

TELEFONICA S A
Form 6-K
May 19, 2009

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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of May, 2009
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant's name into English)
Distrito C, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 85 48

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐ No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐ No ☒

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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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 22nd and 23rd, 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.

Madrid, May 19th, 2009

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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.

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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 1^ª 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).

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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 11ª, 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.

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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.

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**ACCESSES TO THE RECINTO FERIA 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

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, 18th May, 2009

General Secretary & Secretary of the Board

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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

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Telefónica, S.A.

Proposal regarding Item I 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.

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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).

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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.

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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.

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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.

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- (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.

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- (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.

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Telefónica, S.A.

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.

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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.

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Telefónica, S.A.

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.

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Telefónica, S.A.

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.

* * * * *

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Telefónica, S.A.

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. REGARDING THE PROPOSED REDUCTION OF THE SHARE CAPITAL THROUGH THE CANCELLATION OF SHARES OF TREASURY STOCK, EXCLUDING CREDITORS' RIGHT TO OBJECT, AND AMENDMENT OF THE ARTICLE OF THE BY-LAWS RELATING TO THE SHARE CAPITAL, WHICH IS TO BE SUBMITTED TO THE SHAREHOLDERS FOR APPROVAL AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING (ITEM V ON THE AGENDA).

1. PURPOSE OF THE REPORT

Item V on the Agenda for the Ordinary General Shareholders' Meeting of Telefónica, S.A., called for June 22 and 23, 2009, includes a proposal which is submitted to the shareholders for approval at the General Shareholders' Meeting regarding a reduction of the share capital by an amount equal to the par value of certain shares of the Company's treasury stock that are to be cancelled, and the amendment of the article of the By-Laws relating to the share capital.

In order for the Board to be able to submit the above-mentioned proposal for the reduction in share capital and the amendment of the By-Laws for approval at the General Shareholders' Meeting, it is mandatory, pursuant to the provisions of Section 164.1 and Section 144.1.a) of the Spanish Companies Law [*Ley de Sociedades Anónimas*], that the Board of Directors prepare a report providing the rationale for the proposal, inasmuch as the approval of such proposal and the implementation thereof necessarily entail an amendment of Article 5 of the By-Laws regarding the amount of share capital and the number of shares into which it is divided.

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2. RATIONALE FOR THE PROPOSAL

Within the framework of the shareholder compensation policy established by the Company and in order to contribute thereto, the Board of Directors believes it advisable to proceed to cancel certain shares held as treasury stock, with the ensuing reduction of the share capital by an amount equal to the par value of such shares. The Company can thus reduce its treasury stock, enabling it to continue with the policy of acquiring its own shares and, thus, to increase the earnings per share of the Company, thereby benefiting its shareholders.

If the resolution providing for the reduction of the share capital contemplated in this report is adopted, Article 5 of the By-Laws of the Company would be amended to set forth the new amount of the share capital and the new number of outstanding shares into which such amount is divided (after deducting the shares of treasury stock acquired by the Company and whose cancellation is proposed).

In order to expedite the implementation of this resolution, it is further proposed that the shareholders at the General Shareholders Meeting authorize the Board of Directors to implement such resolution (with the power to delegate, in turn, 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) within a time limit of one year from the date of adoption of such resolution, without needing to first consult with the shareholders at a General Shareholders Meeting.

In addition, it is deemed appropriate, in order to provide for greater ease of implementation and as permitted by Section 167.3 of the Consolidated Text of the Spanish Companies Law, not to apply the right of creditors to object provided for in Section 166 of such Consolidated Text, and to allocate the amount of the par value of the cancelled shares to a reserve for repurchases of share capital, which may only be used complying with the same requirements as those established for a reduction in the share capital.

Based on these premises, it is proposed to the shareholders at the General Shareholders Meeting to reduce the share capital by the amount of 141,000,000 euros by cancelling 141,000,000 shares of the Company's treasury stock (representing approximately 3% of the current share capital of the Company) and to authorize the Board of Directors to implement such resolution within a period of one year.

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3. PROPOSED RESOLUTION SUBMITTED TO THE SHAREHOLDERS FOR APPROVAL AT THE ORDINARY GENERAL SHAREHOLDERS MEETING

The resolutions that the Board of Directors proposes to the shareholders for approval at the Ordinary General Shareholders Meeting in connection with this matter are the following:

- 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.*

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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.*

Madrid, May 14, 2009.

Table of Contents**Telefónica, S.A.****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 ⁽¹⁾	5.170	243,263,872	5.170	243,243,144	0.000	20,728
la Caixa ⁽²⁾	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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Telefónica, 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.

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Telefónica, S.A.

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.

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Telefónica, S.A.

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.

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Telefónica, S.A.

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.****

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AUDIT REPORT

TELEFÓNICA

Financial Statements and Management Report

for the year ended

December 31, 2008

ERNST & YOUNG

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ERNST & YOUNG

Ernst & Young, S.L.

Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid

Tel: 902 365 456

Fax: 915 727 300

www.ey.com/es

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy the Spanish-language version prevails (See Note 22)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

1. We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2008 and the income statement, the statement of changes in equity, the cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. The accompanying 2008 financial statements are the first prepared by the Directors under the Spanish GAAP enacted by Royal Decree 1514/2007. In this regard, in accordance with section one of Transitional Provision Four of said Royal Decree, these financial statements have been considered as first-time financial statements and, therefore, no comparative figures are included. Under heading "Issues relating to the transition to new accounting principles" of note 2.b to the financial statements, are provided the balance sheet and income statement included in the approved 2007 financial statements, which were prepared in accordance with generally accepted accounting principles and standards in force in Spain at that time. In addition, there is an explanation of the main differences between the accounting criteria applied in 2007 and those currently applicable, as well as the quantification of the impact on equity at January 1, 2008 (the date of transition) caused by the change in accounting criteria. Our opinion refers only to the financial statements for 2008. On February 28, 2008 we issued our audit report on the 2007 financial statements, prepared in conformity with generally accepted accounting principles and standards in force in Spain for that year, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying 2008 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2008 and of the results of its operations, changes in equity and cash flow for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with the applicable accounting principles and standards generally accepted in Spain.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid

Inscrita en el Registro Mercantil de Madrid al

Tomo 12749, Libro 0, Folio 215, Sección 8 ,

Hoja M-23123, Inscripción 116. C.I.F. B-78970506

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ERNST & YOUNG

4. The accompanying 2008 management report contains such explanations as the Directors consider appropriate concerning the situation of Telefónica, S.A., the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2008 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.

/s/ José Luis Perelli Alonso
José Luis Perelli Alonso

March 6, 2009

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**TELEFÓNICA, S.A.
ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT
REPORT FOR THE YEAR ENDED DECEMBER 31, 2008**

Table of Contents**TELEFÓNICA, S.A.****BALANCE SHEET AT DECEMBER 31***(Millions of euros)*

ASSETS	Note	2008
NON-CURRENT ASSETS		76,768
Intangible assets	5	81
Patents, licenses, trademarks, et al.		4
Software		15
Other intangible assets		62
Property, plant and equipment	6	404
Land and buildings		178
Plant and other PP&E items		207
Property, plant and equipment under construction and prepayments		19
Investment property	7	336
Land		65
Buildings		271
Investment in group companies and associates	8	69,889
Equity instruments in group companies and associates		63,795
Loans to group companies and associates		6,070
Other financial assets with group companies and associates		24
Non-current financial investments	9	4,253
Investment in other companies		383
Loans to third parties		25
Derivatives	16	3,458
Other financial assets		387
Deferred tax assets	17	1,805
CURRENT ASSETS		11,673
Trade and other receivables	10	546
Investments in group companies and associates	8	9,512
Loans to group companies and associates		9,383
Derivatives		101
Other financial assets		28
Current financial investments	9	1,002
Loans to companies		46
Derivatives	16	956
Accruals		8
Cash and cash equivalents		605
Cash and cash equivalents		605
TOTAL ASSETS		88,441

The accompanying Notes 1 to 22 and Appendix I are an integral part of this balance sheet.

Table of Contents**TELEFÓNICA, S.A.****BALANCE SHEET AT DECEMBER 31***(Millions of euros)*

EQUITY AND LIABILITIES	Note	2008
EQUITY		27,326
CAPITAL AND RESERVES		27,477
Share capital	11	4,705
Share premium	11	460
Reserves	11	24,087
Legal reserve		984
Other reserves		23,103
Treasury shares and own equity instruments	11	(2,179)
Profit for the year	3	2,700
Interim dividend	3	(2,296)
UNREALIZED GAINS (LOSSES) RESERVE	11	(151)
Available-for-sale financial assets		(229)
Hedging instruments		78
NON-CURRENT LIABILITIES		41,317
Provisions		42
Other provisions		42
Borrowings	12	9,761
Debentures, bonds and other marketable debt securities	13	288
Interest-bearing debt	14	7,225
Derivatives	16	2,241
Other financial liabilities		7
Payables to group companies and associates	15	30,955
Deferred tax liabilities	17	559
CURRENT LIABILITIES		19,798
Provisions		5
Borrowings	12	3,059
Debentures, bonds and other marketable debt securities	13	1,567
Interest-bearing debt	14	788
Derivatives	16	704
Payables to group companies and associates	15	16,568
Trade and other payables		164
Accruals		2
TOTAL EQUITY AND LIABILITIES		88,441

The accompanying Notes 1 to 22 and Appendix I are an integral part of this balance sheet.

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Table of Contents**TELEFÓNICA, S.A.
INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31**

<i>(Millions of euros)</i>	Note	2008
Revenue from operations	18.1	363
Rendering of services group companies and associates		357
Rendering of services non-group companies		6
Other operating income	18.2	109
Non-core and other current operating revenues group companies and associates		93
Non-core and other current operating revenues non-group companies		16
Personnel expenses	18.3	(167)
Wages, salaries		(150)
Social security costs and other personnel expenses		(17)
Other operating expenses		(384)
External services group companies and associates	18.5	(78)
External services non-group companies	18.5	(290)
Taxes other than income tax		(16)
Depreciation and amortization	5, 6 y 7	(72)
OPERATING PROFIT		(151)
Finance revenue	18.6	8,227
From equity investments		7,176
In group companies and associates		7,135
In third parties		41
From marketable securities and other financial instruments		1,051
Of group companies and associates		891
Of third parties		160
Finance costs	18.7	(3,027)
Borrowings from group companies and associates		(2,652)
Third-party borrowings		(342)
Provision discount adjustment		(33)
Change in fair value of financial instruments		5
Trading portfolio and other securities		(6)
Gains on available-for-sale financial assets recognized in the period		11
Exchange gains (losses)	18.8	(57)
Impairment and gains (losses) on disposal of financial instruments	18.9	(4,219)
Impairment losses and losses	8.2	(4,182)
Gains (losses) on disposal and other gains and losses		(37)
NET FINANCE REVENUE		929
PROFIT BEFORE TAX	20	778
Income tax	17.2	1,922
PROFIT FOR THE YEAR		2,700

The accompanying Notes 1 to 22 and Appendix I are an integral part of this income statement.

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Table of Contents**TELEFÓNICA, S.A.****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31****A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE**

<i>(Millions of euros)</i>	Note	2008
Profit for the period		2,700
Income and expense recognized directly in equity	11.2	(405)
From measurement of financial instruments		(390)
Available-for-sale financial assets		(390)
From cash flow hedges		(189)
Tax effect		174
Amounts transferred to income statement	11.2	27
From measurement of financial instruments		(11)
Available-for-sale financial assets		(11)
From cash flow hedges		50
Tax effect		(12)
TOTAL RECOGNIZED INCOME AND EXPENSE		2,322

The accompanying Notes 1 to 22 and Appendix I are an integral part of this statement of recognized income and expense.

Table of Contents**TELEFÓNICA, S.A.****B) TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31**

	Share	Share		Treasury	Retained	Profit	Interim	Net unrealized gains (losses)	
<i>(Millions of euros)</i>	capital	premium	Reserves	shares and own equity instruments	earnings	for the year	dividend	reserve	TOTAL
Balance in financial statements at December 31, 2007	4,773	521	7,991		6,620		(1,652)		18,253
Impact of transition to new accounting principles (Note 2.b)		1,075	12,962	(1,074)				227	13,190
Balance at January 1, 2008	4,773	1,596	20,953	(1,074)	6,620		(1,652)	227	31,443
Total recognized income and expense						2,700		(378)	2,322
Transactions with shareholders and owners	(68)	(1,136)	(1,875)	(1,105)			(2,296)		(6,480)
Capital decreases	(68)	(1,136)		1,204					
Dividends paid			(1,869)				(2,296)		(4,165)
Transactions with treasury shares or own equity instruments (net)			(6)	(2,309)					(2,315)
Appropriation of prior year profit			4,968		(6,620)		1,652		
Other changes in equity			41						41
Balance at December 31, 2008	4,705	460	24,087	(2,179)		2,700	(2,296)	(151)	27,326

The accompanying Notes 1 to 22 and Appendix I are an integral part of this total statement of changes in equity.

Table of Contents**TELEFÓNICA, S.A.****CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31**

<i>(Millions of euros)</i>	Notes	2008
A) CASH FLOWS FROM OPERATING ACTIVITIES		8,068
Profit before tax		778
Adjustments to profit:		(857)
Depreciation and amortization		72
Gains on disposal of consolidated companies	8.1	(3)
Impairment of investments in group companies and associates	8.2	4,182
Impairment of investments in non-group companies		1
Losses on disposal of financial assets, securities portfolio		39
	18.6 y	
Net financial expense	18.7	(5,148)
Change in working capital		(301)
Trade and other receivables		(250)
Other current assets		(16)
Trade and other payables		(96)
Other current liabilities		(4)
Other non-current assets and liabilities		65
Other cash flows from operating activities	20	8,448
Net interest paid		(2,644)
Dividends received		8,248
Income tax receipts (payments)	20	2,844
B) CASH FLOWS FROM INVESTING ACTIVITIES		(762)
Payments on investments	20	(2,983)
Proceeds from disposals	20	2,221
C) CASH FLOWS FROM FINANCING ACTIVITIES		(8,935)
Proceeds from/(payments on) equity instruments	11.a	(2,224)
Proceeds from/(payments on) financial liabilities	20	(2,547)
Dividends paid	11.d	(4,165)
D) NET FOREIGN EXCHANGE DIFFERENCE		321
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,308)
Cash and cash equivalents at January 1		1,913
Cash and cash equivalents at December 31		605
Notes 1 to 22 and Appendix I are an integral part of this cash flow statement.		

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TELEFÓNICA, S.A.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2008**

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. (Telefónica or the Company) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company's registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica's basic corporate purpose, pursuant to Article 4 of its bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that operates mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

(2) BASIS OF PRESENTATION

a) True and fair view

The accompanying financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Commercial Code, developed in Spanish GAAP in force at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2008.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company's functional currency.

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b) Comparison of information

In accordance with the first final first provision of Law 16/2007, dated July 4, on the adaptation of commercial legislation on accounting for international harmonization based on EU regulations, Spanish GAAP has been altered considerably. The new principles were approved by Royal Decree 1514/2007 of November 16. Telefónica is required to apply the new accounting principles (known as PGC 2007) in the preparation and presentation of its separate financial reporting for the year beginning January 1, 2008. Therefore, the financial statements for the year ended December 31, 2008 have been prepared in accordance with the new recognition and measurement policies.

The Company has considered January 1, 2008 to be the transition date, and therefore has not included comparative figures in these annual financial statements.

The financial statements for the year ended December 31, 2007, approved by the shareholders of Telefónica, S.A. in their ordinary general meeting held on April 22, 2008, were prepared in accordance with accounting principles and valuation criteria generally accepted in Spain at that time (former accounting principles).

Issues relating to the transition to new accounting principles

The first transitional provision of RD 1514/2007 prescribes the procedure for the first-time application of the new accounting principles in the preparation of the financial statements for the year beginning on or after January 1, 2008. In general, the criteria contained in the new principles must be applied retroactively, with certain exceptions.

The starting point is the preparation of an opening balance sheet applying the new principles at the *transition date*. This date is the beginning of the first period presented under the new principles; which in the case of Telefónica is January 1, 2008. Pursuant to rules established in the first transitional provision, Telefónica has elected to measure all assets and liabilities in accordance with the previous accounting principles except for financial instruments, which are measured at fair value.

The fair value of financial assets designated as at Fair value through profit or loss amounted to 4,414 million euros (see Note 9.2). These assets are derivatives and in accordance with the former principles do not appear in the balance sheet in the financial statements for the year ended December 31, 2007. The opening balance at January 1, 2008 showed an amount for derivatives of 1,667 million euros.

In accordance with the fourth transitional provision of Royal Decree 1514/2007 of November 16 approving the new accounting principles, following is a description of the main differences between the accounting policies applied in 2007 and 2008, and between the balance sheet and income statement included in the financial statements for the year ended December 31, 2007, which were prepared under the accounting policies in force at that time, and those included in the financial statements for 2008.

Table of Contents**1. Description of the main differences between the accounting policies applied in 2007 and 2008**

The preparation of financial statements under the new accounting principles results in a series of modifications to the presentation and measurement standards applied by the Company until December 31, 2007, as certain of the new principles and requirements are substantially different to those applied previously.

The main differences between the accounting principles applied in the year ended December 31, 2008 (new accounting principles) and those applied in the preparation of the financial statements for the year ended December 31, 2007 (former accounting principles), and their impact on equity at January 1, 2008, are described below.

Reconciliation of equity at January 1, 2008 under the former and new accounting policies

<i>(Millions of euros)</i>	Equity
At December 31, 2007 under former accounting principles	18,253
Provisions for impairment of investments in group companies, joint ventures and associates (Note 8.2)	13,162
Treasury shares	(232)
Measurement of financial instruments at fair value and debt at amortized cost, net of tax effect	182
Measurement of other investments	51
Share-based payments/equity settled transactions	24
Other adjustments	3
Total adjustments	13,190
Equity under at January 1, 2008 under new accounting principles	31,443

Provisions for impairment of investments in group companies, joint ventures and associates

Under the new policies, impairment losses on investments in group companies, joint ventures and associates are measured as the difference between the carrying amount of the investment and its recoverable amount, which is the greater of the investment's fair value less costs to sell and the present value of the future cash flows derived from the investment. These cash flows can be calculated by estimating the cash flows to be received from dividends or from the disposal or derecognition of the investment, or the Company's share of the cash flows expected to be generated by the investment (from operations, or the investment's disposal or derecognition).

Only of special purpose vehicles with scant operations, where drawing up a business plan is not feasible, Telefónica, S.A. continues to measure impairment loss as the difference between cost and the carrying amount of their equity at acquisition unless there is better evidence to the contrary, in accordance with the criteria of PGC 2007.

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The difference between the policies for measuring impairment of investments in Group companies, joint ventures and associates led to the reversal of investment provisions recognized in the balance sheet of 14,373 million euros, with a related tax effect of 1,211 million euros, resulting in a net increase in equity at January 1, 2008 of 13,162 million euros.

Treasury shares

Under the former accounting principles, treasury shares were classified as an asset (unless the shares were to be cancelled subject to an agreement approved at the General Shareholders Meeting prior to their acquisition) and carried at the lower of cost, market value or underlying carrying amount, written down as appropriate. Under the new accounting principles, treasury shares are recognized with a deduction from equity, while transactions with treasury shares are recognized in equity, not the income statement.

Accordingly, the net balance Short-term treasury stock at December 31, 2007 of 232 million euros has been reclassified to Equity Treasury shares and own equity instruments at January 1, 2008 under the new accounting principles.

Financial instruments

Under the former accounting principles, financial assets, including derivatives, were carried at the lower of cost or market value, while financial liabilities were carried at repayment value. Financial assets were removed from the balance sheet when they were sold, transferred or at maturity.

Under the PGC 2007, financial assets and liabilities are classified into certain categories which determine whether they are measured at fair value or amortized cost. In addition, certain unrealized gains and losses on financial instruments are taken directly to equity until the related instrument is derecognized or impaired. In addition, the PGC 2007 establishes very strict criteria for derecognizing financial assets, based on an assessment of the risk and rewards of ownership of the transferred asset. The application of hedge accounting criteria requires fulfilling very specific requirements.

The application of the new criteria for measuring derivative financial instruments led to an increase of 182 million euros in equity at January 1, 2008.

Measurement of other investments

Under the former accounting principles, minority interests in listed companies in which the Company did not have control or significant influence were measured at the lower of cost or market. Declines in value where cost exceeded market value were taken to the income statement. Meanwhile, increases in market value above cost were not recognized.

Under the new accounting principles, investments in listed companies in which the Company does not have control or significant influence are classified as available-for-sale investments and measured at each reporting date at fair value. Any increases or decreases in fair value are recognized in equity and not in the income statement until the investment is derecognized or impaired.

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The application of the new accounting criteria for available-for-sale investments led to an increase in equity, net of the corresponding tax effect, of 51 million euros at January 1, 2008.

Share-based payment for employees of subsidiaries with Telefónica, S.A. shares

In accordance with the former accounting principles, the obligations to deliver treasury shares of Telefónica, S.A. to employees of other Group subsidiaries pursuant to the terms of the Performance Share Plan (see Note 18.3) were considered a liability for the company delivering the treasury shares. In accordance with the new accounting principles, these obligations are taken to equity of the parent as an increase in unrestricted reserves until the delivery date.

The application of the new accounting policies for share-based payment involving treasury shares led to an increase in equity at January 1, 2008 of 24 million euros.

Income tax expense

Under the former accounting principles, the accounting treatment of deferred tax items is income-statement oriented, taking into consideration temporary differences between accounting income and taxable income. Conversely, under the PGC 2007 deferred taxes are recognized based on balance sheet analysis and the temporary differences considered are those generated as a result of the difference between the tax bases of assets and liabilities and their respective carrying amounts.

All the preceding adjustments are shown net of their tax effect.

2. Balance sheet and income statement included in the annual financial statements for the year ended December 31, 2007

For an easier comparison of the financial statements prepared under the former accounting principles and those prepared under the PGC 2007, the Company has included the latest financial statements prepared under the former principles.

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ASSETS (millions of euros)	2007
A) NON-CURRENT ASSETS	71,348
I. Intangible assets	97
Computer software	188
Industrial property	28
Other intangible assets	103
Accumulated amortization and provisions	(222)
II. Property, plant and equipment	765
Land and buildings	595
Plant and machinery	200
Furniture, tools and other items	36
Other items of property, plant and equipment	58
Property, plant and equipment under construction	22
Accumulated depreciation and provisions	(146)
III. Long-term investments	70,486
Investments in group companies	69,274
Investments in associates	3,025
Other investments	752
Loans to group companies and associates	10,281
Other loans	49
Long-term deposits and guarantees given	365
Tax receivables	2,116
Provisions	(15,376)
B) DEFERRED CHARGES	288
C) CURRENT ASSETS	11,514
I. Accounts receivable	584
Trade receivables	22
Receivable from group companies	212
Receivable from associates	14
Other accounts receivables	31
Tax receivables	327
Provision for bad debts	(22)
II. Short-term investments	8,758
Loans to group companies and associates	8,216
Short-term investment securities	542
III. Short-term treasury stock	232
IV. Cash	1,913
V. Prepayments and accrued income	27
TOTAL ASSETS (A + B + C)	83,150

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LIABILITIES (millions of euros)	2007
A) SHAREHOLDERS EQUITY	18,253
I. Share capital	4,773
II. Share premium	521
III. Revaluation reserves	191
IV. Reserves	7,800
Legal reserve	984
Reserve for treasury stock	232
Other reserves	6,584
V. Profit for the year	6,620
VI. Interim dividend paid in the year	(1,652)
B) PROVISIONS FOR LIABILITIES AND CHARGES	1,969
C) LONG-TERM LIABILITIES	42,276
I. Debentures, bonds and other marketable debt securities	1,097
Non-convertible debentures and bonds	916
Other marketable debt securities	181
II. Payable to credit institutions	8,435
III. Payable to group and associated companies	32,372
IV. Other payables	8
V. Taxes payable	364
D) CURRENT LIABILITIES	20,652
I. Debentures, bonds and other marketable debt securities	1,691
Non-convertible debentures and bonds	421
Other marketable debt securities	1,237
Interest on debentures and other securities	33
II. Payable to credit institutions	671
Loans and other accounts payables	607
Accrued interest payable	64
III. Payable to group and associated companies	18,008
IV. Trade accounts payable	95
V. Other non-trade payables	187
Taxes payable	27
Other non-trade payables	160
TOTAL LIABILITIES (A + B + C + D)	83,150

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DEBIT <i>(millions of euros)</i>	2007
A) EXPENSES	
Personnel expenses	156
Depreciation and amortization expense	65
Property, plant and equipment	34
Intangible assets	31
Other operating expenses	366
External services provided by group companies	69
External services	275
Taxes other than income tax	17
Other operating expenses	5
I. OPERATING PROFIT	
Financial and similar expenses	
From liabilities with group companies	2,585
From other liabilities and similar expenses	541
Amortization of deferred charges	69
Exchange losses	1,193
II. FINANCIAL PROFIT	14,083
III. INCOME FROM ORDINARY ACTIVITIES	13,724
Changes in provisions for securities investments	9,875
Extraordinary expenses and losses	480
IV. EXTRAORDINARY INCOME	
V. PROFIT BEFORE TAXES	5,178
Corporate income tax in Spain	(1,475)
Foreign taxes	33
VI. PROFIT FOR THE YEAR	6,620
CREDIT <i>(millions of euros)</i>	2007
B) REVENUES	
Net sales to group companies	90
Other operating revenues	138
Non-core and other current operating revenues group companies	118
Non-core and other current operating revenues non-group companies	20
I. OPERATING LOSS	359
Revenue from equity investments	15,335
Group companies	15,099
Associated companies	211
Non-group companies	25
Revenues from other securities and loans	1,165
Group companies	1,002
Other companies	163
Exchange gains	1,971
II. FINANCIAL LOSS	
III. LOSSES ON ORDINARY ACTIVITIES	
Gains on disposal of fixed assets	1,785
Extraordinary revenues	24

IV. EXTRAORDINARY LOSS	8,546
V. LOSSES BEFORE TAXES	
VI. LOSS FOR THE YEAR	

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c) Use of estimates

The Directors have prepared the financial statements using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates. However, given the uncertainty inherent in them, the need may arise to make significant adjustments to the carrying amounts of assets and liabilities affected in future periods should changes occur in the assumptions or circumstances on which the resulting values were based.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

A significant change in the facts and circumstances on which these estimates are based could have a material impact on the Company's results and financial position.

Provisions for impairment of investments in group companies, joint ventures and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount.

Recoverable amount of investments in group companies, joint ventures and associates is measured as described in Note 4 e.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Table of Contents**(3) PROPOSED APPROPRIATION OF PROFIT**

Telefónica, S.A. obtained 2,700 million euros of profit in 2008. Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2008 profit for approval at the Shareholders' Meeting:

	<i>Millions of euros</i>
Proposed appropriation:	
Profit for the year	2,700
Appropriation to:	
Interim dividend (paid in November 2008)	2,296
Goodwill reserve	2
Voluntary reserves	402
At its meeting of September 24, 2008, Telefónica, S.A.'s Board of Directors resolved to pay an interim dividend against 2008 profit of a fixed gross 0.5 euros for each of the Company's outstanding shares carrying dividend rights. This dividend was paid on November 12, 2008, and the total amount paid was 2,296 million euros.	
The following table shows the provisional statement issued by the directors to substantiate that the Company had sufficient liquidity at that time to distribute this dividend.	

	<i>Millions of euros</i>
Liquidity statement at September 19, 2008	
Income from January 1 through August 31, 2008	3,720
Mandatory appropriation to reserves	1
Distributable income	3,719
Proposed interim dividend (maximum amount)	2,352

Cash position at September 19, 2008

Funds available for distribution:	
Cash and cash equivalents	2,410
Unused credit facilities	5,578
Proposed interim dividend (maximum amount)	(2,352)
Difference	5,636
To ensure its liquidity requirements are met for the following year, the Company effectively manages its liquidity risks (see Note 16).	

(4) RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2008 annual financial statements are the following:

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

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The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and their recoverability is assessed whenever events or changes indicate that their carrying amount may not be recoverable.

Amortization methods and schedules are revised annually at year end and, where appropriate, adjusted prospectively. Intangible assets include mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over their useful lives, generally estimated at three years.
2. Intellectual property, which is recorded at the amounts paid to acquire ownership of or rights to use patents and trademarks and amortized on a straight-line basis over the useful life of the patent or trademark for a period of three to 10 years.
3. The goodwill arising from the merger of Telefónica, S.A. and Terra Networks, S.A., carried out in 2005. This is included under Other intangible assets at the carrying amount at January 1, 2008 of 33 million euros, calculated in accordance with the former accounting principles, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 4 c).

b) Property, plant and equipment

Property, plant and equipment is stated at cost, less any accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and internal costs comprising warehouse materials used, direct labor costs incurred in installation work and the allocable portion of the indirect costs required for the related investment. Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when the Company is under obligation to incur such cost due to the use of the assets.

The costs of expansion, modernization or improvement leading to increased productivity, capacity, or efficiency or to a lengthening of the useful lives of assets are capitalized when requirements are met.

Interest and other borrowing costs incurred and directly attributable to the acquisition or construction of assets that require preparation of more than one year for their intended use or sale are capitalized.

Upkeep and maintenance expenses are expensed as incurred.

The Company assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the assets carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment provision is not maintained if the factors giving rise to the impairment disappear (see Note 4 c).

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The Company depreciates its property, plant and equipment once its assets are in full working conditions using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 - 25
Furniture, tools and other items	10
Other items of property, plant and equipment	4 - 10

Assets' estimated residual values and methods and periods of depreciation are reviewed, and adjusted if appropriate, prospectively at each financial year end.

c) Impairment of non-current assets

Non-current assets, including property, plant and equipment, goodwill and other intangible assets are evaluated at each balance sheet date for indications of impairment losses. Where such indications exist, or in the case of assets which are subject to an annual impairment test the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. The Company assesses each asset individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets (or cash-generating units).

The Company bases the calculation of impairment on the business plans of the various cash-generating units to which the assets are allocated. These business plans generally cover five years. For longer periods, an expected constant or decreasing growth rate is applied to the projections based on these plans from the fifth year.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

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d) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to the Company to use the asset.

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement over the lease term.

e) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Company classifies its financial assets into the following categories for initial recognition purposes: financial assets held for trading, other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, investments in Group companies, joint ventures, associates and available-for-sale financial assets. Where appropriate, the Company re-evaluates the designation at each financial year end.

Financial assets held for trading, i.e., investments made with the aim of realizing short-term profits as a result of price changes, are included in *Financial assets held for trading* and presented under current or non-current assets depending on their maturity. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Investments in group companies, joint ventures and associates are classified into a category of the same name and are shown at cost less any impairment loss. Group companies are those over which the Company controls, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties.

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Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements and which have not been included in the preceding categories are classified as *available-for-sale*. These investments are recorded under non-current assets, unless it is probable and feasible that they will be sold within twelve months. Financial assets in this category are measured at fair value. Gains or losses arising from changes in fair value are recognized in equity until the asset is derecognized or impaired, at which time the cumulative gain or loss previously reported in equity is taken to the income statement. Dividends from available-for-sale equity investments are recognized in the income statement once the Company has the right to receive the dividend. Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the quoted market price at the closing date.
2. Unlisted securities: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models or by reference to arm's length market transactions. When fair value cannot be determined reliably, these investments are carried at cost.

Loans and receivables includes financial asset, that are neither derivatives nor equity instruments, with fixed or determinable payments and that are not quoted in an active market and not included in any of the preceding classifications. Upon initial recognition, these assets are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. Following initial recognitions, these financial assets are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are settled or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A provision for impairment is recorded when there is objective evidence that the Company will not collect the debts. The amount of the provision is calculated as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, current trade receivables are not discounted.

The Company assesses at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an impairment of a financial asset carried at amortized cost occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (or fair value when it can be measured reliably). If in a subsequent period the impairment loss decreases as a result of a subsequent event, the loss is reversed up to the asset's amortized cost had no impairment loss been recognized upon reversal. Such a reversal is recognized in the income statement of that year.

For equity instruments included in available-for-sale financial assets, the Company assesses individually for each security whether there is any objective evidence that an asset is impaired as a result of one or more events indicating that the carrying amount of the security will not be recovered. If there is objective evidence that an available-for-sale financial instrument is impaired, the cumulative loss recognized in equity measured as the difference between the acquisition cost (net of any principal payments and amortization made) and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from equity and recognized in the income statement. If in a subsequent period the fair value of the financial asset increases because of a subsequent event, the impairment loss is reversed through the income statement if the asset is a debt instrument. For equity instruments, the loss is not reversed in the income statement for the period, but rather in equity, as the instrument is measured at fair value and any changes in fair value are taken to equity.

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Recoverable amount for estimating impairment of investments in group companies, joint ventures and associates is the higher of the investment's net fair value less costs to sell and the present value of the future cash flows derived from the investment. These cash flows can be calculated by estimating the cash flows to be received from dividends or from the disposal or derecognition of the investment, or the Company's share of the cash flows expected to be generated by the investment (from operations, or the investment's disposal or derecognition).

Financial assets are only, fully or partially, derecognized when:

1. The rights to receive cash flows from the asset have expired.
2. The Company has assumed an obligation to pay the cash flows received from the asset to a third party.
3. The Company has transferred its rights to receive cash flows from the asset to a third party and transferred substantially all the risks and rewards of the asset.

Cash and cash equivalents

Cash and cash equivalents included in the balance sheet comprise cash on hand and at banks, demand deposits and other highly liquid investments with an original maturity of three months or less. These items are stated at historical cost, which does not differ significantly from realizable value.

For the purpose of the cash flow statement, cash and cash equivalents are shown net of any outstanding bank overdrafts.

Issues and interest-bearing debt

These debts are recognized initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Interest-bearing debt is considered non-current when its maturity is over 12 months or the Company has full discretion to defer settlement for at least another 12 months from the balance sheet date.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with another on substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in their respective carrying amounts is taken to the income statement.

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Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. They are classified as current or non-current depending on whether they fall due within less than or after one year, respectively. Derivatives that meet all the criteria for consideration as long-term hedging instruments are recorded as non-current assets when fair value is positive and non-current liabilities when fair value is negative.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

The Company designates certain derivatives as:

1. Fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or
2. Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
3. Hedges of net investment in a foreign operation.

A hedge of the foreign currency risk in a firm commitment is accounted for as either a fair value or a cash flow hedge. Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged item attributable to the risk being hedged.

Changes in the fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in equity. The portion considered ineffective is taken directly to the income statement. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously recognized in equity are recognized in the income statement in the period in which the hedged transaction affects profit or loss.

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in a similar manner to fair value hedges for the foreign currency component. For these purposes, the net investment in the foreign operation comprises not only the share in the equity of the foreign investment, but also the monetary item receivable or payable, the settlement of which is not expected or likely to take place in the foreseeable future, excluding trade items.

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The application of the Company's corporate risk-management policies could result in financial risk-hedging transactions that make economic sense, yet do not comply with the criteria and effectiveness tests required by accounting policies to be treated as hedges. Alternatively, the Company may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

From inception, the Company formally documents the hedging relationship between the derivative and the hedged item, as well as the associated risk management objectives and strategies. The documentation includes identification of the hedge instrument, the hedged item or transaction and the nature of the risk being hedged. In addition, it states how it will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed, prospectively and retroactively, both at the inception of the hedge relationship and on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. In these instances, gains or losses accumulated in equity are not taken to the income statement until the forecast transaction or commitment affects profit or loss. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to the income statement.

The fair value of the derivative portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk-management tools commonly used by financial entities.

f) Treasury shares

Treasury shares are stated at cost and deducted from equity. Any gain or loss obtained on the purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

g) Foreign currency transactions

Monetary items denominated in foreign currencies are translated to euros at the exchange rates prevailing on the related transaction date, and are adjusted at year end to the exchange rates then prevailing.

All realized or unrealized exchange gains or losses are taken to the income statement for the year, with the exception of non-monetary items measured at fair value, provided that they are recognized directly in equity (such as investments in equity instruments classified as available-for-sale financial assets). In these cases, any exchange differences included in gains or losses recognized in equity derived from changes in the value of the non-monetary items measured at fair value are also recognized directly in equity.

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h) Provisions

Pensions and other employee obligations

The Company has a defined contribution pension plan for employees. The obligations are limited to the regular payment of the contributions, which are taken to the income statement as incurred.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost.

i) Share-based payments

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the Company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity.

j) Income tax

The income tax expense of each year includes both current and deferred taxes, where applicable.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and accounting amounts of investments in Group companies and associates.

Furthermore, deferred taxes arise from unused tax credits and carryforward of unused tax losses.

The Company determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the balance sheet date.

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Deferred income tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity.

k) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

l) Related party transactions

Related party transactions are accounted for in accordance with the criteria described above.

m) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 19 a). Where financial guarantees provided have a counterguarantee on the Company's balance sheet, the value of the counterguarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result. Guarantees provided for which there is no item on the Company's balance sheet acting as a counterguarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

i) The amount in accordance with rules on provisions and contingencies, and ii) The amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

Table of Contents**n) Consolidated data**

As required under prevailing legislation, the Company has prepared separate consolidated annual accounts, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2008 are as follows:

Item	Millions of euros
Total assets	99,896
Equity:	19,562
Attributable to equity holders of the parent	17,231
Attributable to minority interests	2,331
Revenues from operations	57,946
Profit for the year:	7,826
Attributable to equity holders of the parent	7,592
Attributable to minority interests	234

(5) INTANGIBLE ASSETS

The movements in the items composing intangible assets and the related accumulated amortization in 2008 are as follows:

(Millions of euros)	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INTANGIBLE ASSETS, GROSS	317	7	(15)	16	325
Patents, licenses, trademarks, et al.	28			1	29
Software	188	7	(14)	15	196
Other intangible assets	101		(1)		100
ACCUMULATED AMORTIZATION	(220)	(28)	4		(244)
Patents, licenses, trademarks, et al.	(24)	(1)			(25)
Software	(168)	(17)	4		(181)
Other intangible assets	(28)	(10)			(38)
Net carrying amount	97	(21)	(11)	16	81

Proceeds from disposals of intangible assets in 2008 were not material for the Company's income statement. At December 31, 2008, there were no commitments to acquire intangible assets. At December 31, 2008, the Company had 186 million euros of fully amortized intangible assets.

Table of Contents**(6) PROPERTY, PLANT AND EQUIPMENT**

6.1 The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2008 are as follows:

<i>(Millions of euros)</i>	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
PROPERTY, PLANT AND EQUIPMENT, GROSS	549	33	(4)	(16)	562
Land and buildings	236	3			239
Plant and other PP&E items	291	14	(4)	3	304
Property, plant and equipment under construction	22	16		(19)	19
ACCUMULATED DEPRECIATION	(127)	(33)	2		(158)
Buildings	(59)	(2)			(61)
Plant and other PP&E items	(68)	(31)	2		(97)
Net carrying amount	422		(2)	(16)	404

Firm commitments to acquire property, plant and equipment at December 31, 2008 amounted to 7 million euros.

In 2008, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2008, the Company had 24 million euros of fully depreciated property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

At the end of 2008, this includes the net carrying amount of assets (mainly plant and property) related to the new central offices in the Las Tablas business park, called Distrito C, of 182 million euros. Also included is the net carrying amount of the land and buildings occupied by Telefónica, S.A. at the central offices of Distrito C of 98 million euros.

(7) INVESTMENT PROPERTIES

7.1 The movements in the items composing investment properties and the related accumulated depreciation in 2008 are as follows:

<i>(Millions of euros)</i>	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INVESTMENT PROPERTIES, GROSS	358	3			361

Land	65		65
Buildings	293	3	296
ACCUMULATED DEPRECIATION	(15)	(10)	(25)
Buildings	(15)	(10)	(25)
Net carrying amount	343	(7)	336

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The Company has buildings with a total area of 322,422 m² leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 98.3% of the buildings it has earmarked for lease.

Investment properties mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at the central offices of Distrito C in Madrid.

Total income from leased buildings amounted to 41 million euros in 2008 (see Note 18.1). Future minimum rentals receivable under non-cancellable leases are as follows:

<i>(Millions of euros)</i>	Future minimum payments	Present value
Up to one year	38	37
Between one and five years	74	66
Total	112	103

The main contract in which Telefónica, S.A. acts as lessee is described in Note 18.5.

(8) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

8.1 The movements in the items composing investments in group companies, joint ventures and associates are as follows:

<i>(Millions of euros)</i>	Balance at January 1	Additions	Disposals	Transfers	Exchange gains (losses)	Dividends	Hedges of net investment	Balance at December 31	Fair value
Non-current:									
- Equity instruments (Net) (1):	69,394	(3,801)	(95)			(194)	(1,509)	63,795	63,871
Equity instruments (Cost)	72,299	381	(95)			(194)	(1,509)	70,882	
Impairment losses	(2,905)	(4,182)						(7,087)	
- Loans to group companies and associates	10,289	264	(174)	(4,218)	(91)			6,070	6,070
- Other financial assets		24						24	24
Total investments in group companies and associates	79,683	(3,513)	(269)	(4,218)	(91)	(194)	(1,509)	69,889	69,965
Current:									
- Loans to group companies and associates	8,183	5,723	(8,659)	4,218	(82)			9,383	9,383
- Derivatives	55	96	(50)					101	101
- Other financial assets		28						28	28

**Investments in
group companies
and associates**

8,238	5,847	(8,709)	4,218	(82)		9,512	9,512
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- (1) Fair value at 12/31/08 of Group companies and associates quoted in an active market (Telefónica de Perú, S.A.A., Telefónica Móviles Perú and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year, and for the rest of the shareholdings at carrying amount.

Dividends received by Telefónica, S.A. in 2008 related to profits generated by subsidiaries prior to the acquisition date are deducted from the equity instruments related to the investments. These amounts come from Telefónica O2 Czech Republic, a.s. (178 million euros) and LE Holding Corp (16 million euros).

Disposals of current assets loans to group companies and associates includes the payment of dividends approved in 2007 and received in 2008. Also included is the cancellation of balances receivable from subsidiaries for belonging to Telefónica, S.A.'s tax group on debts with them (3,434 million euros).

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Telefónica, S.A. has arranged hedges of net investments in foreign operations for its investments in Telefónica O2 Europe, Ltd. and Telefónica O2 Czech Republic, a.s. for 1,509 million euros.

In 2008, Telefónica, S.A. bought and sold the following shareholdings:

- a) Acquisitions of shareholdings and capital increases:

Companies	<i>Millions of euros</i>
Subsidiaries:	
Telefónica O2 Europe, Ltd.	224
Telefónica Móviles Colombia, S.A.	155
Other	
Total subsidiaries	379
Associates:	
Other	2
Total associates:	2

In 2008, Telefónica, S.A. agreed to increase Telefónica O2 Europe, Ltd.'s capital by 224 million euros to raise financing for Telefónica Deutschland GmbH, a subsidiary of Telefónica O2 Europe, Ltd.

On January 17, 2008, Telefónica Móviles Colombia, S.A. issued an offer of subscription for the portion of its unsubscribed capital (499,000,000 new shares with par value of 1 peso). The new shares were fully subscribed by Telefónica, S.A. for a total of 155 million euros. As a result, Telefónica, S.A.'s stake in this company increased to 49.4%.

- b) Disposals of shareholdings and capital decreases:

Companies	<i>Millions of euros</i>
Subsidiaries:	
Telefónica Internacional Wholesale Services América, S.A.	58
Others	2
Total subsidiaries:	60
Associates:	
Portugal Telecom, S.G.P.S., S.A.	34
Adquira Spain, S.A.	1
Total associates:	35

On October 1, 2008, in the General Meeting of Shareholders of Telefónica Internacional Wholesale Services, S.A. for a partial reduction of capital by 75 million US dollars. As a result, Telefónica, S.A.'s stake in this company decreased from 80.56% to 78.22%.

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Pursuant to the requirements of Portugal Telecom, S.G.P.S.'s bylaws regarding maximum shareholdings, on December 18, 2008 Telefónica, S.A. reduced its stake in the company by 0.476% to 8.51%. This transaction led to a gain of 1.8 million euros, recognized in the income statement.

On May 6, 2008 Telefónica, S.A. transferred its stake in Telefónica Compras Electrónicas, S.L. to Telefónica Gestión de Servicios Compartidos, S.A., recognizing a gain of 2 million euros. On the same date, Telefónica, S.A. transferred its stake in Adquira Spain, S.A. to Telefónica Compras Electrónicas, S.L., recognizing a gain of 0.5 million euros.

8.2 Assessment of impairment of investments in Group companies, joint ventures and associates

On January 1, 2008, Telefónica, S.A. revised the recoverable amount of its investments in Group companies and associates (see Note 2 b), estimating the future cash flows derived from them. These revisions uncovered unrealized gains in the equity of these companies. Accordingly, at the transition date the investment portfolio provisions, net of the related tax effect, were reversed for an amount of 13,162 million euros (see Note 2 b).

This amount was reversed, with a balancing entry in the reserve for the first-time application in accordance with the rules for transition to the new accounting principles. This reserve is recorded as other reserves in the company's equity (see Note 11 c).

At December 31, 2008, Telefónica, S.A. re-estimated the future cash flows derived from its investments in Group companies and associates. The estimate is made based on the discounted cash flows to be received from each subsidiary in its functional currency and translated to euros at the official closing rate of each currency at that date.

The re-estimations of these amounts with respect to the opening balance sheet uncovered the need to write down the values of the shareholdings in Telefónica O2 Holding, Ltd., Telco, S.p.A. and Portugal Telecom, S.P.G.S. (see Note 18.9).

The write-down to the stake in Telefónica O2 Holding, Ltd. was due to the 23% depreciation of the pound sterling, although this was in part offset by Telefónica, S.A.'s hedges of its net investment in foreign operations.

The write-down to the stake in Telco, S.p.A. entails the write-down made by Telco, S.p.A. of its 10.36% ownership of the voting shares of Telecom Italia, S.p.A. (7.15% of the dividend rights). This impact was calculated taking into account the estimated synergies to be obtained, mainly in its European operations through the alliances reached with Telecom Italia, S.p.A.

8.3 The detail of the subsidiaries and associated companies is shown in Appendix I.

8.4 Transactions protected for tax purposes.

Transactions carried out in 2008 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VIII of Title VII of Legislative Royal Decree 4/2004 of March 5 approving the Revised Spanish Corporate Income Tax Law, are detailed in the following paragraphs.

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Only one transaction of this type involving subsidiaries belonging to the tax Group headed by Telefónica, S.A took place in 2008:

On October 28, 2008, the agreement for the merger and takeover of Viajar.com Viajes, S.L. and Terra Business Travel, S.A. by Red Universal de Marketing y Bookings Online, S.A. (RUMBO) was executed. As a result of this merger, the absorbing company, Red Universal Marketing y Bookings Online, S.A. (RUMBO), acquired all the rights and obligations of the absorbed companies.

8.5 The breakdown and maturity of loans to Group companies and associates is as follows:

Company (millions of euros)	2009	2010	2011	2012	2013	2014 and subsequent years	Final balance, current and non-current
Telefónica de España, S.A.U.	3,731				2,093		5,824
Telefónica Móviles España, S.A.U.	4,142						4,142
Telefónica Móviles México, S.A. de C.V.	794		2,092				2,886
Telefónica de Contenidos, S.A.U.	6				1,142	79	1,227
Telefónica Internacional, S.A.	493						493
Telefónica Móviles Argentina, S.A.	113				28	241	382
Telefónica Móviles Chile Inversiones, S.A.		284					284
Others	104	13	40	3	52	3	215
Total	9,383	297	2,132	3	3,315	323	15,453

The main loans granted to Group companies are described below:

Financing granted to Telefónica de España, S.A.U. consists mainly of a loan dated January 4, 1999 resulting from the company's spin-off from Telefónica (on January 1, 1999), that bears interest at 6.80% and had an outstanding balance of 3,187 million euros at December 31, 2008, of which 2,093 million euros are long term and 698 million euros are short term.

The year ended 2006 featured the takeover and merger of Terra Networks España, S.A.U. by Telefónica de España, S.A.U., both wholly owned direct subsidiaries of Telefónica, S.A. As a result, Terra Networks España, S.A.U. was dissolved without liquidation, and Telefónica de España, S.A.U. assumed the 397 million euro participating loan granted by Telefónica, S.A. to Terra Networks España, S.A.U. The loan matures on November 15, 2009 and bears interest linked to the Euribor rate.

In 2008, Telefónica de España, S.A.U. resolved to pay an interim dividend against profit for the year totaling 1,800 million euros. This amount is recognized under Current assets Loans to Group companies and associates.

Financing granted to Telefónica Móviles España, S.A.U. comprises a participating loan dated October 1, 2002, for 3,102 million euros, paying annual fixed interest plus a floating interest rate based on the performance of the company. This loan falls due on December 22, 2009 and therefore has been reclassified to Current Loans to companies.

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On December 1, 2008, Telefónica, S.A. decided to modify the currency in which it should repay the principle, accrued interest payable and any other item related to the loans granted to Telefónica Móviles México, S.A. de C.V. The exchange rate applied in the conversion of former euro-denominated loans into US dollars was published by the Bank of Mexico on November 28, 2008. The conditions regarding interest and maturity of the loans are the same. At December 31, 2008, the total amount drawn (loan principle) was 38,252 million Mexican pesos, equivalent to 2,030 million euros. Loans to group companies and associates also includes 856 million euros of accrued interest payable on the loans.

Financing granted to Telefónica de Contenidos, S.A.U. mainly comprises a 1,142 million euro participating loan, fully drawn down at December 31, 2008, which bears interest based on Telefónica de Contenidos, S.A.U.'s business performance. In addition, Telefónica, S.A. granted a new participating loan of 79 million euros maturing in 2015 to provide Telefónica de Contenidos, S.A.U. with funding to cover the financial charges linked to the participating loan mentioned above.

A loan was granted to Telefónica Internacional, S.A.U. on April 15, 2008 for 1,000 million euros, of which 408 million euros had been drawn down at December 31, 2008. The loan matures on April 14, 2009 and interest is linked to the 3M Euribor rate.

Financing granted to Telefónica Móviles Argentina, S.A. comprises a number of US dollar-denominated loans, maturing between 2009 and 2015 and bearing a fixed interest rate.

Financing granted to Telefónica Móviles Chile Inversiones, S.A. was arranged on November 4, 2008 as a result of the loan granted by Telefónica Internacional Chile, S.A. to Telefónica, S.A. for 284 million euros. This loan falls due in 2010 and bears interest linked to the 3M Euribor rate.

The Company has also extended 1,859 million euros of loans in connection with the taxation of Telefónica, S.A. as the head of the tax Group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17), mainly 1,039 million euros to Telefónica Móviles España, S.A.U. and 795 million euros to Telefónica de España, S.A.U., both falling due in the short term.

Loans to Group companies includes accrued interest receivable at December 31, 2008 amounting to 922 million euros. Transfers under Loans to group companies and associates in the table of movements in investments relate mainly to short-term movements required to meet the repayment schedules of the loans listed above.

8.6 Other financial assets with group companies and associates

This includes rights to collect amounts from other group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees (see Note 18.3).

Table of Contents**(9) FINANCIAL INVESTMENTS**

9.1 The breakdown of Financial investments at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	Equity instruments	Loans to third parties	Derivatives	Other financial assets	TOTAL	Fair value
Non-current financial investments	383	25	3,458	387	4,253	4,254
Financial assets at fair value through profit or loss			1,185		1,185	1,185
Held for trading			1,185		1,185	1,185
Loans and receivables		25		387	412	413
Available-for-sale assets	383				383	383
Measured at fair value	383				383	383
Hedging derivatives (Note 16)			2,273		2,273	2,273
Current financial investments	0	46	956	0	1,002	1,052
Financial assets at fair value through profit or loss			675		675	675
Held for trading			675		675	675
Loans and receivables		46			46	96
Hedging derivatives (Note 16)			281		281	281
Total financial investments	383	71	4,414	387	5,255	5,306

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

The derivatives are measured using the valuation techniques and models normally used in the market, based on the money-market curves and volatility prices available in the market.

9.2 Financial assets at fair value through profit or loss

This category includes the fair value of outstanding derivative financial instruments at December 31, 2008 (see Note 16).

9.3 Available-for-sale assets

This category mainly includes the fair value of investments in listed companies (equity instruments). The movement of items composing this category at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	Balance at January 1	Disposals	Fair value adjustments	Balance at December 31
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Banco Bilbao Vizcaya Argentaria, S.A.	607		(293)	314
Sogecable, S.A.	45	(46)	1	
Amper, S.A.	19		(11)	8
Zon Multimedia Serviços de Telecomunicações e Multimedia, SGPS, S.A.	142		(87)	55
Other equity investments	6			6
Total	819	(46)	(390)	383

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Among these are the investment held by Telefónica, S.A. in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 representing 0.97% of its share capital.

On May 9, 2008, Telefónica, S.A. announced its decision to accept the takeover bid launched by Promotora de Informaciones, S.A. (PRISA) for Sogecable, S.A. Proceeds from this disposal amounted to 11 million euros.

Given the poor situation of financial markets, at year-end the Company assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any impairment losses.

In 2008, changes recognized in the equity of Telefónica, S.A. to the fair value of available-for-sale assets, net of the tax effect, amounted to 273 million euros (see Note 11.2).

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	2008
Other non-current financial assets	
Loans to third parties	25
Prepayments	1
Guarantees given	386
Other current financial assets	
Loans to third parties	46
Total	458

9.4.1 Loans to third parties

Loans to third parties, both non-current and current, includes the cost of options arranged in 2006 and 2008 to cover shared-based payment schemes involving Telefónica, S.A. shares (phases I and III, respectively) for 71 million euros (see Note 18.3). The hedges arranged in 2006 have been reclassified to current, as the first phase of the share option plan ended in June 2009.

9.4.2 Guarantees given

Guarantees given under non-current assets mainly comprises deposits made to cover the guarantees provided for Ipse 2000 S.p.A., which totaled 375 million euros at December 31, 2008. These deposits will decrease in line with the respective obligations they guarantee.

Potential future payments related to this guarantee have counterguarantees by other Telefónica Group companies and therefore do not pose a risk for Telefónica, S.A. (see Note 19 c).

Table of Contents**(10) TRADE AND OTHER RECEIVABLES**

The breakdown of Trade and other receivables at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	2008
Trade receivables	14
Trade receivables from group companies and associates	474
Other receivables	19
Receivables from employees	1
Current income tax assets (Note 17)	38
Total	546

Trade receivables from group companies and associates mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly line rental fees (see Note 7.2).

Trade receivables and Trade receivables from group companies and associates include balances in foreign currency equivalent to 78 million euros (68 million euros of US dollars and 9 million euros of Brazilian reais).

These balances gave rise to exchange gains in the income statement of approximately 1 million euros in 2008.

(11) EQUITY**11.1 Capital and reserves****a) Share capital**

At December 31, 2008, Telefónica, S.A.'s share capital amounted to 4,704,996,485 euros and consisted of 4,704,996,485 fully paid ordinary shares of a single series, par value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system (Continuous Market), where they form part of the Ibex 35 Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, Sao Paulo and Lima Stock Exchanges. In the first quarter of 2008, Telefónica, S.A. completed the procedure to delist its shares from the Paris and Frankfurt stock exchanges begun in 2007.

With respect to authorizations given regarding share capital, on June 21, 2006, authorization was given at the General Shareholders Meeting of Telefónica, S.A. for the Board of Directors to increase the Company's capital, at one or several times, within a maximum period of five years from that date, under the terms of Article 153.1 b) of the Spanish Corporation Law (authorized capital) up to a maximum increase of 2,460 million euros, equivalent to half of the Company's share capital at that date, by issuing and placing new ordinary shares, be they ordinary or of any other type permitted by the Law, with a fixed or variable premium, with or without pre-emptive subscription rights and, in all cases, in exchange for cash, and expressly considering the possibility that the new shares may not be fully subscribed in accordance with the terms of Article 161.1 of the Spanish Corporation Law. The Board of Directors was also empowered to disapply, partially or fully, pre-emptive subscription rights under the terms of Article 159.2 of the Spanish Corporation Law and related provisions.

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In addition, at the May 10, 2007 Shareholders Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. As at December 31, 2008, the Board of Directors had exercised these powers, approving a program to issue corporate promissory notes for 2008 and 2009.

In addition, on April 22, 2008, shareholders voted to authorize the acquisition by the Board of Directors of treasury shares, for a consideration, up to the limits and pursuant to the terms and conditions established at the General Shareholders Meeting, within a maximum period of 18 months from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed 5% of Telefónica's share capital.

Finally, on July 15, 2008, the deed of capital reduction formalizing the implementation by the Company's Board of Directors of the resolution adopted by the General Shareholders Meeting on April 22, 2008, was executed. Capital was reduced through the cancellation of treasury shares previously acquired by the Company as authorized by the General Shareholders Meeting. As a result, 68,500,000 Telefónica S.A. treasury shares were cancelled and the Company's share capital was reduced by a nominal amount of 68,500,000 euros. Article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,704,996,485 euros. At the same time, a reserve was recorded for the cancelled shares described in the section on Other reserves of this same Note. The cancelled shares were delisted on July 23, 2008.

At December 31, 2008, Telefónica, S.A. held the following treasury shares:

		Euros per share		Market	
	No of shares	Acquisition	Trading price	value (1)	%
<i>Treasury shares at 12/31/08</i>	125,561,011	16.68	15.85	1,990	2.66867%

(1) Millions of
euros

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The movement in treasury shares of Telefónica, S.A. in 2008 is as follows:

	No. of shares
Treasury shares at 12/31/07	64,471,368
Acquisitions	129,658,402
Disposals	(68,759)
Share cancellation	(68,500,000)
Treasury shares at 12/31/08	125,561,011

The amount paid to acquire treasury shares in 2008 was 2,225 million euros. Meanwhile, sales of treasury shares during the year amounted to 1 million euros.

At December 31, 2008, Telefónica, S.A. held put options on 6 million treasury shares.

b) Legal reserve

According to the revised text of Spanish Corporation Law, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2008 this reserve has been duly set aside.

c) Other reserves

Other reserves includes:

The Revaluation reserve which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, an amount of 19 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to

Other reserves. The balance of this reserve at December 31, 2008 was 172 million euros.

Reserve for cancelled share capital: In accordance with Article 167.3 of the Spanish Corporate Law and to render null and void the right of opposition provided for in Article 166 of same Law, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. In 2008, a reserve for cancelled share capital amount to 68 million euros was recorded. The cumulative amount of this reserve at December 31, 2008 was 357 million euros.

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In addition to the two restricted reserves explained above, Other reserves includes unrestricted reserves for gains obtained by the Company in prior years and a reserve for the first-time application of the new accounting principles (see Note 2 b of Issues relating to the transition to new accounting principles).

d) Dividends

At its meeting of February 25, 2009, the Company's Board of Directors agreed to propose to the General 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.

Dividends paid in 2008

At its meeting held on April 22, 2008, the Company's Board of Directors agreed to pay an additional dividend charged against 2007 profit of a gross 0.40 euros per share. A total of 1,869 million euros was paid in May 2008.

In addition, as indicated in Note 3, in November an interim dividend against 2008 profit of a gross 0.50 euros per share was paid, entailing a total payment of 2,296 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing Unrealized gains (losses) reserve are as follows:

<i>(Millions of euros)</i>	Balance at January 1	Measurement	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
Available-for-sale financial assets						
(Note 9.3)	51	(390)	117	(11)	4	(229)
Cash flow hedges (Note 16)	176	(189)	57	50	(16)	78
Total	227	(579)	174	39	(12)	(151)

(12) FINANCIAL LIABILITIES

The breakdown of Financial liabilities at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	Debentures, bonds and other marketable debt	Interest-bearing debt	Derivatives	Other financial liabilities	Payables to group companies and associates	Total	Fair value
Non-current financial liabilities	288	7,225	2,241	7	30,955	40,716	38,059
Loans and borrowings	288	7,225		7	30,955	38,475	35,818
Financial liabilities at fair value through			443			443	443

profit or loss							
Held for trading			443			443	443
Hedging derivatives			1,798			1,798	1,798
Current financial liabilities	1,567	788	704	164	16,568	19,791	19,794
Loans and borrowings	1,567	788		164	16,568	19,087	19,090
Financial liabilities at fair value through profit or loss			564			564	564
Held for trading			564			564	564
Hedging derivatives			140			140	140
Total financial liabilities	1,855	8,013	2,945	171	47,523	60,507	57,853

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The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

The derivatives are measured using the valuation techniques and models normally used in the market, based on the money-market curves and volatility prices available in the market.

(13) BONDS AND OTHER MARKETABLE DEBT SECURITIES:

13.1 The accounting balances and movements in issues of debentures, bonds and commercial paper at December 31, 2008 are as follows:

<i>(Millions of euros)</i>	Non-convertible debentures and bonds	Other marketable debt securities	Total
Balance at January 1	1,505	1,371	2,876
New issues		1,745	1,745
Redemptions	(421)	(2,264)	(2,685)
Revaluation and other movements	(87)	6	(81)
Balance at December 31	997	858	1,855
Maturity			
Non-current	173	115	288
Current	824	743	1,567

Maturities of the nominal amounts of debentures and bonds issues are as follows:

Name	Type of interest rate	% interest rate	Maturity					Subsequent years	TOTAL
			2009	2010	2011	2012	2013		
DEBENTURES AND BONDS:									
FEBRUARY 1990 SERIES C	FIXED	12.6		4					4
FEBRUARY 1990 SERIES F	ZERO COUPON (**)	12.58		14					14
APRIL 99	FIXED	4.5	500						500
JUNE 99	FLOATING ZERO COUPON	6.04	300						300
JULY 99	(**)	6.37						54	54

MARCH 00	FLOATING	5,09(*)			50	50
Total issues			800	18	104	922

(*) *The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.*

(**) *Issues of Zero coupon debentures and bonds are shown in the table above at actual values.*

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13.2 The detail of the maturities and redemption values of zero-coupon debentures and bonds is as follows:

Issue	Redemption date	Redemption rate	Present value	Redemption value
DEBENTURES AND BONDS:				
FEBRUARY 1990 SERIES F	2/26/2010	1069.47%	14	15
JULY 99	7/21/2029	637.64%	54	191
Total			68	206

The remaining debentures and bonds have been measured at amortized cost at the year end.

13.3 At December 31, 2008, Telefónica, S.A. had a promissory note program for issuance of up to 2,000 million euros. The outstanding balance at year end was 741 million euros.

With respect to the transaction with La Estrella, S.A. de Seguros consisting of the issuance of bearer promissory notes, on February 15, 2001 Telefónica, S.A. issued 74 bearer promissory notes with a face value of 126 million euros and final maturity in February 2011. The nominal amount outstanding at year end was 74 million euros, equivalent to an outstanding balance of 54 million euros on the year-end balance sheet.

In 2006, the Company acquired shares in O2, plc., payment for which was deferred through the arrangement of a 207 million pounds sterling (308 million euros) Loan Notes program. This program, enacted under UK law, gives the seller of the shares rights to of a security that pays semi-annual interest and the option to collect the principal on demand at the interest payment dates (June 30 and December 31) until December 31, 2010 when the program ends. The outstanding balance of the program at December 31, 2008 amounted to 60 million pounds sterling (63 million euros).

13.4 The average interest rate in 2008 on debentures and bonds outstanding during the year was 5.14% and the average interest rate on corporate promissory notes was 4.62%.

(14) INTEREST-BEARING DEBT AND DERIVATIVES

14.1 The balances at December 31, 2008 are as follows:

Item (millions of euros)	Current	Non-current	Total
Loans and borrowings	535	7,128	7,663
Foreign currency loans and borrowings	253	97	350
Derivative financial liabilities (Note 16)	704	2,241	2,945
Total	1,492	9,466	10,958

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14.2. The nominal values of the main interest-bearing debts at year-end 2008 are as follows:

Description	Value date	Maturity date	Currency	Limit 31-12-08	Balance (million currency)	Balance (million euros)
ECAS structured facility 3bn syndicated loan BS	26/11/04	15/11/10	USD	377	115	83
acquisition 6bn syndicated loan	06/07/04	06/07/09	USD	3,000	302	217
Cesky acquisition	28/06/05	28/06/11	EUR	6,000	6,000	6,000
Syndicated loan savings banks	21/04/06	21/04/17	EUR	700	700	700

14.3 Maturities of balances at December 31, 2008 are as follows:

Item (millions of euros)	Maturity					Subsequent years	Balance at December 31
	2009	2010	2011	2012	2013		
Loans and borrowings	535		5,135	601		1,392	7,663
Foreign-currency loans and borrowings	253	65				32	350
Derivative financial liabilities (Note 16)	704	1,209	121	40	52	819	2,945
Total	1,492	1,274	5,256	641	52	2,243	10,958

14.4 On April 21, 2006, Telefónica, S.A. arranged a 700 million euros syndicated loan, denominated in euros and bearing interest linked to the Euribor rate. In 2008, there were no movements in this loan, which will be repaid in two equal installments, in April 2015 and 2017, respectively.

On June 28, 2005 Telefónica, S.A. arranged a syndicated loan with 40 national and international financial institutions for 6,000 million euros, maturing on June 28, 2011. The loan is denominated in euros and can be drawn either in this currency or in US dollars, sterling, yen, swiss francs or any other currency subject to prior agreement by the banking institutions. At December 31, 2008, this loan was fully drawn down.

On July 6, 2004, Telefónica arranged a 3,000 million euros syndicated loan with several Spanish and foreign banks. This loan matures in five years (July 6, 2009) and bears interest of Euribor/Libor plus a spread based on the Company's credit rating. The total balance drawn down at December 31, 2008 was 302 million dollars, equivalent to 217 million euros.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. formalized a credit facility, secured by the export credit agencies of Finland (Finnvera) and Sweden (EKN), bearing fixed interest of 3.26%, with a limit of 377 million euros and final maturity on November 15, 2010. This financing will cover up to 85% of the purchases of network equipment to be made by Telefónica Móviles Group companies from Ericsson and Nokia. In 2008, a total of 76 million dollars was repaid, leaving an outstanding balance at December 31, 2008 of 115 million dollars, equivalent to 83 million euros.

14.5 Average interest on loans and borrowings

The average interest rate in 2008 on loans and borrowings denominated in euros was 4.68% and on foreign-currency loans and receivables was 3.56%.

14.6 Unused credit facilities

The balances of Loans and borrowings relate only to amounts drawn down.

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At December 31, 2008, Telefónica had undrawn credit facilities amounting to 4,762 million euros.

Financing arranged by Telefónica, S.A. at December 31, 2008 is not subject to compliance with any financial covenants.

(15) PAYABLES TO GROUP COMPANIES AND ASSOCIATES

15.1 The breakdown at December 31, 2008 is as follows:

<i>(Millions of euros)</i>	Non-current	Current	Total
Loans	30,576	16,118	46,694
Trade payables to group companies and associates	14	66	80
Derivatives (Note 16)	44	65	109
Payable to subsidiaries due to taxation on consolidated basis	321	319	640
Total	30,955	16,568	47,523

The maturity of these loans at year end is as follows:

Company <i>(Millions of euros)</i>	2009	2010	2011	2012	2013	2014 and subsequents years	Final balance, current and non current
Telefónica Emisiones, S.A.	1,503	1,338	2,939	622	2,548	8,821	17,771
Telefónica Europe, B.V.	2,274	1,796		4,382	2,380	1,499	12,331
Telefónica Móviles España, S.A.U.		1,402	2,000				3,402
Telefónica Finanzas, S.A.	11,822		300			549	12,671
Otras	519						519
Total	16,118	4,536	5,239	5,004	4,928	10,869	46,694

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Europe, B.V. at December 31, 2008 was 12,331 million euros. This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate in 2008 was 5.78%.

This financing mainly derives from the syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling at October 31, 2005 to fund the acquisition of O2, Plc., which at December 14, 2006 was reduced to 7,000 million pounds sterling, while the maturity was extended from 2008 to 2013. The outstanding balance on this loan at December 31, 2008 was 3,978 million pounds sterling, equivalent to 4,176 million euros.

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2008 was 17,771 million euros. This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2008 was 5.00%. The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on their effective rate.

Telefónica Emisiones, S.A.U. raised financing in 2008 mainly by tapping the European and US capital markets, issuing 1,250 million euros worth of bonds.

Meanwhile, at December 31, 2008, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A.U., in charge of the integrated cash management of the companies comprising the Telefónica Group, amounting to 12,671 million euros in a series of loans earning market interest rates.

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There were also loans at December 31, 2008 given to Telefónica, S.A. by Telefónica Móviles España, S.A.U. amounting to 3,402 million euros.

The financing received by Telefónica, S.A. from Telefónica de España, S.A.U. was cancelled on January 28, 2008.

Part of the amount owned by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and with Telefónica Europe, B.V. is measured at fair value at December 31, 2008 resulting from fair value hedges.

Loans to group companies includes accrued and unpaid interest at December 31, 2008 amounting to 638 million euros.

- 15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis amounting to 640 million euros at December 31, 2008, includes payables to group companies for their contribution of tax losses to the tax group headed by Telefónica, S.A. (see Note 17). The current or non-current classification is based on the Company's projection of maturities.

The main amounts are those relating to Telefónica Internacional, S.A.U. (444 million euros), Telefónica Móviles España, S.A.U. (93 million euros), Telefónica de Contenidos, S.A.U. (33 million euros) and Telefónica Datacorp, S.A.U. (14 million euros).

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

a) Derivative financial instruments

In 2008 the Company continued to use derivatives both to limit interest and exchange rate risks on otherwise unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2008, the total outstanding balance of derivative transactions was 95,891 million euros, of which 70,999 million euros related to interest rate risk and 24,892 to foreign currency risk.

It should be noted that at December 31, 2008, Telefónica, S.A. had arranged transactions with financial institutions to hedge interest and exchange rate risks for other Telefónica Group companies amounting to 101 million euros and 1,225 million euros, respectively. These external transactions are matched by parallel intragroup arrangements, with identical terms and maturities, and therefore involve no risk for Telefónica, S.A. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

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The breakdown of Telefónica, S.A.'s derivatives at December 31, 2008, their fair value at year-end and the expected maturity schedule is as follows:

Type of risk <i>Millions of euros</i>	Value in Euros	2008		Telefónica pays	
		Telefónica receives	Amount	Amount	Currency
		Amount	Currency		