

TELEFONICA S A
Form 6-K
April 29, 2010

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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 April, 2010
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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RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES

General Secretary

and Secretary to the Board of Directors

TELEFÓNICA, S.A.

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

SIGNIFICANT EVENT

Further to the notice sent on April 28th, 2010, and because of the official calling of the Annual General Shareholders Meeting of the Company to be held on June 2nd and 3rd, 2010 (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, April 29th, 2010

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Telefónica, S.A.

**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 2, 2010 at 1:00 p.m. on first call, or, in the event that the legally required quorum is not reached and therefore the Meeting cannot be held on first call, on June 3, 2010 on second call, at the same place and time, in order to deliberate and decide upon the matters included in 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 2009.
- II. Compensation of shareholders: Distribution of a dividend to be charged to Unrestricted Reserves.
- III. Authorization for the acquisition of the Company's own shares, directly or through companies of the Group.
- IV. Delegation to the Board of Directors of the power to issue debentures, bonds, notes and other fixed-income securities, be they simple, exchangeable and/or convertible, granting the Board, in the last case, the power to exclude the pre-emptive rights of shareholders, as well as the power to issue preferred shares and the power to guarantee issuances by the companies of the Group.
- V. Re-election of the Auditor for Fiscal Year 2010.
- VI. 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, 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 IV 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 delegation of powers to the Board of Directors to issue securities as set forth in Item IV 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 2009.

All of the documents set forth above will be available electronically on the Company's website (www.telefonica.com). Pursuant to Section 112.1 of the Spanish Companies Law, the shareholders may, until the seventh day prior to the date on which the General Shareholders Meeting is scheduled to be held and by completing the form posted on the Company's website for such purpose, or by postal correspondence sent to the Company's registered office (Gran Vía, número 28, 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 June 23, 2009, i.e., the date on which the last General Shareholders Meeting was held.

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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 are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions submitted by the Board of Directors regarding the matters on the agenda, and shall vote in such direction as he deems most appropriate, taking into account the interest of the Company and that of the shareholder granting the proxy, in relation to any other matter that are not included in the agenda and are thus unknown on the date that the proxy is granted, but which may be submitted to a vote at the Meeting.

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, pursuant to Personal Data Protection Act [Ley Orgánica 15/1999, de 13 de diciembre, de Protección de Datos de Carácter Personal], the information received will be kept in a database 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.

ACCESSES TO THE RECINTO FERIAL DE LA CASA DE CAMPO PABELLÓN DE CRISTAL

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

Underground stations: Alto de Extremadura o Puerta del Ángel , line 6 and Lago , line 10

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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, 28th April, 2010
General Secretary and Secretary of the Board

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***GENERAL SHAREHOLDERS MEETING
OF TELEFÓNICA, S.A. 2010
PROPOSED RESOLUTIONS SUBMITTED BY THE BOARD OF DIRECTORS
TO THE SHAREHOLDERS FOR DECISION AT THE
GENERAL SHAREHOLDERS MEETING***

June 2/3, 2010

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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 2009.

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- (Statements of Financial Condition, Income Statements, Global Income Statements, Statements of Changes in Shareholders' Equity, Cash Flow Statements, and Notes to the Consolidated Financial Statements), and the Management Reports of Telefónica, S.A. and its Consolidated Group of Companies for Fiscal Year 2009 (ended on December 31, 2009), as finalized by the Company's Board of Directors at its meeting of February 24, 2010, 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, 2009 discloses assets, liabilities and shareholders' equity in the amount of 85,138 million euros each, and the Income Statement as of the end of the Fiscal Year shows a profit of 6,252 million euros.

In the Consolidated Financial Statements (Consolidated Annual Accounts), the Balance Sheet as of December 31, 2009 reflects assets, liabilities and shareholders' equity in the amount of 108,141 million euros each, and the Income Statement as of the end of the Fiscal Year reports a profit of 7,776 million euros.

B) To approve the following Proposal for the Allocation of the Profits and Losses of Telefónica, S.A. for Fiscal Year 2009:

To allocate the profits posted by Telefónica, S.A. in Fiscal Year 2009, in the amount of 6,252,932,293 euros, as follows:

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2,277,225,576 euros to payment of an interim dividend (fixed gross amount of 0.5 euro per share entitled to receive it). Such dividend was paid in full on May 12, 2009.

1,690,464 euros to funding a restricted reserve for Goodwill.

The balance of profits (3,974,016,253 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 0.65 euro per share, to be charged to the aforementioned Unrestricted Reserves.

Payment will be made on November 8, 2010, 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: 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., 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 5 years 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.

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- 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 IV on the Agenda by the shareholders at the Ordinary General Shareholders Meeting of the Company on June 23, 2009.

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Proposal regarding Item IV on the Agenda: Delegation to the Board of Directors of the power to issue debentures, bonds, notes and other fixed-income securities, be they simple, exchangeable and/or convertible, granting the Board, in the last case, the power to exclude the pre-emptive rights of shareholders, as well as the power to issue preferred shares and the power to guarantee issuances by companies of the Group.

To delegate to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (*Ley de Sociedades Anónimas*) and Section 319 of the Regulations of the Commercial Registry (*Reglamento del Registro Mercantil*), the power to issue fixed-income securities and preferred shares, subject to the following terms and conditions:

1. The aforementioned securities may be issued on one or more occasions within a maximum term of five years as from the date of approval of this resolution.
2. The securities issued may be debentures, bonds, notes and other fixed-income securities, both simple and, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company. They may also be preferred shares.
3. The maximum total amount of the issuance(s) of securities approved under this delegation of powers may not exceed, at any given time, the sum of 25 billion euros or the equivalent thereof in another currency. In the case of notes, the outstanding balance of any notes issued under such delegation of powers shall be computed for purposes of the aforementioned limit.
4. The delegation shall include the power to establish the different aspects and terms and conditions of each issuance (nominal value, issue price, reimbursement price, domestic or foreign currency of the issuance, interest rate, amortization, anti-dilution mechanisms, subordination provisions, guarantees supporting the issuance, place of issuance, admission to listing, applicable law, etc.).

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5. In the case of issuance of debentures or bonds that are convertible and/or exchangeable and for purposes of determining the terms and conditions of conversion and/or exchange, it is resolved to establish the following standards:
- a) The conversion and/or exchange rate shall normally be fixed and, for such purposes, fixed-income securities shall be valued at their nominal value and shares shall be valued at the fixed exchange rate determined in the Board of Directors' resolution, or at such exchange rate as is determinable on the date or dates specified in the resolution of the Board, and on the basis of the listing price of the shares of the Company on the date or dates, or period or periods, used as a reference in such resolution. In any event, the price of the shares may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which shall not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors' meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors' meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.
 - b) Notwithstanding the provisions of sub-section a) above, the debentures or bonds may be resolved to be issued at a variable conversion and/or exchange rate. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board of Directors, which shall not be more than three months or less than five days prior to the date of conversion and/or exchange, at a premium or, if appropriate, at a discount on such price per share. The premium or discount may be different for each conversion and/or exchange date under each issuance (or under each tranche of an issuance, if any), provided, however, that if a discount on the price per share is set, such discount may not be greater than 30%. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.

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- c) As provided in Section 292.3 of the Companies Act, debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares. In addition, convertible debentures may not be issued in an amount less than the nominal value of such shares.
 - d) Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holders of the debentures or bonds shall be rounded downward by default to the immediately lower integer, and each holder shall receive in cash the difference that may arise in such instance.
 - e) When approving an issuance of convertible and/or exchangeable debentures or bonds in reliance on the authorization set forth in this resolution, the Board of Directors shall issue a Directors report elaborating on and specifying, on the basis of the standards described above, the terms and conditions of the conversion that are specifically applicable to the above-mentioned issuance. Such report shall be accompanied by the Auditors report mentioned in Section 292 of the Companies Act.
6. In any event, this delegation of powers to issue convertible and/or exchangeable debentures or bonds shall include:
- a) The power to increase share capital by the amount required to accommodate the requests for conversion. Such power may only be exercised to the extent that the Board, adding the capital increase effected to accommodate the issuance of convertible debentures or bonds and any other capital increases it may have resolved to effect pursuant to authorizations granted by the shareholders at General Shareholders Meetings, does not exceed the limit of one-half of the amount of the share capital established in Section 153.1 b) of the Companies Act. This authorization to increase capital includes the power to issue and place into circulation, on one or more occasions, the shares required to carry out the conversion as well as the power to amend the article of the By-Laws relating to the amount of share capital.

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- b) The power to exclude the pre-emptive rights of shareholders whenever required to raise funds on domestic or international markets, to use bookbuilding techniques, or as otherwise required by the corporate interest. In any event, if the Board decides to exclude pre-emptive rights in connection with a particular issuance of convertible debentures or bonds which it may decide to make pursuant to this authorization, it shall, upon approving the issuance, issue a report describing the specific reasons of corporate interest that justify such measure, which shall be the subject-matter of the related report prepared by an auditor other than the Company's auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 293.2 b) and c) of the Companies Act. Both reports shall be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.
 - c) The power to elaborate on the terms and conditions of the conversion and/or exchange established in sub-section 5 above and, in particular, the power to determine the time of conversion and/or exchange, which may be limited to a pre-established period, the persons holding the right to convert and/or exchange the debentures, which may be allocated to the Company or to the debenture-holders, the manner in which debenture-holders are to be satisfied (by means of conversion, exchange or even a combination of both methods, which may be selected by them at the time of execution) and, in general, all terms and conditions that may be necessary or appropriate for the issuance.
- 7. As long as the conversion into and/or exchange for shares of the convertible and/or exchangeable debentures issued in exercise of the powers delegated hereby is possible, the holders thereof shall have all the rights afforded them by applicable legal provisions.
 - 8. The Board of Directors is also authorized to guarantee, on behalf of the Company, the issuance of the securities mentioned in sub-section 2 above by Companies belonging to its Group of Companies.
 - 9. At the subsequent General Shareholders Meetings held by the Company, shareholders shall be informed of the use, if any, that it has theretofore made of the delegation of powers contemplated in this resolution.

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10. Whenever appropriate, the Company shall make application for listing on Spanish or foreign, official or unofficial, organized or other secondary markets of the debentures, bonds and other securities issued pursuant to this delegation of powers, and the Board is authorized to conduct all formalities and take all actions that may be necessary for admission to listing before the appropriate authorities of the various Spanish or foreign securities markets.

For purposes of the provisions of Section 27 of the Stock Exchanges Regulations (*Reglamento de Bolsas de Comercio*), it is expressly stated for the record that if application is subsequently made for delisting the securities issued pursuant to this delegation of powers, such delisting shall be effected in compliance with the formalities set forth in such article and, in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements set out in the Companies Act and related provisions, all of the foregoing pursuant to the provisions of the aforementioned Stock Exchanges Regulations, the Securities Market Act (*Ley del Mercado de Valores*) and the provisions implementing it.

Under the provisions of Section 141, number 1, second paragraph of the Companies Act, the Board of Directors is authorized, in turn, to delegate the powers granted in this resolution to the Executive Commission.

The delegation of powers to issue securities granted by the shareholders at the General Shareholders Meeting held by the Company on May 10, 2007 is hereby deprived of effect to the extent of the unused amount.

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Proposal regarding Item V on the Agenda: Re-election of the Auditor for Fiscal Year 2010.

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 2010 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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Proposal regarding Item VI 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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REPORT PREPARED BY THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. IN CONNECTION WITH THE PROPOSED DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE DEBENTURES, BONDS, NOTES AND OTHER FIXED-INCOME SECURITIES, BE THEY SIMPLE, EXCHANGEABLE AND/OR CONVERTIBLE, GRANTING THE BOARD, IN THE LAST CASE, THE POWER TO EXCLUDE THE PRE-EMPTIVE RIGHTS OF SHAREHOLDERS, AS WELL AS THE POWER TO ISSUE PREFERRED SHARES AND THE POWER TO GUARANTEE ISSUANCES BY COMPANIES OF THE GROUP, TO BE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE ORDINARY GENERAL SHAREHOLDERS MEETING (ITEM IV ON THE AGENDA).

1. PURPOSE OF THE REPORT

The Agenda for the Ordinary General Shareholders Meeting of Telefónica, S.A., called to be held on June 2 and 3, 2010, includes in item IV thereon a proposal regarding the granting of powers to the Board of Directors, with the express power of substitution in favor of the Executive Commission, to issue debentures, bonds, notes and other fixed-income securities, both simple and convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company, as well as preferred shares, including the authorization for the Company to guarantee issuances of such securities by companies within the Group.

2. RATIONALE FOR THE PROPOSAL

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary for appropriate management of the corporate interests. The purpose of this delegation is to provide the management-level decision-making body of the Company with the maneuverability and responsiveness required by the competitive environment in which it operates, in which the success of a strategic initiative or a financial transaction frequently depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from the call to and holding of a General Shareholders Meeting.

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For such purpose, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (Ley de Sociedades Anónimas) and 319 of the Regulations of the Commercial Registry (Reglamento del Registro Mercantil), which authorize the shareholders at a General Shareholders Meeting to delegate to the Board of Directors the power to issue fixed-income securities and preferred shares, on one or more occasions within a term of five years and for a cash consideration, the proposed resolution set forth under item IV of the Agenda is submitted to the shareholders at the General Shareholders Meeting, which proposal also includes the power to deprive of effect, to the extent of the unused amount, the resolution providing for the delegation of powers to issue securities approved by the shareholders at the Meeting held on May 10, 2007.

The proposal provides that the aggregate maximum amount of the issuances to be carried out under the delegation of powers will be 25 billion euros or the equivalent thereof in another currency. In addition, the proposal contemplates authorizing the Board of Directors so that, in the event that the Board decides to issue debentures or bonds, it may issue them as convertible and/or exchangeable and approve, in the event that they are convertible, the capital increase required to accommodate the conversion, provided that such increase effected by delegation does not exceed one-half of the amount of share capital, as prescribed by Section 153.1.b) of the restated text of the Companies Act.

The proposal also includes the standards for determining the terms and conditions for conversion into shares and/or exchange for shares of the debentures or bonds, in the event that the Board resolves to use the authorization granted by the shareholders to issue convertible and/or exchangeable debentures or bonds, but it delegates to the Board of Directors itself the power to specify such terms and conditions for conversion and/or exchange for each particular issuance within the limits and in accordance with the standards set out by the shareholders at the Meeting. Thus, the Board of Directors will determine the rate of conversion and/or exchange of the shares to be issued for the conversion or of those to be used to exchange the fixed-income securities, which rate may be fixed or variable, with the shares being valued in accordance with any of the procedures set forth in the following paragraphs, at the election of the Board and as the Board deems to be more appropriate. In any event, if the Board decides to issue convertible and/or exchangeable debentures or bonds in exercise of the authorization requested of the shareholders at the General Shareholders Meeting, the Board will, upon approving the issuance, issue a report describing the specific terms and conditions of the conversion and/or exchange applicable to such issuance, which will be the subject-matter of the related report prepared by an auditor other than the Company's auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 292 of the Companies Act.

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Specifically, the resolution submitted by the Board for approval of the shareholders at the General Shareholders Meeting provides that in the event that the convertible and/or exchangeable debentures or bonds are issued at a fixed conversion and/or exchange rate, the price of the shares to be set by the Board of Directors for purposes of the conversion and/or exchange may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which will not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors meeting at which, exercising the delegated powers, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above will apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules will refer to the listing price of the shares of such company on the respective market. In this way, the Board believes that it is granted an adequate degree of flexibility to set the value of the shares for purposes of the conversion and/or exchange based on market conditions and other relevant factors to take into account, provided, however, that such value must be at least substantially equal to the market value thereof at the time that the Board approves the issuance of the debentures or bonds.

On the other hand, in the event that the issuance is carried out at a variable conversion and/or exchange rate, the price of the shares to be set by the Board of Directors for purposes of the conversion and/or exchange will be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board, which will not be more than three months or less than five days prior to the date of conversion or exchange, with the Board being authorized to set a premium or, if appropriate, a discount on such price per share, which may be different for each conversion or exchange date under each issuance. However, if the Board sets a discount on such price per share, such discount may not be greater than 30% of the listing price of the share during the period prior to the date of conversion into shares and/or exchange for shares of the debentures or bonds established by the Board itself. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above will apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules will refer to the listing price of the shares of such company on the respective market. Again, the Board believes that the foregoing grants it adequate maneuverability to set the variable conversion and/or exchange rate based on market circumstances and any other factors that the Board should take into account, provided, however, that a maximum discount is established in order to ensure that, if a discount is given, the issue price of the new shares in the event of a conversion does not differ by more than 30% from the market value of the shares at the time of the conversion.

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In both cases, it is provided that, pursuant to Section 292.3 of the Companies Act (read in conjunction with Section 47.2 of such Act), debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares, and it is also provided that in no event may the value of the shares for purposes of the conversion rate be less than the nominal value thereof. Moreover, it is provided that the Board of Directors is authorized to determine whether or not the valuation of each debenture or bond for purposes of the rate of conversion into shares and/or exchange for shares of the debentures or bonds will include the interest accrued and unpaid at the time of the conversion and/or exchange.

In addition, it is provided that the authorization to issue fixed-income securities includes, in the event that the issuance covers convertible debentures or bonds, granting the Board of Directors the power to exclude the pre-emptive rights of shareholders when this is necessary to raise funds on the markets or as otherwise required by the corporate interest. The Board of Directors believes that this additional power, which significantly increases the maneuverability and responsiveness afforded by a simple delegation of the power to issue convertible debentures or bonds, is justified, on the one hand, by the flexibility and dispatch with which it is necessary to act in today's financial markets in order to take advantage of the times when market conditions are most favorable, and on the other hand, because such measure may be necessary when seeking to raise funds on domestic or international markets or through the use of bookbuilding techniques. Finally, the exclusion of pre-emptive rights makes it possible to relatively reduce the financial cost of the borrowing and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance) as compared to an issuance made with pre-emptive rights, and at the same time reduces the effect of distortion in the trading of the Company's shares during the issuance period.

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In any event, it should be noted that the exclusion of pre-emptive rights is a power that the shareholders at the General Shareholders Meeting delegate to the Board of Directors and that it falls upon the Board, considering the particular circumstances and observing legal requirements, to decide in each case whether or not it is appropriate to exclude such rights. In this regard, if the Board decides to exclude pre-emptive rights in connection with a specific issuance of convertible debentures or bonds which it may decide to make pursuant to the authorization requested of the shareholders at the General Shareholders Meeting, it will, upon approving the issuance, issue a report describing the specific reasons of corporate interest that warrant such measure, on which the related Auditor's report required under Section 292.2 of the Companies Act will be issued. Both reports will be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.

Additionally, in view of the fact that in certain circumstances it may be advisable for fund-raising activities to be carried out by a company within the Group, and given that, in such cases, it is an essential condition for the success of the transaction that the issuance, if any, made by any such Group company be fully supported and guaranteed by the Company, the Board of Directors also requests express authorization of the shareholders at the General Shareholders Meeting in order for the Company to be allowed to guarantee the obligations of any kind that may arise for the Group companies from the issuances made thereby in order to raise funds for the Telefónica Group, for a period equal to the period of delegation of the power to issue the securities covered by this report.

It is also proposed that the resolutions required by applicable legal provisions be adopted in order for the securities to be issued pursuant to this delegation of powers to be admitted to listing on any Spanish or foreign, official or unofficial, organized or other secondary market.

Finally, the proposal expressly contemplates that the powers of any kind granted to the Board of Directors may be delegated, in turn, by the Board to the Executive Commission.

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

The resolutions that the Board of Directors proposes for approval of the shareholders at the Ordinary General Shareholders Meeting are transcribed below:

To delegate to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (Ley de Sociedades Anónimas) and Section 319 of the Regulations of the Commercial Registry (Reglamento del Registro Mercantil), the power to issue fixed-income securities and preferred shares, subject to the following terms and conditions:

- 1. The aforementioned securities may be issued on one or more occasions within a maximum term of five years as from the date of approval of this resolution.*
- 2. The securities issued may be debentures, bonds, notes and other fixed-income securities, both simple and, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company. They may also be preferred shares.*
- 3. The maximum total amount of the issuance(s) of securities approved under this delegation of powers may not exceed, at any given time, the sum of 25 billion euros or the equivalent thereof in another currency. In the case of notes, the outstanding balance of any notes issued under such delegation of powers shall be computed for purposes of the aforementioned limit.*
- 4. The delegation shall include the power to establish the different aspects and terms and conditions of each issuance (nominal value, issue price, reimbursement price, domestic or foreign currency of the issuance, interest rate, amortization, anti-dilution mechanisms, subordination provisions, guarantees supporting the issuance, place of issuance, admission to listing, applicable law, etc.).*

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5. *In the case of issuance of debentures or bonds that are convertible and/or exchangeable and for purposes of determining the terms and conditions of conversion and/or exchange, it is resolved to establish the following standards:*
- a) *The conversion and/or exchange rate shall normally be fixed and, for such purposes, fixed-income securities shall be valued at their nominal value and shares shall be valued at the fixed exchange rate determined in the Board of Directors' resolution, or at such exchange rate as is determinable on the date or dates specified in the resolution of the Board, and on the basis of the listing price of the shares of the Company on the date or dates, or period or periods, used as a reference in such resolution. In any event, the price of the shares may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which shall not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors' meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors' meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.*

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- b) *Notwithstanding the provisions of sub-section a) above, the debentures or bonds may be resolved to be issued at a variable conversion and/or exchange rate. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board of Directors, which shall not be more than three months or less than five days prior to the date of conversion and/or exchange, at a premium or, if appropriate, at a discount on such price per share. The premium or discount may be different for each conversion and/or exchange date under each issuance (or under each tranche of an issuance, if any), provided, however, that if a discount on the price per share is set, such discount may not be greater than 30%. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.*
- c) *As provided in Section 292.3 of the Companies Act, debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares. In addition, convertible debentures may not be issued in an amount less than the nominal value of such shares.*
- d) *Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holders of the debentures or bonds shall be rounded downward by default to the immediately lower integer, and each holder shall receive in cash the difference that may arise in such instance.*
- e) *When approving an issuance of convertible and/or exchangeable debentures or bonds in reliance on the authorization set forth in this resolution, the Board of Directors shall issue a Directors report elaborating on and specifying, on the basis of the standards described above, the terms and conditions of the conversion that are specifically applicable to the above-mentioned issuance. Such report shall be accompanied by the Auditors report mentioned in Section 292 of the Companies Act.*

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6. *In any event, this delegation of powers to issue convertible and/or exchangeable debentures or bonds shall include:*
- a) *The power to increase share capital by the amount required to accommodate the requests for conversion. Such power may only be exercised to the extent that the Board, adding the capital increase effected to accommodate the issuance of convertible debentures or bonds and any other capital increases it may have resolved to effect pursuant to authorizations granted by the shareholders at General Shareholders Meetings, does not exceed the limit of one-half of the amount of the share capital established in Section 153.1 b) of the Companies Act. This authorization to increase capital includes the power to issue and place into circulation, on one or more occasions, the shares required to carry out the conversion as well as the power to amend the article of the By-Laws relating to the amount of share capital.*
 - b) *The power to exclude the pre-emptive rights of shareholders whenever required to raise funds on domestic or international markets, to use bookbuilding techniques, or as otherwise required by the corporate interest. In any event, if the Board decides to exclude pre-emptive rights in connection with a particular issuance of convertible debentures or bonds which it may decide to make pursuant to this authorization, it shall, upon approving the issuance, issue a report describing the specific reasons of corporate interest that justify such measure, which shall be the subject-matter of the related report prepared by an auditor other than the Company's auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 293.2 b) and c) of the Companies Act. Both reports shall be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.*
 - c) *The power to elaborate on the terms and conditions of the conversion and/or exchange established in sub-section 5 above and, in particular, the power to determine the time of conversion and/or exchange, which may be limited to a pre-established period, the persons holding the right to convert and/or exchange the debentures, which may be allocated to the Company or to the debenture-holders, the manner in which debenture-holders are to be satisfied (by means of conversion, exchange or even a combination of both methods, which may be selected by them at the time of execution) and, in general, all terms and conditions that may be necessary or appropriate for the issuance.*

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7. *As long as the conversion into and/or exchange for shares of the convertible and/or exchangeable debentures issued in exercise of the powers delegated hereby is possible, the holders thereof shall have all the rights afforded them by applicable legal provisions.*
8. *The Board of Directors is also authorized to guarantee, on behalf of the Company, the issuance of the securities mentioned in sub-section 2 above by Companies belonging to its Group of Companies.*
9. *At the subsequent General Shareholders Meetings held by the Company, the shareholders shall be informed of the use, if any, that it has theretofore made of the delegation of powers contemplated in this resolution.*
10. *Whenever appropriate, the Company shall make application for listing on Spanish or foreign, official or unofficial, organized or other secondary markets of the debentures, bonds and other securities issued pursuant to this delegation of powers, and the Board is authorized to conduct all formalities and take all actions that may be necessary for admission to listing before the appropriate authorities of the various Spanish or foreign securities markets.*

For purposes of the provisions of Section 27 of the Stock Exchanges Regulations (Reglamento de Bolsas de Comercio), it is expressly stated for the record that if application is subsequently made for delisting the securities issued pursuant to this delegation of powers, such delisting shall be effected in compliance with the formalities set forth in such article and, in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements set out in the Companies Act and related provisions, all of the foregoing pursuant to the provisions of the aforementioned Stock Exchanges Regulations, the Securities Market Act (Ley del Mercado de Valores) and the provisions implementing it.

Under the provisions of Section 141, number 1, second paragraph of the Companies Act, the Board of Directors is authorized, in turn, to delegate the powers granted in this resolution to the Executive Commission.

The delegation of powers to issue securities granted by the shareholders at the General Shareholders Meeting held by the Company on May 10, 2007 is hereby deprived of effect to the extent of the unused amount.

Madrid, April 28, 2010

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**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, 2009, the share capital of Telefónica was 4,563,996,485 euros, represented by 4,563,996,485 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.

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.

Table of Contents**Telefónica, S.A.****c.- Significant shareholdings.**

The table below lists shareholders who, at December 31, 2009, 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⁾ | 5.54 | 252,999,646 | 5.54 | 252,999,646 | 0.00 | 0 |
| La Caixa ⁽²⁾ | 5.17 | 235,973,505 | 0.01 | 253,024 | 5.16 | 235,720,481 |
| Capital Research and Management Company ⁽³⁾ | 3.16 | 144,578,826 | 0 | 0 | 3.16 | 144,578,826 |
| Blackrock, Inc. ⁽⁴⁾ | 3.88 | 177,257,649 | 0 | 0 | 3.88 | 177,257,649 |

(1) Based on the information contained in Banco Bilbao Vizcaya Argentaria, S.A.'s 2009 Annual Report on Corporate Governance at December 31, 2009.

(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, La Caixa as at December 31, 2009 for the 2009 Annual Report on Corporate Governance. The 5.16% indirect shareholding in Telefónica is owned by Criteria CaixaCorp, S.A.

(3) According to notification sent to the Spanish national securities commission, the CNMV, dated May 20, 2009.

(4) According to notification sent to the Spanish national securities commission, the CNMV, dated February 4, 2010.

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.

In accordance with the provisions of article 112, section 2 of the Securities Market Law 24/1988, of July 28, on October 22, 2009, the Company notified the CNMV in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per this article. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is effective, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertakes not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). At the same time, both parties have assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

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This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

f.- Rules governing the appointment and replacement of Directors and the amendment of the Company's bylaws.

Appointment, reappointment and ratification.

Telefónica's bylaws state that the Board of Directors shall have between five and twenty Directors who are appointed by shareholders at the Shareholders' Meeting. The Board of Directors may, in accordance with Spanish Corporation Law and the Company bylaws, provisionally co-opt Directors to fill any vacant seats.

The appointment of Directors to Telefónica is as a general rule submitted for approval to the Shareholders' Meeting. Only in certain circumstances, when seats fall vacant after the conclusion of the General Meeting is it therefore necessary to co-opt Directors onto the board in accordance with the Spanish Corporation Law. Any such co-opted appointment is then ratified at the next Shareholders' Meeting.

Also, in all cases, proposals to appoint Directors must follow the procedures set out in the Company's Board of Directors' Regulations and be preceded by the appropriate favorable report by the Appointments, Compensation and Good Governance Committee and in the case of independent Directors, by the corresponding proposal by the committee.

Therefore, in exercise of the powers delegated to it, the Appointments, Compensation and Good Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

As a result, in accordance with its Regulations, the Board of Directors, exercising the rights to co-opt and propose appointments to the Shareholders' Meeting, shall ensure that external or non-executive Directors are in an ample majority over the executive Directors. Similarly, it shall ensure that independent Directors make up at least one third of the total Board members.

In all circumstances, where a Director is proposed to the Shareholders' Meeting for reappointment or ratification, the report of the Appointments, Compensation and Good Governance Committee, or in the case of independent Directors the proposal of this committee, shall include an assessment of the Director's past work and diligence in the discharge of their duties during their period in office.

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Also, both the Board of Directors and the Appointments, Compensation and Good Governance Committee shall ensure, in fulfilling their respective duties, that all those proposed for appointment as Directors should be persons of acknowledged solvency, competence and experience who are willing to devote the time and effort necessary to the discharge of their functions, with particular attention paid to the selection of independent Directors.

Directors are appointed for a period of five years, renewable for one or more subsequent five-year periods.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Appointments, Compensation and Good Governance Committee, and in the case of independent Directors by the corresponding proposal by the committee.

Termination of appointment or removal.

Directors' appointments shall end at the expirations of the period for which they were appointed or when shareholders at the General Shareholders' Meeting so decide in exercise of their powers under the law.

Also, in accordance with Article 12 of the Board Regulations, Directors must submit their resignation to the Board of Directors and formalize their resignation in the following circumstances:

- a) If they leave the executive post by virtue of which they sat on the Board or when the reasons for which they were appointed cease to apply.
- b) If their circumstances become incompatible with their continued service on the Board or prohibit them from serving on the Board for one of the reasons specified under Spanish law.
- c) If they are severely reprimanded by the Appointments, Compensation and Good Governance Committee for failure to fulfill any of their duties as Director.
- d) If their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company's interests.

The Board of Directors shall not propose the termination of the appointment of any independent Director before the expirations of their statutory term, except in the event of just cause, recognized by the Board on the basis of a prior report submitted by the Appointments, Compensation and Good Governance Committee. Just cause shall be specifically understood to include cases where the Director has failed to fulfill their duties as Board member.

The Board may also propose the termination of the appointment of independent Directors in the case of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company's capital.

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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 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 Shareholders Meeting of Telefónica on June 21, 2006, the Board of Directors was authorized under Article 153.1.b) of the Spanish Corporation Law, to increase the Company's capital by up to 2,460 million euros, equivalent to half the Company's subscribed and paid share capital at that date, one or several times within a maximum of five years of that date. The Board of Directors has not exercised these delegated powers to date.

Also, at the General Shareholders Meeting of May 10, 2007, the Board of Directors was authorized under Articles 153.1.b) and 159.2 of the Spanish Corporation Law to issue bonds exchangeable for or convertible into shares in the Company, this power being exercisable one or several times within a maximum of five years of that date. The Board of Directors has not exercised this power to date.

Powers to buy back shares.

At the General Shareholders Meeting of Telefónica of June 23, 2009, the Board of Directors was authorized, in accordance with articles 75 and following 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 the maximum legal percentage at any time (currently 10% of Telefónica's share capital).

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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, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2009

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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, 2009 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. In accordance with Spanish mercantile law, for comparative purposes, the Company's Directors have included for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and in the notes thereto, in addition to the figures of 2009, those of the prior year. The presentation of the figures corresponding to the prior year differ from those included in the financial statements approved for such year, as described in note 2.b) to the accompanying financial statements. Our opinion refers only to the financial statements for 2009. On March 6, 2009 we issued our audit report on the 2008 financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying 2009 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, 2009 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, applied on a consistent basis with those applied in the preparation of the figures corresponding to the prior year, included for comparative purposes in the accompanying financial statements.

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4. The accompanying 2009 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 2009 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 18, 2010

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**TELEFÓNICA, S.A.
ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT
REPORT FOR THE YEAR ENDED DECEMBER 31, 2009**

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

| ASSETS | Notes | 2009 | 2008 |
|--|--------------|---------------|---------------|
| NON-CURRENT ASSETS | | 75,589 | 76,768 |
| Intangible assets | 5 | 129 | 81 |
| Patents, licenses, trademarks, and others | | 45 | 4 |
| Software | | 19 | 15 |
| Other intangible assets | | 65 | 62 |
| Property, plant and equipment | 6 | 411 | 404 |
| Land and buildings | | 178 | 178 |
| Property, plant and equipment | | 179 | 207 |
| Property, plant and equipment under construction and prepayments | | 54 | 19 |
| Investment property | 7 | 328 | 336 |
| Land | | 65 | 65 |
| Buildings | | 263 | 271 |
| Non-current investments in group companies and associates | 8 | 70,565 | 69,889 |
| Equity instruments | | 66,542 | 63,795 |
| Loans to companies | | 4,000 | 6,070 |
| Other financial assets | | 23 | 24 |
| Non-current financial investments | 9 | 3,059 | 4,253 |
| Equity instruments | | 544 | 383 |
| Loans to third parties | | 59 | 25 |
| Derivatives | 16 | 2,358 | 3,458 |
| Other financial assets | | 98 | 387 |
| Deferred tax assets | 17 | 1,097 | 1,805 |
| CURRENT ASSETS | | 9,549 | 11,673 |
| Trade and other receivables | 10 | 844 | 546 |
| Current investments in group companies and associates | 8 | 3,199 | 9,512 |
| Loans to companies | | 3,141 | 9,383 |
| Derivatives | 9 | 29 | 101 |
| Other financial assets | | 29 | 28 |
| Current financial investments | 9 | 522 | 1,002 |
| Loans to companies | | 5 | 46 |
| Derivatives | 16 | 517 | 956 |
| Current deferred expenses | | 13 | 8 |
| Cash and cash equivalents | | 4,971 | 605 |
| Cash and cash equivalents | | 4,971 | 605 |
| TOTAL ASSETS | | 85,138 | 88,441 |

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

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

| EQUITY AND LIABILITIES | Notes | 2009 | 2008 |
|---|--------------|----------------|----------------|
| EQUITY | | 28,290 | 27,326 |
| CAPITAL AND RESERVES | | 28,617 | 27,477 |
| Share capital | 11 | 4,564 | 4,705 |
| Share premium | 11 | 460 | 460 |
| Reserves | 11 | 20,145 | 24,087 |
| Legal | | 984 | 984 |
| Other reserves | | 19,161 | 23,103 |
| Treasury shares and own equity instruments | 11 | (527) | (2,179) |
| Profit for the year | 3 | 6,252 | 2,700 |
| Interim dividend | 3 | (2,277) | (2,296) |
| UNREALIZED GAINS (LOSSES) RESERVE | 11 | (327) | (151) |
| Available-for-sale financial assets | | (91) | (229) |
| Hedging instruments | | (236) | 78 |
| NON-CURRENT LIABILITIES | | 40,642 | 41,317 |
| Non-current provisions | | 42 | 42 |
| Other provision | | 42 | 42 |
| Non-current borrowings | 12 | 8,579 | 9,761 |
| Bonds and other marketable debt securities | 13 | 192 | 288 |
| Bank borrowings | 14 | 6,833 | 7,225 |
| Derivatives | 16 | 1,488 | 2,241 |
| Other debts | | 66 | 7 |
| Non-current borrowings from group companies and associates | 15 | 31,984 | 30,955 |
| Deferred tax liabilities | 17 | 37 | 559 |
| CURRENT LIABILITIES | | 16,206 | 19,798 |
| Current provisions | | 4 | 5 |
| Current borrowings | 12 | 2,121 | 3,059 |
| Bonds and other marketable debt securities | 13 | 335 | 1,567 |
| Bank borrowings | 14 | 481 | 788 |
| Derivatives | 16 | 1,305 | 704 |
| Current borrowings from group companies and associates | 15 | 13,829 | 16,568 |
| Trade and other payables | 12 | 244 | 164 |
| Current deferred income | | 8 | 2 |

| | | |
|-------------------------------------|---------------|---------------|
| TOTAL EQUITY AND LIABILITIES | 85,138 | 88,441 |
|-------------------------------------|---------------|---------------|

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

Table of Contents**TELEFÓNICA, S.A.
INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31**

| <i>(Millions of euros)</i> | Notes | 2009 | 2008 |
|--|-------------------|----------------|----------------|
| Revenue from operations | 18.1 | 6,863 | 8,367 |
| Rendering of services to group companies and associates | | 433 | 357 |
| Rendering of services to non-group companies | | 5 | 6 |
| Dividends from group companies and associates | | 5,763 | 7,135 |
| Interest income on loans to group companies and associates | | 662 | 869 |
| Impairment and gains (losses) on disposal of financial instruments | 18.9 | 1,080 | (4,219) |
| Impairment losses and other losses | 8.2 | 1,087 | (4,182) |
| Gains (losses) on disposal and other gains and losses | | (7) | (37) |
| Other operating income | 18.2 | 145 | 109 |
| Non-core and other current operating revenues group companies and associates | | 88 | 93 |
| Non-core and other current operating revenues non-group companies | | 57 | 16 |
| Personnel expenses | 18.3 | (169) | (167) |
| Wages, salaries, and others | | (140) | (150) |
| Social security costs | | (29) | (17) |
| Other operating expenses | | (375) | (384) |
| External services group companies and associates | 18.5 | (74) | (78) |
| External services non-group companies | 18.5 | (290) | (290) |
| Taxes other than income tax | | (11) | (16) |
| Depreciation and amortization | 5, 6 and 7 | (68) | (72) |
| OPERATING PROFIT | | 7,476 | 3,634 |
| Finance revenue | 18.6 | 104 | 223 |
| From equity investments of third parties | | 16 | 41 |
| From marketable securities and other financial instruments: | | 88 | 182 |
| Of group companies and associates | | | 22 |
| Of third parties | | 88 | 160 |
| Finance costs | 18.7 | (1,888) | (3,027) |
| Borrowings from group companies and associates | | (1,717) | (2,652) |
| Third-party borrowings | | (171) | (342) |
| Provision discount adjustment | | | (33) |
| Change in fair value of financial instruments | | (11) | 5 |
| Trading portfolio and other securities | | 23 | (6) |
| Gain (loss) on available-for-sale financial assets recognized in the period | 11.2 | (34) | 11 |
| Exchange gains (losses) | 18.8 | (75) | (57) |
| NET FINANCIAL EXPENSE | | (1,870) | (2,856) |

| | | | |
|----------------------------|-------------|--------------|--------------|
| PROFIT BEFORE TAX | 20 | 5,606 | 778 |
| Income tax | 17.2 | 646 | 1,922 |
| PROFIT FOR THE YEAR | | 6,252 | 2,700 |

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

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

| <i>(Millions of euros)</i> | Notes | 2009 | 2008 |
|---|-------------|--------------|--------------|
| Profit for the period | | 6,252 | 2,700 |
| Total income and expense recognized directly in equity | 11.2 | (146) | (405) |
| From measurement of financial instruments: | | 164 | (390) |
| Available-for-sale financial assets | | 164 | (390) |
| From cash flow hedges | | (371) | (189) |
| Income tax | | 61 | 174 |
| Total amounts transferred to income statement | 11.2 | (30) | 27 |
| From measurement of financial instruments: | | 34 | (11) |
| Available-for-sale financial assets | | 34 | (11) |
| From cash flow hedges | | (76) | 50 |
| Income tax | | 12 | (12) |
| TOTAL RECOGNIZED INCOME AND EXPENSE | | 6,076 | 2,322 |

The accompanying Notes 1 to 22 and Appendix I are an integral part of these statements of changes in equity.

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

| <i>(Millions of euros)</i> | Share capital | Share premium | Reserves | Treasury shares and own equity investments | Retained earnings | Profit for the year | Interim dividend | Net unrealized gains (losses) reserve | TOTAL |
|---|---------------|---------------|---------------|--|-------------------|---------------------|------------------|---------------------------------------|----------------|
| Balance in financial statements at December 31, 2007 | 4,773 | 521 | 7,991 | | 6,620 | | (1,652) | | 18,253 |
| Impact of first-time application of the new accounting principles | | 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 (loss) | | | 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 |
| Total recognized income and expense | | | | | | 6,252 | | (176) | 6,076 |
| Transactions with shareholders and owners | (141) | | (4,346) | 1,652 | | | (2,277) | | (5,112) |
| Capital decreases | (141) | | (2,167) | 2,308 | | | | | |
| Dividends paid | | | (2,280) | | | | (2,277) | | (4,557) |
| Transactions with treasury shares or own equity instruments (net) | | | 101 | (656) | | | | | (555) |
| Appropriation of prior year profit (loss) | | | 404 | | | (2,700) | 2,296 | | |