



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

TELEFÓNICA, S.A., as provided in article 82 of the Spanish Stock Market Law (*Ley del Mercado de Valores*) hereby reports the following

SIGNIFICANT EVENT

The Board of Directors of TELEFÓNICA, S.A., at its meeting of May 10th, 2007, resolved to execute the resolution adopted by the company's shareholders in their Annual General Meeting held this same date, regarding a capital reduction by the cancellation of own shares.

Therefore, 147,633,912 of the own shares of TELEFÓNICA, S.A. have been cancelled, reducing the company's share capital by the sum of 147,633,912 euros. This also means rewording Article 5 of the By-laws, relative to share capital, which now stands at 4,773,496,485 euros, made up of an equal number of ordinary shares, all of a single series and with a nominal value of one (1) euro per share, totally paid in.

This share capital reduction is being charged to voluntary reserves, cancelling, in the appropriate amount, the restricted reserve referred to by article 79.3 of the Spanish Corporations Act, (*Ley de Sociedades Anónimas*), and setting aside a reserve for retired capital in amount of 147,633,912 euros, (equal to the nominal value of the retired shares). The reduction does not involve the return of contributions as the company itself is the owner of the cancelled shares. The purpose of the reduction, therefore, is to cancel own shares held as treasury stock.

The public deed of this share capital reduction has been registered in the Madrid Mercantile Registry (*Registro Mercantil*) on June 7th, 2007.

Madrid, June 8th, 2007

SPANISH NATIONAL SECURITIES MARKET COMMISSION
- MADRID-