

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. RELATING TO THE PROPOSAL FOR AMENDMENT OF ARTICLES 5, 8.1, 11, 13.1 AND 14.1 OF THE REGULATIONS FOR THE GENERAL SHAREHOLDERS' MEETING, WHICH REPORT SHALL BE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE 2011 ORDINARY GENERAL SHAREHOLDERS' MEETING (ITEM IV OF THE AGENDA).

1. PURPOSE OF THE REPORT

The Agenda for the Ordinary General Shareholders' Meeting of Telefónica, S.A., called to be held on May 17/18, 2011, on first and second call, respectively, includes in item IV a proposal relating to the amendment of Articles 5, 8.1, 11, 13.1 and 14.1 of the Regulations for the General Shareholders' Meeting of the Company.

In this regard, the Board of Directors of Telefónica, S.A. issues this Report for the purpose of explaining the proposed amendments to the Regulations, also including the full text thereof.

2. RATIONALE FOR THE PROPOSAL

The purpose of the majority of the amendments proposed to the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. is conforming the Company's Regulations for the General Shareholders' Meeting to the latest legislative developments relating to stock companies and listed corporations, in particular: (i) the restated text of the Companies Act (*Ley de Sociedades de Capital*) (the "**Companies Act**") approved by Royal Legislative Decree 1/2010, of July 2; and (ii) Royal Decree-law 13/2010, of December 3, regarding tax, labor and liberalizing actions for the promotion of investment and job creation ("**RDL 13/2010**"), all consistently with the proposed amendments to the By-Laws under item III of the Agenda.

Most of these amendments are based on the corresponding amendments to the By-Laws submitted to the shareholders at this General Shareholders' Meeting under item III of the Agenda and, therefore, are also justified by the need to maintain due internal coherence within the corporate regulations and the corporate governance system of Telefónica, S.A.

For the purpose of voting, and without prejudice to the provision of an individual rationale for each of the amendments proposed, such amendments have been grouped into two blocks: those amendments relating to mere adaptations to legislative developments and the amendment of Article 14.1 of the Regulations for the General Shareholders' Meeting, which does not entail a mere adjustment to the law but the introduction of improvements into the Regulations (due, in turn, to the inclusion of a new equivalent rule in the By-Laws, thus providing the necessary By-Law coverage).

Each of the amendments to the Regulations proposed to the shareholders at the General Shareholders' Meeting is set forth and explained below.

Proposal for amendment of Article 5 of the Regulations for the General Shareholders' Meeting:

It is proposed to amend Article 5 of the Regulations for the General Shareholders' Meeting to adjust the enumeration of powers of the shareholders at the General Shareholders' Meeting to the text of Section 160 of the Companies Law, in line with the proposed amendment to Article 14 of the By-Laws.

Current text	New proposed text
<p><i>Article 5. Powers of the shareholders at the General Shareholders' Meeting</i></p> <p><i>The shareholders acting at the General Shareholders' Meeting shall have the power to deliberate upon</i></p>	<p><i>Article 5. Powers of the shareholders at the General Shareholders' Meeting</i></p> <p><i>The shareholders acting at the General Shareholders' Meeting shall have the power to deliberate upon</i></p>

and adopt resolutions on all such matters as legal provisions and the By-Laws reserve for decision thereat and, in general, on all matters which fall within the scope of powers assigned by Law to the shareholders and are submitted at the General Shareholders' Meeting at the behest of the Board of Directors and of the shareholders themselves, in such instances and in such manner as are provided in the Law and the By-Laws. In particular, the shareholders shall decide the following matters:

- a) Appointment and removal of Directors.
- b) Appointment of Auditors.
- c) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal year and decision regarding the allocation of profits/losses.
- d) Increase or reduction of share capital.
- e) Issuance of Debentures.
- f) Amendment of the By-Laws.
- g) Dissolution, merger, split-off and transformation of the Company.
- h) The transformation of the Company into a holding company, through "subsidiarization" or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.
- i) The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.
- j) Transactions the effect of which is tantamount to liquidating the Company.
- k) Any other matter that the Board of Directors resolves to submit to the

and adopt resolutions on all such matters as legal provisions and the By-Laws reserve for decision thereat and, in general, on all matters which fall within the scope of powers assigned by Law to the shareholders and are submitted at the General Shareholders' Meeting at the behest of the Board of Directors and of the shareholders themselves, in such instances and in such manner as are provided in the Law and the By-Laws. In particular, the shareholders shall decide the following matters:

- a) Appointment and removal of Directors.
- b) Appointment and removal of Auditors and liquidators.
- c) Commencement of claims for liability against the Directors, liquidators or Auditors
- d) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal year and decision regarding the allocation of profits/losses.
- ~~e~~) Increase or reduction of share capital.
- ~~e~~f) Issuance of ~~e~~debentures.
- ~~f~~g) Amendment of the By-Laws.
- ~~g~~h) Dissolution, merger, split-off, overall assignment of assets and liabilities, relocation of the registered address abroad and transformation of the Company.
- i) The elimination of or establishment of restrictions upon pre-emptive rights, without prejudice to the possible delegation of these powers to the Directors as provided by law.
- ~~h~~i) The transformation of the Company into a holding company, through "subsidiarization" or by

<p>shareholders at a General Shareholders' Meeting.</p>	<p>entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.</p> <p>ik) The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.</p> <p>jl) Transactions the effect of which is tantamount to liquidating the Company, <u>and, especially, the approval of the final balance sheet upon liquidation.</u></p> <p>m) Any other matter that the Board of Directors resolves to submit to the shareholders at a General Shareholders' Meeting.</p>
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Proposal for amendment of Article 8.1 of the Regulations for the General Shareholders' Meeting:

It is proposed to amend paragraph 1 of Article 8 of the Regulations for the General Shareholders' Meeting to conform it to the new text of Section 137 of the Companies Act as amended by paragraph 2 of Section 6 of RDL 13/2010, in line with the proposed amendment to Article 16.1 of the By-Laws.

Current text	New proposed text
<p>1. The General Shareholders' Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and in at least one of the newspapers of wider circulation in the province where the Company's registered office is located, as much in advance of the date set for the Meeting as is at a minimum required by Law.</p> <p>The call to the General Shareholders' Meeting shall also be reported to the National Securities Market Commission and to such Market</p>	<p>1. The General Shareholders' Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and on at least one of the newspapers of wider circulation in the province where the Company's registered office is located <u>the Company's website (www.telefonica.com)</u>, as much in advance of the date set for the Meeting as is at a minimum required by Law. <u>The notice published on the Company's website shall be accessible at least until the date of the Meeting. Furthermore, the Board</u></p>

<p>Supervisory Authorities as may be appropriate.</p> <p>In addition, the call to the General Shareholders' Meeting shall be announced on the Company's website.</p>	<p><u>of Directors may publish notices in other media, if it deems it appropriate in order to give broader publicity to the call to meeting.</u></p> <p>The call to the General Shareholders' Meeting shall also be reported to the National Securities Market Commission and to such Market Supervisory Authorities as may be appropriate.</p> <p>In addition, the call to the General Shareholders' Meeting shall be announced on the Company's website.</p>
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Proposal for amendment of Article 11 of the Regulations for the General Shareholders' Meeting:

It is proposed to amend Article 11 of the Regulations for the General Shareholders' Meeting to include the new provision relating to the Electronic Shareholders' Forum contained in Section 528.2 of the Companies Act, for which purpose it is proposed to amend the title of the article and to add a new paragraph 2.

Current text	New proposed text
<p>Article 11. Suggestions made by the shareholders</p> <p><i>Without prejudice to the shareholders' right, 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 Service [Servicio de Atención al Accionista] regarding the organization and operation of the General Shareholders' Meeting and the</i></p>	<p><u>Article 11. Electronic Shareholders' Forum and suggestions made by the shareholders</u></p> <p><u>1.</u> <i>Without prejudice to the shareholders' right, 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 Service [Servicio de Atención al Accionista] regarding the organization and</i></p>

<p><i>powers of the shareholders thereat</i></p>	<p>operation of the General Shareholders' Meeting and the powers of the shareholders thereat.</p> <p><u>2. On occasion of the call to meeting and until each General Shareholders' Meeting is held, the Company shall place into operation on its website (www.telefonica.com) an Electronic Shareholders' Forum, which shall be accessible, with appropriate safeguards, by both individual shareholders and by any voluntary associations they may create as provided by law, in order to facilitate their communication prior to a General Shareholders' Meeting being held. Proposed resolutions sought to be presented as a supplement to the agenda notified in the call to meeting may be published in the Forum, together with requests for adherence to such proposals, initiatives to reach the percentage sufficient to exercise a minority right provided by Law as well as proxy offers or solicitations. The Board of Directors may further develop the above-mentioned rules and establish the procedures, terms and other conditions for the operation of the Electronic Shareholders' Forum.</u></p>
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Proposal for amendment of Article 13.1 of the Regulations for the General Shareholders' Meeting:

It is proposed to amend paragraph 1 of Article 13 of the Regulations for the General Shareholders' Meeting to replace the reference to the *Ley de Sociedades Anónimas* by a reference to the *Ley de Sociedades de Capital*.

Current text	New proposed text
1. Every shareholder having the right to attend the General Shareholders'	1. Every shareholder having the right to attend the General Shareholders'

<p>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, without prejudice to the provisions of Section 108 of the Companies Act (Ley de Sociedades Anónimas) regarding cases of proxies granted to family relatives and general proxies.</p> <p>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.</p> <p>If there are no voting instructions because the shareholders acting at the General Shareholders' Meeting are to decide matters that are not included in the agenda and are thus unknown on the date that the proxy is granted but which may be submitted to a vote at the Meeting, the proxy-holder shall vote in such direction as he deems most appropriate, taking into account the interest of the Company and that of the shareholder granting the proxy. The same rule shall apply when the relevant proposal or proposals submitted to the shareholders at the Meeting have not been made by the Board of Directors.</p> <p>If the document setting forth the proxy or power of attorney does not state</p>	<p>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, without prejudice to the provisions of Section 108 of the Companies Act (Ley de Sociedades Anónimas <u>de Capital</u>) regarding cases of proxies granted to family relatives and general proxies.</p> <p>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.</p> <p>If there are no voting instructions because the shareholders acting at the General Shareholders' Meeting are to decide matters that are not included in the agenda and are thus unknown on the date that the proxy is granted but which may be submitted to a vote at the Meeting, the proxy-holder shall vote in such direction as he deems most appropriate, taking into account the interest of the Company and that of the shareholder granting the proxy. The same rule shall apply when the relevant proposal or proposals submitted to the shareholders at the Meeting have not been made by the Board of Directors.</p> <p>If the document setting forth the proxy or power of attorney does not state</p>
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<p><i>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.</i></p> <p><i>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 Act [Ley del Mercado de Valores] in connection with conflict of interest situations.</i></p> <p><i>A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice.</i></p>	<p><i>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.</i></p> <p><i>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 Act [Ley del Mercado de Valores] <u>in connection with 514 of the Companies Law</u> for conflict of interest situations.</i></p> <p><i>A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice.</i></p>
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Proposal for amendment of Article 14.1 of the Regulations for the General Shareholders' Meeting:

It is proposed to amend paragraph 1 of Article 14 of the Regulations for the General Shareholders' Meeting to conform it to the proposed amendment to Article 16 of the By-Laws, which provides for the possibility that the General Shareholders' Meeting be held outside of the locality of the registered address

(which may be any other location within Spain) if so determined by the Board of Directors, pursuant to Section 175 of the Companies Act.

Current text	New proposed text
<p>1. <i>The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice.</i></p>	<p>1. <i>The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice. <u>However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.</u></i></p>

3. PROPOSED RESOLUTION SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE GENERAL SHAREHOLDERS' MEETING

The resolutions that the Board of Directors submits for approval of the shareholders at the General Shareholders' Meeting relating to this item on the Agenda are set forth below:

IV.1 Amendment of Articles 5, 8.1, 11 and 13.1 of the Regulations for the General Shareholders' Meeting for conformance thereof to the latest legislative developments.

It is resolved to amend the above-mentioned articles of the Regulations, which shall henceforth read as follows:

New text of Article 5 of the Regulations for the General Shareholders' Meeting:

"Article 5. Powers of the shareholders at the General Shareholders' Meeting

The shareholders acting at the General Shareholders' Meeting shall have the power to deliberate upon and adopt resolutions on all such matters as legal provisions and the By-Laws reserve for decision thereat and, in general, on all matters which fall within the scope of powers assigned by Law to the shareholders and are submitted at the General Shareholders' Meeting at the behest of the Board of Directors and of the shareholders themselves, in such instances and in such manner as are provided in the Law and the By-Laws. In particular, the shareholders shall decide the following matters:

- a) Appointment and removal of Directors.*
- b) Appointment and removal of auditors and liquidators.*
- c) Commencement of claims for liability against the Directors, liquidators or Auditors.*
- d) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal year and decision regarding the allocation of profits/losses.*
- e) Increase or reduction of share capital.*
- f) Issuance of debentures.*
- g) Amendment of the By-Laws.*
- h) Dissolution, merger, split-off, overall assignment of assets and liabilities, relocation of the registered address abroad and transformation of the Company.*
- i) The elimination of or establishment of restrictions upon pre-emptive rights, without prejudice to the possible delegation of these powers to the Directors as provided by law.*

j) The transformation of the Company into a holding company, through “subsidiarization” or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.

k) The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.

l) Transactions the effect of which is tantamount to liquidating the Company and, especially, the approval of the final balance sheet upon liquidation.

m) Any other matter that the Board of Directors resolves to submit to the shareholders at a General Shareholders’ Meeting.”

New text of paragraph 1 of Article 8 of the Regulations for the General Shareholders’ Meeting:

“1. The General Shareholders’ Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and on the Company’s website (www.telefonica.com), as much in advance of the date set for the Meeting as is at a minimum required by Law. The notice published on the Company’s website shall be accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate in order to give broader publicity to the call to meeting.”

The call to the General Shareholders’ Meeting shall also be reported to the National Securities Market Commission and to such Market Supervisory Authorities as may be appropriate.”

New text of Article 11 of the Regulations for the General Shareholders’ Meeting:

“Article 11. Electronic Shareholders’ Forum and suggestions made by the shareholders

1. Without prejudice to the shareholders' right, 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 Service [Servicio de Atención al Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

2. On occasion of the call to meeting and until each General Shareholders' Meeting is held, the Company shall place into operation on its website (www.telefonica.com) an Electronic Shareholders' Forum, which shall be accessible, with appropriate safeguards, by both individual shareholders and by any voluntary associations they may create as provided by law, in order to facilitate their communication prior to a General Shareholders' Meeting being held. Proposed resolutions sought to be presented as a supplement to the agenda notified in the call to meeting may be published in the Forum, together with requests for adherence to such proposals, initiatives to reach the percentage sufficient to exercise a minority right provided by Law as well as proxy offers or solicitations. The Board of Directors may further develop the above-mentioned rules and establish the procedures, terms and other conditions for the operation of the Electronic Shareholders' Forum.”

New text of paragraph 1 of Article 13 of the Regulations for the General Shareholders' Meeting:

“1. 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, without prejudice to the provisions of the Companies Act (Ley de Sociedades de

Capital) regarding cases of proxies granted to family relatives and general proxies.

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.

If there are no voting instructions because the shareholders acting at the General Shareholders' Meeting are to decide matters that are not included in the agenda and are thus unknown on the date that the proxy is granted but which may be submitted to a vote at the Meeting, the proxy-holder shall vote in such direction as he deems most appropriate, taking into account the interest of the Company and that of the shareholder granting the proxy. The same rule shall apply when the relevant proposal or proposals submitted to the shareholders at the Meeting have not been made by the Board of Directors.

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 514 of the Companies Law for conflict of interest situations.

A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice”.

IV.2 Amendment of Article 14.1 of the Regulations for the General Shareholders' Meeting.

It is resolved to amend paragraph 1 of Article 14 of the Regulations for the General Shareholders' Meeting, which shall henceforth read as follows:

“1. The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice. However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.”

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Madrid, April 8, 2011