



**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 Securities Market Act (*Ley del Mercado de Valores*), hereby reports the following

### **SIGNIFICANT EVENT**

Further to the notice sent on May 18th, 2009 and because of the official calling of the Annual General Shareholders' Meeting of the Company to be held on June 22<sup>nd</sup> and 23<sup>rd</sup>, 2009 (on first and second call respectively), the following documents are hereby enclosed to this report:

- Full text of the official calling
- Full text of the proposals to be submitted for approval of the Annual General Shareholders' Meeting.
- Disclosures required under article 116 bis of the Spanish Securities Market Law.

The aforesaid proposals, together with the additional information, are available to shareholders, for examination, at the Company's registered office. Additionally, these documents will be accessible on-line via TELEFÓNICA, S.A 's website [www.telefonica.com](http://www.telefonica.com).

Madrid, May 19th, 2009

# TELEFÓNICA, S.A.

## Annual General Shareholders' Meeting

By decision of the Board of Directors of TELEFÓNICA, S.A., the shareholders are hereby called to the Annual General Shareholders' Meeting, **to be held in Madrid, at the Recinto Ferial de la Casa de Campo, Pabellón de Cristal, Avenida de Portugal, s/n, on June 23, 2009 at 1:00 p.m.** on second call, in the event that the legally required quorum is not reached and the Meeting cannot therefore be held on first call on June 22, 2009, at the same time and place, all in accordance with the following:

### AGENDA

- I. Examination and approval, if applicable, of the Individual Annual Accounts, the Consolidated Financial Statements (Consolidated Annual Accounts) and the Management Report of Telefónica, S.A and of its Consolidated Group of Companies, as well as of the proposed allocation of the profits/losses of Telefónica, S.A. and the Management of its Board of Directors, all with respect to Fiscal Year 2008.
- II. Compensation of shareholders: Distribution of a dividend to be charged to Unrestricted Reserves.
- III. Approval of an incentive Telefónica's share purchase plan for employees of the Telefónica Group.
- IV. Authorization for the acquisition of the Company's own shares, directly or through Companies of the Group.
- V. Reduction of the share capital through the cancellation of shares of the Company's own stock, excluding creditors' right to object, and amendment of the article of the By-Laws relating to the share capital.
- VI. Re-election of the Auditor for Fiscal Year 2009.
- VII. Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders' Meeting.

In addition, and following the presentation of the matters included on the Agenda, a Report explaining the matters included in the Management Reports prepared as required by Section 116.bis of the Securities Market Law [*Ley del Mercado de Valores*] will be submitted to the shareholders at the Meeting.

## SUPPLEMENT TO THE CALL TO GENERAL SHAREHOLDERS' MEETING

Pursuant to the provisions of Section 97.3 of the Spanish Companies Law [*Ley de Sociedades Anónimas*], shareholders representing at least five percent of the share capital may request the publication of a supplement to this call to the General Shareholders' Meeting, including one or more items in the Agenda. This right must be exercised by means of verifiable notice (which will include the corresponding documents evidencing shareholder status) that must be received at the Company's registered office (Gran Vía, número 28, planta 12<sup>a</sup>, Madrid, código postal 28013, to the attention of the General Secretary & Secretary of the Board of Directors) within five days of the publication of this call to Meeting.

### RIGHT TO RECEIVE INFORMATION

In connection with Items I and V on the Agenda, and pursuant to applicable laws and regulations, it is stated for the record that shareholders have the right to examine and obtain at the Company's registered office, or to request the Company to send them, immediately and free of charge, a copy of the following documents:

- Individual Annual Accounts, Consolidated Financial Statements (Consolidated Annual Accounts) and Management Reports of Telefónica, S.A. and of its Consolidated Group of Companies, the corresponding audit reports, and the proposed allocation of profits/losses.
- Proposed reduction of share capital as set forth in Item V on the Agenda, together with the mandatory Directors' Report.

In addition, the following documents are made available to the shareholders:

- The text of the proposed resolutions relating to all other items on the Agenda.
- The explanatory report required under Section 116.bis of the Securities Market Law.
- The Report on Directors' Compensation Policy
- The Annual Corporate Governance Report for Fiscal Year 2008.

All of the documents set forth above will be available electronically on the Company's website ([www.telefonica.com](http://www.telefonica.com)).

Pursuant to Section 112.1 of the Spanish Companies Law, the shareholders may, until the seventh day prior to the date on which the General Shareholders' Meeting is scheduled to be held and by completing the form posted on the Company's website for such purpose, or by postal correspondence sent to the

Company's registered office (Gran Vía, número 28, planta 11<sup>a</sup>, Madrid, código postal 28013, to the attention of the *Oficina del Accionista* [Office of the Shareholder]), request such information or clarifications as they deem necessary, or ask such questions as they deem appropriate, regarding the matters included on the Agenda or about the information available to the public that has been provided by Telefónica, S.A. to the National Securities Market Commission [Comisión Nacional del Mercado de Valores] since April 22, 2008, i.e., the date on which the last General Shareholders' Meeting was held.

### **RIGHT TO ATTEND THE MEETING IN PERSON OR BY PROXY**

The right to attend the General Shareholders' Meeting hereby called accrues to shareholders that hold at least 300 shares registered in their name in the corresponding book-entry registry five days in advance of the date on which the Meeting is to be held and who provide evidence thereof by means of the appropriate attendance card or by producing a certificate issued by any of the depositaries participating in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores [Securities Registration, Clearing and Settlement Systems Management Company] (IBERCLEAR) or by any other means allowed under applicable Law.

Any shareholder having the right to attend the General Shareholders' Meeting may be represented thereat by another person, who need not be a shareholder. A proxy may be granted by using the proxy-granting form printed on the attendance card or by any other means allowed by Law. The documents containing proxies for the General Shareholders' Meeting must set forth the instructions regarding the manner of voting, provided that, where no express instructions to the contrary are given, the representative will vote in favor of the proposed resolutions submitted by the Board of Directors regarding the matters on the Agenda, and against the proposals not included in the Agenda that might be put to the vote at the Meeting.

If the proxy-granting form does not set forth a specific person to whom the shareholder grants the proxy, such proxy will be deemed granted in favor of the Chairman of the Board of Directors of the Company or of such other person as may replace him as Chairman of the General Shareholders' Meeting. In the event that, in accordance with the foregoing, the representative is involved in a conflict of interest upon voting on any of the proposals, whether or not included in the Agenda, which are put to the vote at the General Shareholders' Meeting, the proxy will be deemed granted to the Secretary of the General Shareholders' Meeting in his capacity as a shareholder having the right to attend.

Shareholders who do not hold the minimum number of shares required to attend may grant a written proxy in respect thereof in favor of another shareholder having the right to attend, or come together with other shareholders that are in the same situation such that they reach the required number of shares and grant a written proxy to one of such shareholders.

## **PARTICIPATION OF A NOTARY AT THE MEETING**

The Board of Directors has resolved to request the presence of a Notary Public to draw up the minutes of the Meeting, pursuant to Section 114 of the Spanish Companies Law in connection with Sections 101 and 103 of the Regulations of the Commercial Registry.

## **PROTECTION OF PERSONAL INFORMATION**

The personal information sent by the shareholders to the Company to exercise their rights to attend and vote at the General Shareholders' Meeting or to grant proxies, or the personal information provided for such purpose by the entities which are the depositaries of the shares held by such shareholders through the entity legally authorized to maintain book-entry registries, Iberclear, shall be dealt with by Telefónica, S.A. to manage the development, compliance with and control of the existing shareholding relationship. Furthermore, the information received will be kept in a computer file for which Telefónica, S.A. is responsible, the purpose of which is to send shareholders information relating to their investment and any advantage inherent to their status as shareholders in the telecommunications, new information technologies, tourism, culture, insurance, financial and home assistance industries. Shareholders have 30 days from the date of the General Shareholders' Meeting to object to such treatment (which they may do by calling toll free 900 111 004); upon expiration of such period they will be deemed to have given their consent for such purpose. The rights of access, correction, cancellation and challenge may be exercised by letter accompanied by copy of the Identity Document (DNI) addressed to the Office of the Shareholder of Telefónica, S.A., Distrito C, Ronda de la Comunicación s/n, Edificio Oeste 2, planta baja, 28050 Madrid.

### **HOLDING OF THE MEETING ON SECOND CALL**

**Shareholders are advised that, based on experience in previous years, the General Shareholders' Meeting is expected to be held on second call, at 1:00 p.m. on June 23, 2009, at the place indicated above.**

### **ACCESSES TO THE RECINTO FERIAL DE LA CASA DE CAMPO – PABELLÓN DE CRISTAL**

**Entrance on Paseo de Extremadura (Puerta del Ángel or Main Gate)**

**Underground stations: “Alto de Extremadura”, line 6 and “Lago”, line 10**



Telefónica, S.A.

FOR ANY ADDITIONAL INFORMATION, SHAREHOLDERS MAY CONTACT TELEFÓNICA'S OFFICE OF THE SHAREHOLDER BY CALLING TOLL-FREE AT 900 111 004, FROM 9:00 A.M. TO 7:00 P.M., MONDAY THROUGH FRIDAY.

Madrid, 18<sup>th</sup> May, 2009  
General Secretary & Secretary of the Board



Telefónica, S.A.

**ANNUAL GENERAL SHAREHOLDERS' MEETING**

**OF "TELEFÓNICA, S.A." - 2009 -**

**PROPOSED RESOLUTIONS SUBMITTED BY THE BOARD OF DIRECTORS  
TO THE SHAREHOLDERS FOR DECISION AT THE  
GENERAL SHAREHOLDERS' MEETING**

**June 22/23, 2009**

***Proposal regarding Item 1 on the Agenda: Examination and approval, if applicable, of the Individual Annual Accounts, the Consolidated Financial Statements (Consolidated Annual Accounts) and the Management Report of Telefónica, S.A. and of its Consolidated Group of Companies, as well as of the proposed allocation of the profits/losses of Telefónica, S.A. and the Management of its Board of Directors, all with respect to Fiscal Year 2008.***

- A) To approve the Individual Annual Accounts (Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity, Cash Flow Statement and Notes), the Consolidated Financial Statements –Consolidated Annual Accounts- (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Recognized Income and Expenses and Notes) and the Management Reports of Telefónica, S.A. and its Consolidated Group of Companies for Fiscal Year 2008 (ended on December 31, 2008), as finalized by the Company's Board of Directors at its meeting of February 25, 2009, as well as the corporate management of the Board of Directors of Telefónica, S.A. during such Fiscal Year.

In the Individual Annual Accounts, the Balance Sheet as of December 31, 2008 discloses assets, liabilities and shareholders' equity in the amount of 88,441 million euros each, and the Income Statement as of the end of the Fiscal Year shows a profit of 2,700 million euros.

In the Consolidated Financial Statements (Consolidated Annual Accounts), the Balance Sheet as of December 31, 2008 reflects assets, liabilities and shareholders' equity in the amount of 99,896 million euros each, and the Income Statement as of the end of the Fiscal Year reports a profit of 7,592 million euros.

- B) To approve the following Proposal for the Allocation of the Profits and Losses of Telefónica, S.A. for Fiscal Year 2008:

To allocate the profits posted by Telefónica, S.A. in Fiscal Year 2008, in the amount of 2,699,944,655 euros, as follows:

- 2,295,821,876 euros to payment of an interim dividend (fixed gross amount of 0.5 euro per share on all 4,704,996,485 shares representing the Company's share capital entitled to receive it). Such dividend was paid in full on November 12, 2008.
- 1,690,464 euros to funding a restricted reserve for Goodwill.



- The balance of profits (402,432,315 euros) to a Discretionary Reserve.

***Proposal regarding Item II on the Agenda: Compensation of shareholders:  
Distribution of a dividend to be charged to Unrestricted Reserves.***

To approve a distribution of Unrestricted Reserves by means of payment to each of the existing and outstanding shares of the Company that are entitled to participate in such distribution on the payment date, of the fixed gross amount of 0.5 euro per share, to be charged to the aforementioned Unrestricted Reserves.

Payment will be made on November 11, 2009, through the Entities participating in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. [*Securities Registration, Clearing and Settlement Systems Management Company*] (IBERCLEAR).

***Proposal regarding Item III on the Agenda: Approval of an incentive Telefónica's share purchase plan for employees of the Telefónica Group.***

To approve an incentive share purchase plan (hereinafter, the “**Plan**”), aimed at employees, including executive personnel, as well as executive Directors of the Telefónica Group, in accordance with the following basic terms and conditions:

1. Description of the Plan: For the purposes of aligning the interests of the employees of the Telefónica Group with those of its shareholders, the Plan is aimed at offering to employees, including executive personnel, and executive Directors of the Telefónica Group the possibility of acquiring shares of Telefónica, S.A. with the commitment from the latter to deliver free of charge to the recipients who sign up for the Plan a certain number of additional shares in Telefónica, S.A., provided that certain requirements are met.
2. Recipients of the Plan: The recipients of the Plan will be the employees (including senior managers and other executive personnel) and executive Directors of the Telefónica Group who fulfill, from time to time, the seniority and other suitability requirements established for such purpose by Telefónica, S.A. to sign up for the Plan. The recipients who sign up for the Plan by fulfilling the formalities and requirements established from time to time for such purpose shall be referred to hereinafter as the “**Participants**”.
3. Term of the Plan: The Plan shall be for a minimum term of two years and a maximum of four years as from its implementation, an implementation which must be take place within a maximum period of one year from the date of this resolution. The Plan will have a period for acquiring the shares (the “**Purchase Period**”) with a term of one year and a period for holding the shares (the “**Holding Period**”) with a term of, at least, one year from the end of the Purchase Period.
4. Acquisition procedure: The Participants will have the possibility of acquiring the shares of Telefónica, S.A. at their market value through an investment agreement (the “**Investment Agreement**”) whereby the Participants will determine the part of their remuneration that they wish to allocate for such purpose during the Purchase Period.

The specific amount that may be allocated to the acquisition of shares of Telefónica, S.A. (the “**Acquired Shares**”) by each Participant will be determined by the Board of Directors once the total amount that the

Participants as a whole wish to allocate to the acquisition of shares is known. In no case may the amount exceed €1,500 per Participant, and the Board of Directors will be able to set a lesser amount.

5. Free-of-charge delivery of additional shares: The Participants will be entitled to the delivery free of charge of additional shares of Telefónica, S.A. (the “**Additional Shares**”) at the end of the Holding Period according to the number of shares acquired under the Plan and provided that the Acquired Shares are held to the end of such period. If all or part of the Acquired Shares are sold before the end of the Holding Period, the Participant will forfeit the right to the free-of-charge delivery of the Additional Shares corresponding to the Acquired Shares sold.

In addition, the Board of Directors will be able to resolve to approve the Participants’ entitlement to receive the dividends derived from the Additional Shares, or an equivalent remuneration, as from the acquisition of the Acquired Shares.

The Board of Directors will determine, at the beginning of the Purchase Period, the proportion of Additional Shares to be delivered at the end of the Holding Period for each Acquired Share. However, as a maximum, a Participant will receive one Additional Share for each Acquired Share.

For the Additional Shares to be delivered free of charge, the following requirements in particular must be met: (i) the Participant must remain in the Telefónica Group through to the end of the Holding Period, and (ii) the corresponding Acquired Shares must be held to the end of the Holding Period. The Board of Directors may establish such additional conditions as it sees fit.

6. Maximum number of Additional Share to be delivered free of charge: The maximum number of Additional Shares to be delivered free of charge to the Participants under the Plan will be the result of dividing the amount allocated to the Plan by the price at which the shares acquired pursuant to the various Investment Agreements during the Holding Period have been purchased.

The amount allocated to the Plan will be determined by the Board of Directors, following a report from the Appointments, Compensation and Corporate Governance Committee, and will not exceed the amount of €60,000,000.

In any event, the total amount of Additional Shares for the entire Plan may never exceed 0,15% of the capital stock of Telefónica, S.A. as of the date of this resolution.

Of the total amount of Additional Shares under the Plan, the maximum number to be delivered to the executive Directors of Telefónica, S.A. will be 1,000 shares of Telefónica, S.A.

7. Origin of the Additional Shares to be delivered free of charge: The Additional Shares to be delivered free of charge to the Participants may be, subject to the fulfillment of the legal requirements established for such purpose, (a) shares of Telefónica, S.A. held as treasury stock that have been acquired or that may be acquired by Telefónica, S.A. itself or by any company in its group; or (b) newly issued shares.

To grant authority to the Board of Directors, on the broadest terms, authority which may be delegated by the Board to the Executive Commission, the Appointments, Compensation and Corporate Governance Committee, the Executive Chairman of the Board of Directors, the Chief Operating Officer, or any other person expressly authorized by the Board for such purpose, for the execution of this resolution and for the implementation, when and how it sees fit, development, formalization, execution and settlement of the Plan, adopting such resolutions and signing such public or private documents as may be necessary or advisable to give full effect thereto, with authority to remedy, rectify, modify or supplement this resolution. And, in general, to adopt such resolutions and take such steps as may be necessary or merely advisable for the successful outcome of this resolution and of the implementation, execution and settlement of the Plan, including, merely for illustration purposes, and always within the frame of the terms and conditions provided in this resolution, the following authority:

- (a) To implement and execute the Plan when it considers it advisable and in the specific manner that it considers appropriate.
- (b) To develop and establish the specific conditions of the Plan in all matters not provided for in this resolution, including, by way of example and without limitation, the terms and conditions of the Investment Agreements, the possibility of establishing cases of early settlement of the Plan as well as establishing, inter alia, the dates of acquisition of the shares during the Purchase Period, the term of the Holding Period and the date of delivery of the Additional Shares.
- (c) If the legal regime applicable to some of the Participants or to certain companies of the Telefónica Group so requires or advises or it were necessary for legal, regulatory, operational or other similar reasons, to adopt the basic conditions indicated, on a general or a specific basis, including, by way of example and without limitation, adapting the mechanisms for delivering the

shares, without altering the maximum number of shares linked to the Plan, providing for and executing the total or partial settlement of the Plan in cash, without the physical delivery of shares, establishing different durations of the Holding Period for different categories of Participants, adapting the period for delivering the Additional Shares as well as establishing the procedure for paying the remuneration equivalent to the economic rights of the Additional Shares.

- (d) To decide not to execute or to render void the Plan, at any time prior to the date of commencement of the Purchase Period, as well as to exclude certain groups of potential Participants or companies of the Telefónica Group where the circumstances so advise.
- (e) To draft, sign and submit such notices and supplementary documentation as may be necessary or advisable to any public or private body for the purposes of the implementation, execution or settlement of the Plan, including, where necessary, the appropriate prior notices and prospectuses.
- (f) To carry out any step, declaration or formality in dealings with any body or entity or public or private registry, to obtain any authorization or clearance necessary to implement, execute or settle the Plan and the delivery free of charge of the shares of Telefónica, S.A.
- (g) To negotiate, agree and sign all such agreements of any kind with the financial or other entities it freely designates, on the terms and conditions it deems fit, as may be necessary or advisable for the proper implementation, execution or settlement of the Plan, including, where necessary or advisable due to the legal regime applicable to certain Participants or to certain companies of the Telefónica Group or if it were necessary or advisable for legal, regulatory, operational or other similar reasons, the establishment of any legal mechanism (including *trusts* or other similar mechanisms) or the securing of agreements with any type of entity for the deposit, safekeeping, holding and/or administration of the Additional Shares and/or their subsequent delivery to the Participants within the context of the Plan.
- (h) To draft and publish such notices as may be necessary or advisable.
- (i) To draft, sign, execute and, if appropriate, certify, any type of document relating to the Plan.
- (j) And, in general, to take such steps, adopt such decisions and execute such documents as may be necessary or merely advisable for the validity,

effectiveness, implementation, development, execution, settlement and successful outcome of the Plan and of the resolutions adopted above.

***Proposal regarding Item IV on the Agenda: Authorization for the acquisition of the Company's own shares, directly or through Companies of the Group.***

- A) To authorize, pursuant to the provisions of Section 75 et seq. and the first additional provision, paragraph 2, of the Spanish Companies Law [*Ley de Sociedades Anónimas*], the derivative acquisition by Telefónica, S.A. –either directly or through any of the subsidiaries of which it is the controlling company- at any time and as many times as it deems appropriate, of its own fully-paid in shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.

Such authorization is granted for a period of 18 months as from the date of this General Shareholders' Meeting and is expressly subject to the limitation that the par value of the Company's own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company's own shares established by the regulatory Authorities of the market on which the shares of Telefónica, S.A. are traded shall also be observed.

It is expressly stated for the record that the authorization granted to acquire shares of its own stock may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of companies of its Group, directly or as a result of the exercise by them of option rights, all within the framework of duly approved compensation systems referencing the listing price of the Company's shares.

- B) To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of



Directors, the Chief Operating Officer or any other person expressly authorized by the Board of Directors for such purpose.

- C) To deprive of effect, to the extent of the unused amount, the authorization granted under Item III on the Agenda by the shareholders at the Ordinary General Shareholders Meeting of the Company on April 22, 2008.

***Proposal regarding Item V on the Agenda: Reduction of the share capital through the cancellation of shares of the Company's own stock, excluding creditors' right to object, and amendment of the article of the By-Laws relating to the share capital.***

- A) To reduce the share capital of the Company by the amount of 141,000,000 euros, by means of the cancellation of 141,000,000 shares of the Company's treasury stock, which were previously acquired in reliance on the authorization previously granted by the shareholders at the General Shareholders' Meeting, within the limits established in Sections 75 et seq. and in additional provision 1, paragraph 2, of the Spanish Companies Law. Accordingly, Article 5 of the By-Laws regarding the amount of the share capital is hereby amended and shall henceforth read as follows:

*"Article 5.- Share capital*

- 1. The share capital is 4,563,996,485 euros, divided into 4,563,996,485 common shares of a single series, with a par value of one euro each, fully paid in.*
- 2. The shareholders at the General Shareholders' Meeting may, complying with the requirements and within the limits legally established for such purpose, delegate to the Board of Directors the power to increase the share capital."*

The reduction of the share capital is made with a charge to discretionary reserves, cancelling the corresponding amount of the restricted reserve mentioned in Section 79.3 of the Spanish Companies Law, and funding a reserve due to capital reduction in the amount of 141,000,000 euros (an amount equal to the par value of the cancelled shares) which may only be used complying with the same requirements as those established for the reduction of the share capital, pursuant to the provisions of item 3 of Section 167 of the Spanish Companies Law. Accordingly, as provided therein, the creditors of the Company shall not have the right to object mentioned in Section 166 of the Spanish Companies Law in connection with the capital reduction resolved to be made.

The reduction does not involve a return of contributions, since the Company itself is the owner of the cancelled shares. The purpose of the reduction is thus to cancel the shares of treasury stock.

- B) To authorize the Board of Directors, within one year from the date of adoption of this resolution, to determine the other matters that have not been expressly established in this resolution or that are a result hereof, and to adopt the resolutions, take the actions and execute the public or private documents that may be necessary or appropriate for the full implementation of this resolution including, without limitation, the publication of the legally required notices, the making of the appropriate applications and the giving of the appropriate notices required to delist the cancelled shares; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or to any other person expressly authorized by the Board of Directors for such purpose.

***Proposal regarding Item VI on the Agenda: Re-election of the Auditor for Fiscal Year 2009.***

In accordance with the proposal made by the Audit and Control Committee, the Board of Directors submits the following resolution to the shareholders at the General Shareholders' Meeting for approval:

To reelect as Auditor of Telefónica, S.A. and its Consolidated Group of Companies for fiscal year 2009 of the firm Ernst & Young, S.L. with registered office in Madrid, at Plaza Pablo Ruiz Picasso, 1, and Tax Identification Code [C.I.F.] B-78970506.

***Proposal regarding Item VII on the Agenda: Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders' Meeting.***

To authorize the Executive Chairman of the Board of Directors, the Chief Operating Officer, the Secretary of the Board of Directors and the Assistant Secretary of the Board of Directors, jointly and severally, without prejudice to any powers delegated in the foregoing resolutions and to any powers granted to convert resolutions into a public instrument, in order for any of them to formalize and implement the preceding resolutions, with authority to execute all such public or private documents as may be necessary or appropriate (including documents designed to interpret, clarify, elaborate, supplement, correct errors and cure defects) for the more accurate implementation thereof and for registration thereof, to the extent mandatory, with the Commercial Registry or any other Public Registry, as well as to deposit the financial statements of the company.

\* \* \* \* \*

## **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 Shares	%	Direct shareholding Shares	%	Indirect holding 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.

#### **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.

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.

#### *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.

**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.

\*\*\*\*