INFORMATION SUPPLEMENTAL TO THE ANNUAL CORPORATE GOVERNANCE REPORT OF TELEFÓNICA, S.A. FOR FISCAL YEAR 2009

At the request of the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*), Telefónica, S.A. ("**Telefónica**") provides the following information as a supplement to its Annual Corporate Governance Report for fiscal year 2009 ("**ACGR**"), communicated as a Significant Event (*Hecho Relevante*) on March 23, 2010 (registry number 122676):

1. Section F.1 of the ACGR

In connection with the degree to which recommendation number 1 of the Unified Good Governance Code is followed, Telefónica notes for the record, as additional information to that included in such section F.1 of the ACGR, that maintaining in the By-Laws the maximum number of votes that may be cast by a single shareholder or by shareholders belonging to the same group (Article 21 of the By-Laws) is justified because this measure seeks to achieve a suitable balance and protection of the position of minority shareholders, thus avoiding a potential concentration of votes among a reduced number of shareholders, which might otherwise affect the advancement of the corporate interest of all shareholders as guidance for action by the shareholders at the General Meeting. Telefónica believes that this measure does not entail a device designed to block public tender offers, but rather guarantees that any takeover shall require, in the interest of all shareholders, an offer for one hundred percent of the capital, because, naturally, and as taught by experience, potential offerors may make their offer conditional upon the removal of the defense mechanism.

In addition, the special requirements for appointment as Director (Article 25 of the By-Laws) or as Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission (Article 26 of the By-Laws) are justified by the desire that access to the management decision-making body and to the most significant positions thereon is reserved to persons who have demonstrated their commitment to the Company and who, in addition, have adequate experience as members of the Board, such that continuity of the management model adopted by the Telefónica Group may be assured in the interest of all of its shareholders and stakeholders. In any event, these special requirements may be waived by broad consensus among the members of the Board of Directors, namely, with the favorable vote of at least 85 percent of its members, as provided by the aforementioned articles of the By-Laws.

2. Section F.40 of the ACGR

On occasion of the call to the Annual General Shareholders' Meetings of the Company, the Board of Directors of Telefónica submits, for information purposes, a Report on the Compensation Policy for the Board of Directors, containing the information set forth in recommendation number 40 of the Unified Good Governance Code, which is made available to the shareholders as from the date of publication of the notice of the call to meeting.

In this regard, it should be noted that Telefónica provides extensive information at its Annual General Shareholders' Meetings, through the presentations made thereat by the General Secretary and Secretary of the Board of Directors of the Company, regarding the contents and highlights of such Report on the Compensation Policy for the Board of Directors.

As regards submitting such report to a consultative vote at the General Shareholders' Meeting, as a separate item on the agenda, Telefónica has not deemed it advisable because it believes that this matter falls outside the purview of the shareholders at a General Meeting and, in addition, because it is a highly strategic issue and a vote thereon might therefore lead to open debate at each Meeting, thus generating instability and uncertainty.

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Madrid, May 21, 2010