members, and shall be replaced every four years; he may be re-elected after the passage of one year from the date when he ceased to hold office.

b) Powers and duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

- 1) To report, through its Chairman, at the General Shareholders' Meeting on matters raised thereat by the shareholders that are within the purview of the Committee;
- 2) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of the Auditor mentioned in Article 204 of the Spanish Companies Law, as well as, where appropriate, terms of the hiring thereof, the scope of its professional engagement and the revocation or renewal of such appointment;

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- 3) To supervise the internal audit services and, in particular:
  - a) To ensure the independence and efficiency of the internal audit function;
  - b) To propose the selection, appointment and removal of the person responsible for the internal audit;
  - c) To propose the budget for such service;
  - d) To review the internal audit work plan and its annual activities report;
  - e) To receive periodic information of its activities; and
  - f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.
- 4) To know the process for gathering financial information and the internal control systems. With respect thereto:
  - a) To supervise the process of preparation and the integrity of the financial information relating to the Company and the Group, reviewing compliance with regulatory requirements, the proper determination of the scope of consolidation, and the correct application of accounting standards, informing the Board of Directors thereof.
  - b) To propose to the Board of Directors the risk management and control policy.
- 5) To establish and supervise a mechanism that allows employees to confidentially communicate and anonymously report potentially significant irregularities particularly any financial or accounting irregularities detected within the Company.
- 6) To maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and to receive information from and maintain the communications with the Auditor provided for in auditing legislation and in technical auditing regulations.
- c) Operation.

The Audit and Control Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In the performance of its duties, the Audit and Control Committee may require that the Company's Auditor and the person responsible for internal audit, and any employee or senior executive officer of the Company, attend its meetings.



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d) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Audit and Control Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Audit and Control Committee in order to properly exercise its duties.

**Service Quality and Customer Service Committee.**

a) Composition.

The Service Quality and Customer Service Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Service Quality and Customer Service Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other duties that the Board of Directors may assign thereto, the Service Quality and Customer Service Committee shall have at least the following duties:

- (i) To periodically examine, review and monitor the quality indices of the principal services provided by the companies of the Telefónica Group.
- (ii) To evaluate levels of customer service provided by such companies.

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c) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Service Quality and Customer Service Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Service Quality and Customer Service Committee in order to properly exercise its duties.

**Strategic Committee.**

a) Composition.

The Board of Directors shall determine the number of members of this Committee. The Chairman of the Strategic Committee shall be appointed from amongst its members.

b) Duties.

Without prejudice to any other duties that the Board of Directors may assign thereto, the primary duty of the Strategic Committee shall be to support the Board of Directors in the analysis and follow-up of the global strategy policy of the Telefónica Group.

c) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Strategic Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Strategic Committee in order to properly exercise its duties.

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**Innovation Committee.**

a) Composition.

The Board of Directors shall determine the number of members of this Committee.

The Chairman of the Innovation Committee shall be appointed from amongst its members.

b) Duties.

The Innovation Committee is primarily responsible for advising and assisting in all matters regarding innovation, performing an examination, analysis and periodic monitoring of the Company's innovation projects, to provide guidance and to help ensure its implementation and development across the Telefónica Group.

c) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Innovation Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Innovation Committee in order to properly exercise its duties.

**Nominating, Compensation and Corporate Governance Committee.**

a) Composition.

The Nominating, Compensation and Corporate Governance Committee shall consist of no less than three nor more than five Directors appointed by the Board of Directors. All members of the Committee must be external Directors and the majority thereof must be independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members.

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b) Powers and duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Nominating, Compensation and Corporate Governance Committee shall have the following powers and duties:

- 1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.
- 2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.
- 3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of the Regulations of the Board.
- 4) To report on the periodic assessment of the performance of the Chairman of the Board of Directors.
- 5) To examine or organize the succession of the Chairman such that it is properly understood and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.
- 6) To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of these Regulations.
- 7) To propose to the Board of Directors, within the framework established in the By-Laws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.
- 8) To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.
- 9) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.
- 10) To exercise such other powers and perform such other duties as are assigned to such Committee in these Regulations.

c) Operation.

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman thereof requests the issuance of a report or the approval of proposals within the scope of its powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.



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d) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Nominating, Compensation and Corporate Governance Committee in order to properly exercise its duties.

**Human Resources, Corporate Reputation and Responsibility Committee.**

a) Composition.

The Human Resources, Corporate Reputation and Responsibility Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Human Resources, Corporate Reputation and Responsibility Committee shall be appointed from among its members.

b) Powers and duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Human Resources and Corporate Reputation and Responsibility Committee shall have at least the following duties:

- (i) To analyze, report on and propose to the Board of Directors the adoption of the appropriate resolutions on personnel policy matters.
- (ii) To promote the development of the Telefónica Group's Corporate Reputation and Responsibility project and the implementation of the core values of such Group.

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c) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Human Resources, Corporate Reputation and Responsibility Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Human Resources, Corporate Reputation and Responsibility Committee in order to properly exercise its duties.

**Regulation Committee.**

a) Composition.

The Regulation Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Regulation Committee shall be appointed from among its members.

b) Powers and duties.

Without prejudice to other duties that the Board of Directors may assign thereto, the Regulation Committee shall have at least the following duties:

- (i) To monitor on a permanent basis the principal regulatory matters and issues affecting the Telefónica Group at any time, through the study, review and discussion thereof.
- (ii) To act as a communication and information channel between the Management Team and the Board of Directors in regulatory matters and, where appropriate, to advise the latter of those matters deemed important or significant to the Company or to any of the companies of its Group in respect of which it is necessary or appropriate to make a decision or adopt a particular strategy.

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- c) Action Plan and Report. As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b 3) of the Regulations of the Board of Directors, the Regulation Committee shall prepare an Action Plan detailing the actions to be taken and the periods of time in which these actions will be completed.

The Committee also draws up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Regulation Committee in order to properly exercise its duties.

**Executive Commission.**

- a) Composition.

The Executive Commission shall consist of the Chairman of the Board, once appointed as a member thereof, and not less than three nor more than ten Directors appointed by the Board of Directors.

In the qualitative composition of the Executive Commission, the Board shall seek to have external or non-executive Directors constitute a majority over the executive Directors.

In all cases, the affirmative vote of at least two-thirds of the members of the Board of Directors shall be required in order for the appointment or re-appointment of the members of the Executive Commission to be valid.

- b) Operation.

The Executive Commission shall meet whenever called by the Chairman, and normally meet every fifteen days.

The Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

A quorum of the Executive Commission shall be validly established with the attendance, in person or by proxy, of one-half plus one of its members.

Resolutions shall be adopted by a majority of the Directors attending the meeting (in person or by proxy), and in the case of a tie, the Chairman shall cast the deciding vote.



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c) Relationship with the Board of Directors.

As per Article 19 b) 3., the Board of Directors is informed of the issues discussed by the Executive Commission in order to properly exercise its duties.

B.2.4 Indicate any advisory and consulting powers and, where applicable, the powers delegated to each of the committees:

<b>Committee Name</b>	<b>Brief description</b>
International Affairs Committee	Advisory and Control Committee
Audit and Control Committee	Advisory and Control Committee
Service Quality and Customer Service Committee	Advisory and Control Committee
Strategic Committee	Advisory and Control Committee
Innovation Committee	Advisory and Control Committee
Nominating, Compensation and Corporate Governance Committee	Advisory and Control Committee
Human Resources, Corporate Reputation and Responsibility Committee	Advisory and Control Committee
Regulation Committee	Advisory and Control Committee
Executive Commission	Corporate Body with general decision-making powers and express delegation of all the powers attributed to the Board of Directors, except those that cannot be delegated by law, bylaws or regulations.

B.2.5 Indicate, if applicable, any regulations governing the Board committees, where they are made available for consultation and any amendments to the same made during the financial year. Indicate whether any annual report has been voluntarily drawn up on the activities of each committee.

**International Affairs Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

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**Audit and Control Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. Besides this, the Audit and Control Committee is also specifically regulated in Article 31 bis of the By-Laws. These documents are available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Service Quality and Customer Service Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Strategic Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Innovation Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

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As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Nominating, Compensation and Corporate Governance Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Human Resources, Corporate Reputation and Responsibility Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Regulation Committee**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

**Executive Commission**

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. The Executive Commission is also regulated by Article 31 of the By-Laws. These documents are available for consultation on the company website.

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B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of Directors, on the basis of their type:

**Yes**

**C RELATED-PARTY TRANSACTIONS**

C.1 Please state whether the Board in full has reserved the right to approve, upon receipt of a report in favor from the Audit Committee or any other Committee entrusted with doing so, the transactions that the company carried out with directors, significant shareholders or shareholders represented on the Board, or with people related with them:

**Yes**

C.2 List any relevant transactions entailing a transfer of resources or obligations between the company or its group companies and the significant shareholders in the company:

<b>Name or company name of significant shareholder</b>	<b>Name or corporate name of the company or unit of its group</b>	<b>Nature of relationship</b>	<b>Type of transaction</b>	<b>Amount (thousand euros)</b>
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessee)	15,349
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees	359
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	7,952
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees received	2,917
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other income	4,245
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments/Guarantees cancelled	3
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessee)	1,676
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Rendering of services	179,099
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other expenses	300
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	11,598



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<b>Name or company name of significant shareholder</b>	<b>Name or corporate name of the company or unit of its group</b>	<b>Nature of relationship</b>	<b>Type of transaction</b>	<b>Amount (thousand euros)</b>
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance revenue	25,179
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance agreements: capital contributions and loans (lender)	142,229
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	188,504
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments undertaken	159,148
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Financial expenses	33,974
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Leases	632
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Amortization or cancellation of loans and finance leases (lessee)	3,962
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends and other benefits paid	278,957
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance agreements: capital contributions and loans (lender)	212,905
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance revenue	16,862
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees	12,641
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	247,900
	Telefónica, S.A.	Contractual	Dividends received	33,680

Banco Bilbao Vizcaya Argentaria, S.A.				
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Financial expenses	14,321
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Commitments undertaken	6,770,484
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	645,635

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<b>Name or company name of significant shareholder</b>	<b>Name or corporate name of the company or unit of its group</b>	<b>Nature of relationship</b>	<b>Type of transaction</b>	<b>Amount (thousand euros)</b>
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance revenue	43,900
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance agreements: capital contributions and loans (lender)	367,699
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Dividends and other benefits paid	236,599
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Other expenses	17
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Leases	7,978
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Guarantees received	1,189
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Receipt of services	12,145
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Guarantees	966
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	35,905
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Rendering of services	50,248
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance leases (lessee)	397
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Financial expenses	1,287
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance revenue	8
	Rest of Telefónica Group	Contractual	Finance leases (lessee)	4
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Caja de Ahorros y Pensiones de  
Barcelona, la Caixa

Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	28,266
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Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Other income	813
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- C.3 List any relevant transactions entailing a transfer of resources or obligations between the Company or its group companies and the Company's managers or Directors:
- C.4 List any relevant transaction undertaken by the Company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the Company's habitual trading:
- C.5 identify, where appropriate, any conflicts of interest affecting company Directors pursuant to Article 127 of the Companies Law.

**No**

- C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the Company and/or its group, and its Directors, management or significant shareholders.

The Company policy has established the following principles governing possible conflicts of interest that may affect Directors, senior executive officers or significant shareholders:

With respect to the Directors, Article 32 of the Regulations of the Board of Directors stipulates that Directors must inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the transaction to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors must refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest. Likewise, the aforementioned Regulations stipulate that no Director may directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of its Group, if such transactions are unrelated to the ordinary course of business of the Company or are not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, with the prior report of the Nominating, Compensation and Corporate Governance Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors present in person or by proxy.

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With regards to significant shareholders, Article 39 of the Regulations of the Board of Directors stipulates that the Board of Directors shall know the transactions that the Companies enter into, either directly or indirectly, with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto.

The performance of such transactions shall require the authorization of the Board, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, unless they are transactions or operations that form part of the customary or ordinary activity of the parties involved that are performed on customary market terms and in insignificant amounts for the Company.

The transactions referred to in the preceding sub-section shall be assessed from the point of view of equal treatment of shareholders and the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic information of the Company upon the terms set forth in applicable laws and regulations.

With respect to senior executive officers, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest.

The aforementioned Code includes all the Company Management Personnel within the concept of affected persons.

In accordance with the provisions of this Code, senior executive officers are obliged to (a) act at all times with loyalty to the Telefónica Group and its shareholders, regardless of their own or other interests; (b) refrain from interfering in or influencing the making of decisions that may affect individuals or entities with whom there is a conflict; and (c) refrain from receiving information classified as confidential which may affect such conflict. Furthermore, these persons must inform the Regulatory Compliance Unit of all transactions that may potentially give rise to conflicts of interest.

C.7 Are more than one of the Group companies listed in Spain?

**No**

Please specify the subsidiary companies listed in Spain:

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**D RISK CONTROL SYSTEMS**

- D.1 Provide a general description of risk policy in the Company and/or its group, detailing and evaluating the risks covered by the system, as well as an explanation of how far these systems match the profile of each type of risk.

Telefónica continually monitors the most significant risks in the main companies comprising its Group. It therefore monitors this risk using a Corporate Risk Model (based at the time on COSO I), which has in turn become the new Risk Management Model (based on COSO II) which will be applied regularly and uniformly across the Group companies. The new Model enables the Company to assess both the impact and the probability of all the risks which may affect the Telefónica Group happening. As mentioned above, this is based on the systems proposed in the COSO I and COSO II reports (Committee of Sponsoring Organizations of the Treadway Commission), which establish an integrated Internal and Risk Management framework. The new Risk Management Model is currently being rolled out across the various Telefónica Group companies.

One of the features of this Model is that the Group has a map identifying any risks that require specific control and monitoring according to their importance. Likewise, the Model matrix includes the operational processes in which each of the risks considered is managed, in order to evaluate the control systems established and to be reasonably sure that such risks will not arise.

In accordance with the new Model, and based on best practices in risk management, the following risk categories have been identified:

**I. Business Risk** this is the possible loss of value or earnings as a result of strategic uncertainty, changes in the business, competition and market scenario, or changes in the legal framework. For example, the threat from a new competitor or technological changes.

**II. Financial Risk** this is the possible loss of value or earnings as a result of adverse movements in financial variables and the inability of a company to meet its obligations or convert its assets into cash. For example, exchange rate fluctuations.

**III. Credit Risk** this is the possible loss of value or earnings as a result of counterparty's failure to meet its contractual obligations. For example, delinquent customers and distributors.

**IV. Operational Risk** this is the possible loss of value or earnings as a result of events caused by inadequacies or failures in processes, human resources, business teams and IT systems, or due to external factors. For example, measurement or billing errors.

Additionally, a global risks category has been included, which is wider in scope than the other four categories.

**V. Global Risks** this is the possible loss of value or earnings as a result of events which affect the Telefónica Group as a whole with regard to social responsibility, reputation, and corporate identity, and deficient management of innovation and transformation, among others.

On the other hand, and part of the Telefónica Group's risk control policy, there is an internal control framework. Its main objectives, in line with the COSO I and II models, are as follows: i) efficacy and efficiency of its operation; ii) safeguard of its assets; iii) reliability of financial information; and iv) compliance with laws and regulations.

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Also, and in addition to the controls established in each of the Company's operational processes, the Group has the following specific control elements:

- \* An Internal Auditing structure covering the entire Telefónica Group, which carries out its duties in accordance with the professional regulations and criteria of the International Institute of Internal Auditors. It must be pointed out that Telefónica is the first Spanish company to obtain the certification of quality awarded by said Institute.
- \* The Company's Financial Statements, and those of all the main companies of the Group are verified by an External Auditor. In addition, the External Auditor is commissioned to make recommendations regarding internal control for the main Companies.

Likewise, for the establishment of appropriate and standardized control systems, the Telefónica Group has a set of regulations by means of which basic control aspects are regulated. These regulations include the following:

- (i) Control regulations regarding the process of drafting the financial accounting information.
- (ii) Regulations governing control of Company information and its financial/accounting information system:
- (iii) Regulations regarding external representation and the relationship between Group companies.
- (iv) Regulations governing environmental minimums:

With regard to the use of funds by the Company, the Group has an Intervention Unit responsible for controlling the use of funds, and whose duties are, among others, the control of the use of the funds, control of travel and representation expenses and the implementation of basic controls in the greater risk processes. The Group's main companies also have Budgetary and Management Control Units.

The Telefónica Group has Units that control certain specific risks. More specifically, all those related with Risks and Insurance, Reputation, Regulation, Quality, and Human Resources (labor risks).

As Telefónica is listed on the New York Stock Exchange, it must comply with the requirements established by the Sarbanes-Oxley Act and its related regulations.

In particular, a review is carried out of the efficacy of the internal financial reporting controls, both in the process of preparing the accounting statements, and in the main processes that enter information into the accounting system. This practice is a requirement for Telefónica S.A. and for other companies of the Group, as SEC registrants.

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The results of the 2007 assessment were included in the 20-F Form of Telefónica, S.A., sent to the SEC on May 19, 2008. The report declared the existence of an effective internal control of financial reporting, with no material weaknesses. This was subsequently verified by the Company's auditor.

In addition, since 2005 an incident reporting channel is in place, created by the Audit and Control Committee of the Board of Directors, whose aim is that any employee of the Telefónica Group can report, completely anonymously if so required, with regard to situations related to the internal control of financial statements, accounting statements or accounts auditing.

Lastly, in 2006 the Board of Directors of the Company approved the unification of the Codes of Ethics of the Group's different companies in a new Business Principles Code, to be applied as standard in all countries where the Telefónica Group operates, and for all its employees. It is worth noting that in 2008, the Code of Conduct for the Financial Departments (which is obligatory for compliance with the Sarbanes-Oxley Act) which is applicable to the Telefónica Group, was incorporated into the abovementioned Business Principles Code.

D.2 Please state whether, during the financial year, any of the different types of risk affecting the company and/or its group (operational, technological, financial, legal, reputational, fiscal...) have materialized:

**No**

If so, please state the circumstances that led to the risk and whether the established control mechanisms proved to be effective.

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D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

**Yes**

If so, please explain its duties.

**Name of Committee or Body**

**Description of Duties**

Audit and Control Committee

The Board of Directors of Telefónica S.A. has constituted an Audit and Control Committee whose powers and duties and rules of operation are set out in the Company By-Laws and in the Regulations of the Board of Directors. Such regulations comply with all legal requirements as well as with the recommendations for good corporate governance issued by both national and international bodies.

Unless dealing with specific issues, the following shall be invited to attend Committee meetings: the External Auditor, representatives of the Legal General Secretariat and the Board, as well as representatives from the following departments: Finance and Corporate Development, Internal Audit, Intervention and Inspection, Planning, Budgets and Control, Operations and Human Resources.

Occasionally, as mentioned above, other managers from within the Group are invited to inform the Committee on specific areas of interest to it.

The duties of the Committee are established in the Company By-Laws of Telefónica S.A. (Article 31 bis), and in the Regulations of the Board of Directors (Article 21), as described in section B.2.3 of this Report.

In addition, the Company has designed a system of information to which the Chairman and the members of the Audit and Control Committee have access, through which they can obtain, if they wish, information on the conclusions of internal auditing reports and on the fulfillment of recommendations subject to specific monitoring.

Likewise, within the Group, Committees have been set up in those companies whose shares are listed on stock market in countries other than Spain, with similar duties to those described for the Audit and Control Committee of Telefónica, S.A.

D.4 Please identify and describe the processes for compliance with the regulations applicable to the Company and/or its group.

The vast majority of the companies comprising the Telefónica Group operate in the telecommunications sector, which is subject to regulation in nearly all the countries where the Group is present. Amongst the basic objectives of the internal control model described above is compliance with those laws and regulations that affect the Telefónica Group's activities. In particular, the Group has Units exercising specific control over this type of risks, especially through its legal services and in the areas of corporate regulation in the Group companies.

**Table of Contents****E THE GENERAL SHAREHOLDERS MEETING**

E.1 Indicate the quorum required for constitution of the General Shareholders Meeting established in the company Bylaws. Describe any difference from the minimum regime set out in the Companies Law.

No

	<b>% of quorum different from that established in art. 102 of the Companies Law for general cases</b>	<b>% of quorum different from that established in art. 103 of the Companies Law for special cases</b>
Quorum required for 1 <sup>st</sup> call to meeting	0	0
Quorum required for 2 <sup>nd</sup> call to meeting	0	0

E.2 Please state whether there are, and if applicable provide details, of any rules governing the adoption of corporate resolutions established in the Companies Law (LSA for its Spanish acronym):

Yes

Describe any differences from the provisions established in the LSA.

**Description of differences**

Article 21 of the Company By-Laws stipulates that the shareholders acting at a General Shareholders Meeting shall adopt their resolutions with the majorities of votes required by Law, cast by the shareholders present in person or by proxy.

Each share whose holder is present at the General Shareholders Meeting in person or by proxy shall give the right to one vote, except in the case of non-voting shares, subject to the provisions of Law.

Notwithstanding the provisions of the preceding paragraph, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

For purposes of the provisions contained in the preceding paragraph, the provisions of Section 4 of the current Securities Market Law of July 28, 1998 shall apply in order to decide whether or not a group of entities exists and to examine the situations of control indicated above.

Without prejudice to the limitations upon the right to vote described above, all shares present at the Meeting shall be computed for purposes of determining the existence of a quorum in constituting the Meeting, provided, however, that the 10-percent limit on the number of votes established in this article shall apply to such shares at the time of voting.



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E.3 List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the Companies Law.

Telefónica grants all shareholders the rights related to the General Shareholders' Meetings set out in the Companies Law.

Likewise, with a view to encouraging shareholders' participation in the GSM, pursuant to Article 11 of the Regulations for the General Shareholders' Meeting of Telefónica, S.A., shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Office [Servicio de Atención al Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

E.4 Please indicate measures adopted, in any, to encourage shareholder participation in the General Shareholders' Meetings.

The primary goal of the Regulations of the General Shareholders' Meeting of Telefónica, S.A. is to offer the shareholder a framework that guarantees and facilitates the exercise of his/her rights in relation to the sovereign Company body, with particular attention to the right to information and participation in the deliberations and voting, endeavoring to achieve maximum diffusion of the call and proposed resolutions to be submitted to the GSM. In addition to the measures required by the applicable law in effect, the following are specific measures envisaged in the Regulation of the General Shareholders' Meeting with a view to facilitating shareholders' attendance and participation in the Meeting:

\* WEBSITE

Incorporation into the Company website, from the date of publication of the announcement of the call and in addition to the documents and information required by law, of all the information that the company deems appropriate with regards to the aforementioned objectives and in particular, including but not limited to, the following:

- a) The text of all the proposed resolutions that are to be submitted to the shareholders at the General Shareholders' Meeting and that have by then been approved by the Board of Directors, provided however, that the Board of Directors may amend such proposals up to the date of the Meeting when so permitted by the Law.
- b) Information regarding the place where the General Shareholders' Meeting is to be held, describing, when appropriate, the means of access to the meeting room.

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- c) The procedure to obtain attendance cards or certificates issued by the entities legally authorized to do so.
  - d) The means and procedures to grant a proxy for the General Shareholders Meeting.
  - e) If established, the means and procedures to cast votes from a distance.
  - f) Any other matters of interest for purposes of following the proceedings at the Meeting, such as whether or not simultaneous interpretation services will be provided, the possibility that the General Shareholders Meeting be followed by audio-visual means, or information in other languages.
- The Company shareholders may obtain all the aforementioned information through the corporate website, or may request that it be sent to them without charge through the mechanisms established on the website for this purpose.

**FORMULATION OF SHAREHOLDERS SUGGESTIONS**

As indicated above and without prejudice to the shareholders rights, in such cases and under such terms as are provided in the Law, to have certain matters included in the Agenda for the Meeting that they request be called, the shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Office [Servicio de Atención al Accionista] regarding the organization and operation of the General Shareholders Meeting and the powers of the shareholders thereat.

Likewise, through the Shareholder Service, shareholders may request all types of information, documentation and clarifications required in relation to the GSM, either through the Company website or by calling the toll-free line.

**PROXY-GRANTING AND REPRESENTATION**

The Chairman of the General Shareholders Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders Meeting, whether individually or by grouping shares with other shareholders, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been cured.

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E.5 Please indicate whether the General Shareholders Meeting is chaired by the Chairman of the Board. List the measures, if any, adopted to guarantee the independence and correct operation of the GSM:

**Yes**

**Details of measures**

The General Shareholders Meeting of Telefónica S.A. has established its principles of organization and operation in a set of Regulations, approved by the GSM, and the Chairman must always act in line with the principles, criteria and guidelines set out therein.

As well as at bringing together and organizing in a single text the various aspects relating to the call, organization and conduct of the General Shareholders Meeting, the document provides the following mechanisms:

Facilitate the exercise by shareholders of their respective rights, in particular, the right to receive information and to participate in the deliberations and voting,

Ensure the utmost transparency and efficiency in the establishment of the shareholders will and in decision-making at the Meeting, ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions.

Furthermore, in accordance with the Regulations of the Board of Directors, the conduct of the Chairman of the Board must always be in accordance with the decisions and criteria established by the shareholders at the General Shareholders Meeting (and by the Board of Directors and the Board Committees).

E.6 Please indicate the amendments, if any, made to the Regulations of the General Shareholders Meeting during the year.

In 2008 no amendments were made to the Regulations for the General Shareholders Meeting of Telefónica, S.A.

E.7 Please indicate the attendance figures for the General Shareholders Meetings held during the financial year this report refers to:

GSM Date	Attendance figures				Total
	% attending in person	% by proxy	% remote voting		
			e-voting	Other	
04/22/08	0.208	56.903	0.000		57.111

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E.8 Briefly describe the resolutions adopted at the General Shareholders Meeting held during the year and the percentage by which each resolution was passed.

**Ordinary GSM 22 April 2008**

<b>Points of the Agenda</b>	<b>Summary of proposal</b>	<b>Votes in favor</b>	<b>Votes against</b>	<b>Abstentions</b>	<b>Result of the vote</b>
I	Approval of the Annual Accounts for Fiscal Year 2007.	2,608,848,483 (95.69%)	9,648,212 (0.35%)	107,720,944 (3.95%)	Approved
II.1	Re-election of Fernando de Almansa Moreno-Barreda	2,551,251,753 (93.58%)	50,229,722 (1.84%)	124,736,164 (4.57%)	Approved
II.2	Ratify appointment of José María Abril Pérez.	2,568,923,511 (94.23%)	32,111,797 (1.18%)	125,182,331 (4.59%)	Approved
II.3	Ratify appointment of Francisco Javier de Paz Mancho.	2,598,876,081 (95.33%)	9,706,313 (0.36%)	117,635,245 (4.31%)	Approved
II.4	Ratify appointment of María Eva Castillo Sanz.	2,602,076,919 (95.45%)	6,356,064 (0.23%)	117,784,656 (4.32%)	Approved
II.5	Ratify appointment of Luiz Fernando Furlán.	2,602,521,684 (95.46%)	5,907,365 (0.22%)	117,788,590 (4.32%)	Approved
III	Authorization for acquisition of treasury stock, directly or through Group Companies.	2,625,577,922 (96.31%)	3,290,093 (0.12%)	97,349,624 (3.57%)	Approved
IV	Reduction of the share capital through the cancellation of treasury stock.	2,628,514,211 (96.42%)	242,249 (0.01%)	97,461,179 (3.57%)	Approved
V	Appointment of the Auditors of the Company for Fiscal Year 2008.	2,626,442,631 (96.34%)	1,696,893 (0.06%)	98,078,115 (3.60%)	Approved
VI	Delegation of the rights to formalize, interpret, cure and carry out the resolutions adopted by the shareholders at the GSM.	2,628,556,394 (96.42%)	276,806 (0.01%)	97,384,439 (3.57%)	Approved

E.9 Please indicate whether the Company Bylaws establish any restrictions with regard to the minimum number shares required to attend the General Shareholders Meeting:

**Yes**

Number of shares required to attend the GSM

300

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E.10 Please indicate and explain the policies pursued by the company with reference to proxy voting at the General Shareholders Meeting.

As indicated above, with a view to facilitating shareholders attendance and participation in the General Shareholders Meetings, the Company has established the following policies in keeping with the legislation in effect:

\* Voting by proxy at the GSM:

Every shareholder having the right to attend the General Shareholders Meeting may be represented thereat by another person, even if not a shareholder. The proxy must be granted specifically for each Meeting, either by using the proxy-granting form printed on the attendance card or in any other manner permitted by the Law.

Shareholders that do not hold the minimum number of shares (300) required to attend the Meeting may at all times grant a proxy in respect thereof to a shareholder having the right to attend the Meeting, as well as group together with other shareholders in the same situation until reaching the required number of shares, following which a proxy must be granted to one of such shareholders.

\* Voting instructions:

The documents setting forth the proxies or powers of attorney for the General Shareholders Meeting shall contain instructions regarding the direction of the vote. If no express instructions are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions put forward by the Board of Directors regarding the matters on the agenda.

\* The party acting as representative:

If the document setting forth the proxy or power of attorney does not state the specific person or persons to whom the shareholder grants the proxy, such proxy shall be deemed granted in favor of any of the following: the Chairman of the Board of Directors of the Company, or the person that stands in for him as Chairman of the General Shareholders Meeting, or such person as is appointed by the Board of Directors, with notice of such appointment being given in advance in the official notice of the call to meeting.

In cases in which a public proxy solicitation has been carried out, the Director who obtains such proxy shall be subject to the voting restriction established in Section 114 of the Securities Market Law [Ley del Mercado de Valores] in connection with conflict of interest situations.

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Finally, and with a view to facilitating the maximum participation of shareholders, the Regulations of the General Shareholders Meeting stipulates that the Chairman of the General Shareholders Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders Meeting, whether individually or by grouping shares with other shareholders, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been cured.

E.11 Please indicate whether the company is aware of the institutional investors policy on whether or not to participate in the company s decision making:

**No**

E.12 Indicate the address and mode of access to corporate governance content on your website.

Telefónica complies with the applicable legislation and best practices in terms of the content of the website concerning Corporate Governance. In this respect, it fulfils both the technical requirements for access and for content for the Company website, through direct access from the homepage of Telefónica, S.A. ([www.telefonica.es](http://www.telefonica.es)) in the section Information for Shareholders and Investors (<http://www.telefonica.es/investors/>), which includes not only all of the information that is legally required, but also information that the Company considers to be of interest.

All the available information included on the Company website, except for certain specific documents, is available in three languages: Spanish, Portuguese and English.

**F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Indicate the degree of the company s compliance with Corporate Governance recommendations.

Should the company not comply with any of the aforementioned recommendations, explain the recommendations, rules, practices or criteria the company applies.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.9 , B.1.22 , B.1.23 and E.1 , E.2.

Explain

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In accordance with Article 21 of the Company By-Laws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. This restriction on the maximum number of votes that each shareholder may cast refers solely to shares held by each such shareholder and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

In addition, Article 25 of the By-Laws stipulates that in order to be appointed a Director, it is a requirement to have held for more than three years, a number of shares of the Company representing a nominal value of 3,000 euros which shares the shareholder may not transfer while in office. These requirements shall not apply to persons who, at the time of their appointment, are related to the Company under and employment or professional relationship, or when the Board of Directors resolves to waive such requirements with the favorable vote of at least 85 percent of its members.

Article 26 of the By-Laws stipulates that, in order for a Director to be appointed Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission, it shall be necessary for such Director to have served on the Board for at least three years immediately prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
  - a) The type of activity they engage in, and any business dealings between them as well as between the subsidiary and other group companies;
  - b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7

Not applicable



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3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders Meeting for approval or ratification. In particular:
  - a) The transformation of listed companies into holding companies through the process of subsidiarization, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
  - b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;
  - c) Operations that effectively add up to the company's liquidation;

Complies

4. Detailed proposals of the resolutions to be adopted at the General Shareholders Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:
  - a) The appointment or ratification of directors, with separate voting on each candidate;
  - b) Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.

See section: E.8

Complies

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgment, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximize its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

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8. The board should see the core components of its mission as to approve the company's strategy and authorize the organizational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The company's general policies and strategies, and in particular:
  - i) The strategic or business plan, management targets and annual budgets;
  - ii) Investment and financing policy;
  
  - iii) Design of the structure of the corporate group;
  
  - iv) Corporate governance policy;
  - v) Corporate social responsibility policy;
  - vi) Remuneration and evaluation of senior officers;
  - vii) Risk control and management, and the periodic monitoring of internal information and control systems;
  - viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: B.1.10, B.1.13, B.1.14 and D.3

- b) The following decisions:
  - i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14

- ii) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See section: B.1.14

- iii) The financial information that all listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics; unless their approval corresponds to the General Shareholders' Meeting;
- v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

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- c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ( related-party transactions ).

However, board authorization need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
2. They go through at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company s annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favorable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Complies

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: B.1.1

Explain

The complexity of the organizational structure of the Telefónica Group, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justify the fact that the number of members of the Board is adequate to achieve an efficient and operative operation.

In addition, it is important to bear in mind the high number of Committees of the Board of Directors of the Company, which ensures the active participation of all its Directors.

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.2 , A.3, B.1.3 and B.1.14

Complies

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11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.

See section: B.1.3

**Complies**

12. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

- 1 In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.
- 2 In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: B.1.3 , A.2 and A.3

**Explain**

The aforementioned recommendation number 12 refers to the composition of the group of external members of the Board. As stated in section B.1.3 of this Annual Corporate Governance Report, at December 31, 2008, the group of external Directors of Telefónica, S.A., was composed of 14 members (of a total of 17 Members), of whom four are proprietary Directors, eight are independent and two fall under the other external Directors category.

Of the four proprietary directors, two act in representation of Caja de Ahorros y Pensiones de Barcelona ( la Caixa ), which holds 5.013% of the capital stock of Telefónica, S.A., and two act in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), which holds 5.170% of the capital stock.

Applying the proportional criteria established in Article 137 of the Spanish Companies Law (to which Recommendation 12 of the Unified Code refers to), regarding the total number of directors, the stakes held by la Caixa and BBVA are sufficient to entitle each entity to appoint a director.

Moreover, it must be taken into account that Recommendation 12 stipulates that this strict proportionality criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

In this regard, Telefónica is the listed company on Spanish stock exchanges with the highest stock market capitalization, reaching the figure of approximately 74,574 million euros at December 31, 2008, which means a very high absolute value of the stakes of la Caixa and BBVA in Telefónica (that of la Caixa is 3,738 million euros, and that of BBVA is 3,855 million euros), which justifies the overrepresentation of these entities on the Board of Directors, rising from one member of the board each (to which they would strictly have the right in accordance with Article 137 of the Spanish Companies Law) to two members, i.e. permitting the appointment of just one more proprietary director over the strictly legal proportion.

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13. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

**Complies**

14. The nature of each director should be explained to the General Meeting of Shareholders, which shall make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification from the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1.4

**Complies**

15. When women directors are few or non-existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:
- a) The process of filling board vacancies has no implicit bias against women candidates;

The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: B.1.2, B.1.27 and B.2.3

**Explain**

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, María Eva Castillo Sanz as an Independent Member of the Board of Telefónica. This appointment was ratified by the Ordinary General Shareholders Meeting of Telefónica held on the April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a period of five years.

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Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ( recognized caliber, qualifications and experience ) and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of female directors, if, within the potential candidates, there are female candidates who meet the professional profile sought at each moment.

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organize and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: B.1.42

Complies

17. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See section: B.1.21

Partially complies

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee who shall in all events be an independent Director (Article 22 of the Regulations)- shall be responsible for organizing and coordinating a periodic assessment of the Board.

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18. The Secretary should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies.
- b) Comply with the company bylaws and the regulations of the General Shareholders Meeting, the Board of Directors and others.
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: B.1.34

Complies

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: B.1.29

Complies

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30

Complies

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

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22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

Complies

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Complies

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: B.1.41

Complies

25. Companies should organize induction programs for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programs when circumstances so advise.

Complies



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26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:
- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
  - b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: B.1.8, B.1.9 and B.1.17

Complies

27. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:
- a) On the proposal of the Nomination Committee, in the case of independent directors.
  - b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2

Complies

28. Companies should post the following director particulars on their websites, and keep them permanently updated:
- a) Professional experience and background;
  - b) Directorships held in other companies, listed or otherwise;
  - c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with.
  - d) The date of their first and subsequent appointments as a company director; and
  - e) Shares held in the company and any options on the same.

Complies

29. Independent directors should not stay on as such for a continuous period of more than 12 years.

See section: B.1.2

Complies

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30. Proprietary directors should resign when the shareholders they represent dispose of the ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

**Complies**

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III.5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

**Complies**

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Law, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

**Complies**

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board; director or otherwise.

**Complies**

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34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

**Complies**

35. The company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:
- a) The amount of the fixed components, itemized where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to;
  - b) Variable components, in particular:
    - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.
    - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or stock options or any performance-related remuneration;
    - iii) The main parameters and ground for any system of annual bonuses or other, non cash benefits; and
    - iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
  - c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount of equivalent annual cost.
  - d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:
    - i) Duration.
    - ii) Notice periods; and
    - iii) Any other clauses covering hiring bonuses, as well as indemnities or golden parachutes in the event of early termination of the contractual relation between company and executive director.

See section: B.1.15

**Complies**

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36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See sections: A.3, B.1.3

Complies

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Not applicable

39. In the case of variable remuneration, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Complies

40. The board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the questions referred to in Recommendations 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The performance of the Remuneration Committee in designing the policy will be reported to the Meeting along with the identity of any external advisors engaged.

See section: B.1.16

Partially complies

On the occasion of the Company's Ordinary General Shareholders' Meeting, shareholders shall be delivered, for information purposes, the report regarding the Director compensation policy. In addition, this Report shall be made available to shareholders from the date of publication of the call for the General Meeting.

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41. The notes to the annual accounts should list individual directors' remuneration in the year, including:
- a) A breakdown of the compensation obtained by each company director, to include where appropriate:
    - i) Participation and attendance fees and other fixed director payments;
    - ii) Additional compensation for acting as chairman or member of a board committee;
    - iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
    - iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;
    - v) Any severance packages agreed or paid;
    - vi) Any compensation they receive as directors of other companies in the group;
    - vii) The remuneration executive directors receive in respect of their senior management posts;
    - viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.
  - b) An individual breakdown of deliveries to directors of shares, share options and other share-based instruments, detailing:
    - i) Number of shares or options awarded in the year, and the terms set for their execution;
    - ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;

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- iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
- iv) Any change in the year in the exercise terms of previously awarded options.
- c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Partially complies

In accordance with Article 28.4 of the Company By-Laws, the Notes to the Financial Statements shall set forth the compensation corresponding to each position or office on the Board and the Committees thereof (Chairman, Vice Chairman, Member). The compensation payable to executive Directors shall be reflected as an aggregate figure, but shall include a breakdown of the different compensation items.

In addition, the complexity of the organizational structure of the Telefónica Group, the variety and nature of the sectors in which it carries out its activity, its multinational nature and its economic and business relevance, justify the fact that said information is included in the mentioned manner, given that its publication in any other way could damage corporate interests.

- 42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the Board itself.

See sections: B.2.1 and B.2.6

Complies

- 43. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Complies

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44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration. The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:
- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;
  - b) These committees should be formed exclusively of external directors and have a minimum of three members. This Executive directors or senior officers may also attend meetings, for information purposes, at the Committees invitation.
  - c) Committees should be chaired by an independent director.
  - d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.
  - e) Meeting proceedings should be minuted and a copy sent to all board members.

See sections: B.2.1 and B.2.3

Complies

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Complies

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The head of internal audit should present an annual work program to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

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49. Control and risk management policy should specify at least:

- a) The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;
- b) The determination of the risk level the company sees as acceptable.
- c) Measures in place to mitigate the impact of risk events should they occur;
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: D

Complies

50. The Audit Committee's role should be:

1 With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.
- c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2 With respect to the external auditor:

- a) Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.
- b) Receive regular information from the external auditor on the progress *and* findings of the audit program, and check that senior management are acting on its recommendations.



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- c) Monitor the independence of the external auditor, to which end:
  - i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
  - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.
- d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

- 51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

- 52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:
  - a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
  - b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
  - c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

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53. The Board of Directors should seek to present the annual accounts to the General Shareholders Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

**Complies**

54. The majority of Nomination Committee members or Nomination and Remuneration Committee members as the case may be should be independent directors.

See section: B.2.1

**Complies**

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:
- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
  - b) Examine or organize, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
  - c) Report on the senior officer appointments and removals which the chief executive proposes to the board.
  - d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3

**Complies**

56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

**Complies**

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57. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:

- a) Make proposals to the Board of Directors regarding:
  - i) The remuneration policy for directors and senior officers;
  - ii) The individual remuneration and other contractual conditions of executive directors;
  - iii) The standard conditions for senior officer employment contracts.
- b) Oversee compliance with the remuneration policy set by the company.

See sections: B.1.14, B.2.3

Complies

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

**G OTHER INFORMATION OF INTEREST**

List and explain below the contents of any relevant principles or aspects of corporate governance applied by the company that have not been covered by this report.

GENERAL CLARIFICATION: It is hereby stated that the details contained in this report refer to the Financial Year ended on December 31, 2008, except in those issues in which a different date of reference is specifically mentioned.

**Note 1 to Section A.3.]**

It should be noted that among its internal rules the Company has, an Internal Code of Conduct for Securities Markets Issues setting out, among other issues, the general operating principles for Directors and senior executive officers when carrying out personal trades involving securities issued by Telefónica and financial instruments and contracts, whose underlying securities or instruments are issued by the Company.

The general operating principles of this Internal Code of Conduct include transactions subject to notification, action limitations as well as the minimum holding period when acquiring securities in the Company, during which time these may not be transferred, except in the event of extraordinary situations that justify their transfer, subject to authorization by the Regulatory Compliance Committee.

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**Note 2 to Section A.3.]**

On March 5, 2007, the Executive Chairman of the Company, César Alierta Izuel, notified the National Securities Exchange Commission (CNMV) of the purchase of 8,200,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 22 euros. Also, on April 16, 2008, the Executive Chairman of the Company, César Alierta Izuel, notified the National Securities Exchange Commission (CNMV) of the purchase of 2,000,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 30 euros.

On October 16, 2007, Alfonso Ferrari Herrero notified the Spanish Securities Exchange Commission (CNMV) of the purchase of 485,000 put-warrants on shares of Telefónica, S.A., to be settled by offset, with maturity on October 11, 2010, and an exercise price of 18.4852 euros.

**Note 3 to Section A.5.]**

On October 31, 2007, Telefónica de Contenidos, S.A.U. was informed that Banco Bilbao Vizcaya Argentaria, S.A. had formalized on that same date the sale of shares, subject to a condition precedent, by which it sold all its shares in Hispasat, S.A. (a company in which Telefónica de Contenidos, S.A.U. holds a stake) to the company Abertis Telecom, S.A. On July 3, 2008, once the condition precedent was met, the public deed of sale of shares in Hispasat, S.A. between Abertis Telecom, S.A. and Banco Bilbao Vizcaya Argentaria, S.A., among others, was granted.

**Note 4 to Section B.1.8.]**

On February 20, 2009, Vitalino Manuel Nafría Aznar was appointed Chairman of the Board of Directors of Metrovacesa, S.A.

**Note 5 to Section B.1.10.]**

Although the investment and financing policy is not included literally in Article 5.4. of the Regulations of the Board of Directors, in practice said policy is the exclusive competency of the Board of Directors of the Company.

**Note 6 to Section B.1.11.]**

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2008, below is provided the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2008.

Remuneration of Telefónica, S.A.'s directors is governed by Article 28 of the By-Laws, which states that the compensation amount that the Company may pay to all of its directors shall be fixed by the shareholders at the General Shareholders Meeting which amount shall remain unchanged until and unless the shareholders decide to modify it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In this respect, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Executive and Advisory or Control Committees of the Board. In addition, the compensation provided for in the preceding paragraphs, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

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Therefore, the compensation paid to Telefónica, S.A. directors in their capacity as members of the Board of Directors, the Executive Commission and/or the Advisory and Control committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Advisory or Control committees. In this respect, it was also agreed that from September 2007, executive member of the Board would not receive the fixed amounts established for their directorships, but only receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

The fixed amounts established for membership to Telefónica Board of Directors, Executive Commission and the executive and advisory or control committees of the Board are as follows.

<b>Position</b>	<b>Board of Directors</b>	<b>Executive Commission</b>	<b>Advisory or Control Committees</b>
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	
Board member:			
Executive			
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000
			(Euros)

In addition, the amounts paid for attendance to each of the Advisory Committee meetings is 1,250 euros.

Total compensation paid to Telefónica directors for discharging their duties in 2008 amounted to 3,922,333 euros in fixed compensation and 215,000 thousand euros in fees for attending the Advisory or Control Committee meetings of the Board. It should also be noted that the compensation paid to Company directors sitting on the Boards of other Telefónica Group companies amounted to 1,349,794 euros. In addition, the Company directors who are members of the regional advisory committees (Andalusia, Catalonia and Valencia) and the Telefónica Corporate University Advisory Council, received a total of 88,750 euros in 2008.

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The following table presents the breakdown by item of the compensation and benefits paid to individual Telefónica directors for discharging their duties in 2008.

<b>Board members</b>	<b>Board of Directors</b>	<b>Executive Commission</b>	<b>Other Board Committees Fixed payment</b>	<b>Attendance fees</b>	<b>TOTAL</b>
<b>Chairman</b>					
César Alierta Izuel	300,000	100,000			400,000
<b>Vice chairmen</b>					
Isidro Fainé Casas	250,000	100,000			350,000
Vitalino Manuel Nafría Aznar	250,000		51,334	30,000	331,334
<b>Members</b>					
<b>Julio Linares López</b>					
José María Abril Pérez	150,000	100,000	14,000	1,250	265,250
José Fernando de Almansa Moreno-Barreda	150,000		42,000	11,250	203,250
<b>José María Álvarez-Pallete López</b>					
David Arculus	150,000		23,333	6,250	179,583
Eva Castillo Sanz	137,500				137,500
Carlos Colomer Casellas	150,000	100,000	36,167	11,250	297,417
Peter Erskine	150,000	100,000	17,500	8,750	276,250
Alfonso Ferrari Herrero	150,000	108,333	82,833	37,500	378,666
Luiz Fernando Furlán	137,500		11,667	5,000	154,167
Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	84,000	43,750	377,750
Pablo Isla Álvarez de Tejera	150,000		72,333	18,750	241,083
Antonio Massanell Lavilla	150,000		47,833	30,000	227,833
Francisco Javier de Paz Mancho	150,000	100,000	56,000	11,250	317,250

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TOTAL	2,575,000	808,333	539,000	215,000	4,137,333
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(Amounts in euros)

(\* ) Alfonso Ferrari  
Herrero was  
appointed  
member of the  
Executive  
Commission on  
December 19,  
2007 and  
therefore the  
compensation  
for that month is  
included in the  
table.

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In addition, the breakdown of the total paid to executive directors César Alierta Izuel, Julio Linares López and José María Álvarez-Pallete López for discharging their executive duties by item is as follows:

<b>ITEM</b>	<b>2008 (euros)</b>
Salaries	5,704,005
Variable compensation (1)	7,885,683
Compensation in kind (2)	76,746
Contributions to pension plans	25,444

(1) Variable compensation in 2008 includes a multi-year variable payment ( Extraordinary Cash Incentive Program ) of 2,075,189 euros for 2005, 2006 and 2007 related to the fulfillment of certain targets and operating and business metrics established for the entire Group for 2005-2007. This payment was made in the first half of 2008.

(2) Compensation in kind includes life and other insurance premiums (general medical and dental insurance).



In addition, with respect to the Pension Plan for Senior Executive Officers, the total amount of contributions made by the Telefónica Group in 2008 in respect of executive directors was 1,860,754 euros.

In addition, related to the Performance Share Plan approved at the Ordinary General Shareholders Meeting of June 21, 2006, the maximum number of shares corresponding to the first, second and third phases of the Plan will be given (on July 1, 2009, July 1, 2010 and July 1, 2011) to each of Telefónica's executive directors if all the terms established for such delivery are met, is as follows: for César Alierta Izuel, 129,183, 116,239 and 148,818 shares respectively; for Julio Linares López 65,472, 57,437 and 101,466 shares, respectively; for José María Álvarez-Pallete López 62,354, 53,204 and 67,644 shares, respectively).

It should be noted that the non-executive directors do not receive and did not receive in 2008 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica's share price.

In addition, the Company does not grant and did not grant in 2008 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

Finally, in 2008 Antonio Viana-Baptista, who stepped down from his executive duties on January 31, received 8,584,000 euros of severance in accordance with Clause Nine, section 1 of his senior management contract dated October 21, 1998. Mr. Viana-Baptista also received an amount of 3,289,972 euros in 2008 for the following items: (i) fixed and variable compensation; (ii) compensation in kind; (iii) long-service bonus he was entitled to receive in 2008 and accrued in the preceding three years, and (iv) settlement of accrued credits and similar receivable.

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**Note 7 to Section B.1.11.]**

Subsection b). The Fixed Remuneration item includes both the amounts of the salaries received from other Telefónica Group companies by the members of the Board of Directors in their capacity as executives, and the amount received by the members of the Board of Directors as fixed allowance for belonging to the Board of Directors of any of the companies of the Group or of its respective Committees.

**Note 8 to Section B.1.12.]**

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2008, below is provided the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2008.

The six senior executives of the Company, excluding those that are also members of the Board of Directors, received a total for all items -including the Extraordinary Cash Incentive Program indicated above- in 2008 of 13,223,911 euros. In addition, the contributions by the Telefónica Group in 2008 with respect to the Pension Plan for these directors amounted to 911,041 euros.

Furthermore, the maximum number of shares corresponding to the first, second and third phases of the Performance Share Plan assigned to all the Company senior executives is 157,046 shares for the first phase, 130,911 shares for the second phase and 306,115 shares for the third phase.

(\* ) For these purposes, Senior Executives are understood to be individuals who perform senior management functions reporting directly to the management bodies, or their executive committees or CEOs, including the person in charge of the internal audit.

**Note 9 to Section B.1.21.]**

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee who shall in all events be an independent Director (Article 22 of the Regulations)- shall be responsible for organizing and coordinating a periodic assessment of the Board.

**Note 10 to Section B.1.29.]**

In 2008 the other Board Committees held the following meetings:

Human Resources, Corporate Reputation and Responsibility Committee: 5

Regulation Committee: 4

Service Quality and Customer Service Committee: 5

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International Affairs Committee: 4

Innovation Committee (created July 30, 2008): 2

Strategic Committee (created December 17, 2008): as this committee was only created in December 2008, no meetings were held that year.

**Note 11 to Section B.1.31.]**

In accordance with the US securities market regulations, the information contained in the Annual Report on form 20-F (which includes the consolidated Annual Financial Statements of the Telefónica Group), which is filed with the Securities and Exchange Commission, is certified by the Executive Chairman of the Company, César Alierta Izuel, and by the CFO, Santiago Fernández Valbuena. This certification is made after the Financial Statements have been formulated by the Board of Directors of the Company.

**Note 12 to Section B.1.39.]**

The first financial year audited by an external auditing company was 1983. Prior to that, the balance sheets were revised by chartered accountants ( *censores de cuentas* ). Therefore, 1983 is the date taken as the base for the calculation of the percentage in the case of audits of the Individual Financial Statements of Telefónica, S.A. and 1991 is the date taken for the calculation of the percentage in the case of the Consolidated Financial Statements, as 1991 was the first financial year in which Consolidated Financial Statements for the Telefónica Group were published.

**Note 13 to Section C.2.]**

The transactions included in this section under *Commitments Undertaken* with Banco Bilbao Vizcaya Argentaria, S.A., are derivatives transactions.

This section may include any other relevant, but not reiterative information, clarification or detail related to previous sections of the report.

Specifically, indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when this is different from that required for this report.

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Binding definition of independent director:

List any independent directors who have or have had a relationship with the company, its significant shareholders or managers, which are of a sufficiently significant nature or important to determine that the directors may not be deemed independent as per the definition included in point 5 of the Unified Good Governance Code:

**No**

This annual corporate governance report was approved by the Board of Directors of the company, at its session held on

February 25, 2009.

List the directors that voted against or abstained from approving this report.

**No**

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Telefónica, S.A.**

Date: March 30<sup>th</sup>, 2009

By: /s/ Santiago Fernández Valbuena  
Name: Santiago Fernández Valbuena  
Title: Chief Financial Officer