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 þ Form 40-F o

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 o No þ

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 o No þ

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 o No þ

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

Telefónica, S.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, May19th, 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 1ª, 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 FERIAL DE LA CASA DE CAMPO PABELLÓN DE CRISTAL

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

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

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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Telefónica, S.A.

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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Telefónica, S.A.

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

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

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

The specific amount that may be allocated to the acquisition of shares of Telefónica, S.A. (the **Acquired Shares**) by each Participant will be determined by the Board of Directors once the total amount that the Participants as a whole wish to allocate to the acquisition of shares is known. In no case may the amount exceed 1,500 per Participant, and the Board of Directors will be able to set a lesser amount.

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

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

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

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

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

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

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

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

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

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

(a) To implement and execute the Plan when it considers it advisable and in the specific manner that it considers appropriate.

(b) To develop and establish the specific conditions of the Plan in all matters not provided for in this resolution, including, by way of example and without limitation, the terms and conditions of the Investment Agreements, the possibility of establishing cases of early settlement of the Plan as well as establishing, inter alia, the dates of acquisition of the shares during the Purchase Period, the term of the Holding Period and the date of delivery of the Additional Shares.

(c) If the legal regime applicable to some of the Participants or to certain companies of the Telefónica Group so requires or advises or it were necessary for legal, regulatory, operational or other similar reasons, to adopt the basic conditions indicated, on a general or a specific basis, including, by way of example and without limitation, adapting the mechanisms for delivering the shares, without altering the maximum number of shares linked to the Plan, providing for and executing the total or partial settlement of the Plan in cash, without the physical delivery of shares, establishing different durations of the Holding Period for different categories of Participants, adapting the period for delivering the Additional Shares as well as establishing the procedure for paying the remuneration equivalent to the economic rights of the Additional Shares.

(d) To decide not to execute or to render void the Plan, at any time prior to the date of commencement of the Purchase Period, as well as to exclude certain groups of potential Participants or companies of the Telefónica Group where the circumstances so advise.

(e) To draft, sign and submit such notices and supplementary documentation as may be necessary or advisable to any public or private body for the purposes of the implementation, execution or settlement of the Plan, including, where necessary, the appropriate prior notices and prospectuses.

(f) To carry out any step, declaration or formality in dealings with any body or entity or public or private registry, to obtain any authorization or clearance necessary to implement, execute or settle the Plan and the delivery free of charge of the shares of Telefónica, S.A.

(g) To negotiate, agree and sign all such agreements of any kind with the financial or other entities it freely designates, on the terms and conditions it deems fit, as may be necessary or advisable for the proper implementation, execution or settlement of the Plan, including, where necessary or advisable due to the legal regime applicable to certain Participants or to certain companies of the Telefónica Group or if it were necessary or advisable for legal, regulatory, operational or other similar reasons, the establishment of any legal mechanism (including *trusts* or other similar mechanisms) or the securing of agreements with any type of entity for the deposit, safekeeping, holding and/or administration of the Additional Shares and/or their subsequent delivery to the Participants within the context of the Plan.

(h) To draft and publish such notices as may be necessary or advisable.

(i) To draft, sign, execute and, if appropriate, certify, any type of document relating to the Plan.

(j) And, in general, to take such steps, adopt such decisions and execute such documents as may be necessary or merely advisable for the validity, effectiveness, implementation, development, execution, settlement and successful outcome of the Plan and of the resolutions adopted above.

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.

Telefónica, S.A.

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.

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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.

d.- Restrictions on voting rights.

According to Article 21 of the Company s bylaws, no shareholder can exercise votes in respect of more than 10 per cent of the total shares with voting rights outstanding at any time, irrespective of the number of shares they may own. This restriction on the maximum number of votes that each shareholder can cast refers solely to shares owned by the shareholder concerned and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The 10 per cent limit described above also applies to the number of votes that can be cast either jointly or separately by two or more legal entity shareholders belonging to the same corporate group and to the number of votes that may be cast altogether by an individual or legal entity shareholder and any entity or entities that they directly or indirectly control and which are also shareholders.

e.- Agreements between shareholders.

Telefónica has received no communication notifying the existence of shareholder pacts that affect the exercise of voting rights at Shareholders Meetings or that impose restrictions or conditions on the free transfer of Telefónica shares.

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

Appointment, reappointment and ratification.

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

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

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

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

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

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

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

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

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

Termination of appointment or removal.

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

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

a) If they leave the executive post by virtue of which they sat on the Board or when the reasons for which they were appointed cease to apply.

b) If their circumstances become incompatible with their continued service on the Board or prohibit them from serving on the Board for one of the reasons specified under Spanish law.

c) If they are severely reprimanded by the Appointments, Compensation and Good Governance Committee for failure to fulfill any of their duties as Director.

d) If their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company s interests.

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

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

Amendments to the Company Bylaws.

The procedure for amending the Bylaws is governed by Article 144 of the Spanish Corporation Law and requires any change to be approved by shareholders at the General Shareholders Meeting with the majorities stated in Article 103 of the same law. Article 14 of Telefónica s Bylaws upholds this principle.

g.- Powers of Directors and, specifically, powers to issue or buy back shares.

Powers of Directors.

The Chairman of the Company, as Executive Chairman, is delegated all powers by the Board of Directors except where such delegation is prohibited by Law, by the Company Bylaws or by the Regulations of the Board of Directors, whose Article 5.4 establishes the powers reserved to the Board of Directors. Specifically, the Board of Directors reserves the powers, inter alia, to: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Meanwhile, the Chief Operating Officer has been delegated all the Board s powers to conduct the business and act as the senior executive for all areas of the Company s business, except where such delegation is prohibited by law, by the Company Bylaws, or by the Regulations of the Board of Directors.

In addition, the other Executive Directors are delegated the usual powers of representation and administration appropriate to the nature and needs of their roles.

Powers to issue shares.

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

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

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.****

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.

Domicillio 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

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

March 6, 2009 José Luis Perelli Alonso

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

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.

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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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TELEFÓNICA, S.A.
INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31

(Millions of euros)	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.

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

(Millions of euros)	**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.

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

(Millions of euros)	Share capital	Share premium	Reserves	Treasury shares and own equity instruments	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 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.

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TELEFÓNICA, S.A.
CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31

(Millions of euros)	**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
Net financial expense	18.6 y 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.

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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

(Millions of euros)	**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**

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 *(millions of euros)*	**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 *(millions of euros)*	**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	

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.

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(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:

	Millions of euros
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.

	Millions of euros
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.

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.

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.

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.

(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:

(Millions of euros)	**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:

(Millions of euros)	**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 m^2 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:

(Millions of euros)	**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:

(Millions of euros)	**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**

(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	***Millions of euros***
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	***Millions of euros***
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%.

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).

(9) FINANCIAL INVESTMENTS

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

(Millions of euros)	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 derivate 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:

(Millions of euros)	Balance at January 1	Disposals	Fair value adjustments	Balance at December 31

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 Telecomunicaçoes 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:

(Millions of euros)	**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).

(10) TRADE AND OTHER RECEIVABLES

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

(Millions of euros)	**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)**	**%**
Treasury shares at 12/31/08	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.

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:

(Millions of euros)	**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:

(Millions of euros)	**Debentures, bonds and other marketable debt securities**	**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:

(Millions of euros)	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:

			Maturity						
Name	**Type of interest rate**	**% interest rate**	**2009**	**2010**	**2011**	**2012**	**2013**	**Subsequent years**	**TOTAL**
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	6.04	300						300
JULY 99	ZERO COUPON (**)	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.

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	26/11/04	15/11/10	USD	377	115	83
3bn syndicated loan BS acquisition	06/07/04	06/07/09	USD	3,000	302	217
6bn syndicated loan 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:

	Maturity						
Item (millions of euros)	2009	2010	2011	2012	2013	Subsequent years	Balance at December 31
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.

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:

(Millions of euros)	**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 *(Millions of euros)*	**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.

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:

		2008			
Type of risk	**Value in**	**Telefónica receives**		**Telefónica pays**	
Millions of euros	**Euros**	**Amount**	**Currency**	**Amount**	**Currency**
Euro interest rate swaps	**48,099**				
Fixed to floating	17,389	17,389	EUR	17,389	EUR
Floating to fixed	29,148	29,148	EUR	29,148	EUR
Floating to floating	1,562	1,562	EUR	1,562	EUR
Foreign currency interest rate swap	**11,896**				
Fixed to floating	**8,408**				
GBP/GBP	525	500	GBP	500	GBP
JPY/JPY	119	15,000	JPY	15,000	JPY
USD/USD	7,764	10,805	USD	10,805	USD
Floating to fixed	**3,488**				
CZK/CZK	977	26,305	CZK	26,305	CZK
GBP/GBP	1,255	1,195	GBP	1,195	GBP
MXN/MXN	1	28	MXN	28	MXN
USD/USD	1,255	1,746	USD	1,746	USD
Exchange rate swaps	**15,173**				
Fixed to fixed	**2,684**				
EUR/CLP	135	159	EUR	119,057	CLP
EUR/CZK	109	122	EUR	2,936	CZK
USD/EUR	2,440	2,282	USD	2,440	EUR
Floating to fixed	**657**				
EUR/BRL	89	115	EUR	288	BRL
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	478	743	USD	2,296	ARS
USD/MXN	2	3	USD	35	MXN
Fixed to floating	**319**				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
Floating to floating	**11,513**				
EUR/CLP	43	51	EUR	37,911	CLP
EUR/CZK	1,165	1,050	EUR	31,385	CZK
EUR/GBP	2,882	4,080	EUR	2,745	GBP
GBP/EUR	2,029	1,550	GBP	2,029	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,211	6,700	USD	5,211	EUR
USD/MXN	5	8	USD	91	MXN
Forwards	**7,397**				
ARS/USD	102	694	ARS	143	USD
EUR/CLP	119	122	EUR	105,000	CLP
EUR/CZK	1,470	1,589	EUR	39,592	CZK
EUR/GBP	437	477	EUR	417	GBP
EUR/MXN	28	28	EUR	535	MXN
EUR/USD	2,215	2,265	EUR	3,083	USD

GBP/EUR	1,860	1,585	GBP	1,860	EUR
GBP/USD	74	53	GBP	103	USD
MXN/USD	48	858	MXN	66	USD
USD/BRL	119	157	USD	388	BRL
USD/EUR	594	794	USD	594	EUR
USD/GBP	37	53	USD	36	GBP
USD/MXN	294	418	USD	5,543	MXN
Spot	**11**				
EUR/GBP	8	8	EUR	7	GBP
USD/GBP	3	5	USD	3	GBP
Subtotal	**82,576**				

Notional amounts of structured products with options	Euros	Notional	
Interest rate options			
Caps & Floors	**11,004**		
External counterparties			
USD	655	911	USD
EUR	8,774	8,774	EUR
GBP	1,575	1,500	GBP
Swaptions			
EUR			EUR
Currency options	**2,311**		
External counterparties			
USD/EUR	2,295	3,194	USD
ARS/USD	16	23	USD
Subtotal	**13,315**		
TOTAL	**95,891**		

The breakdown by average maturity is as follows:

Hedged underlying item	Amount	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	**500**		**500**		
Loans	**26,092**	**11,386**	**5,333**	**5,575**	**3,798**
In national currency	21,034	9,522	3,991	4,977	2,544
In foreign currencies	5,058	1,864	1,342	598	1,254
Debentures and bonds	**47,942**	**10,884**	**17,179**	**5,140**	**14,739**
In national currency	18,791	7,326	7,232	3,242	991
In foreign currencies	29,151	3,558	9,947	1,898	13,748
Without underlying	**21,357**	**9,796**	**5,899**	**1,968**	**3,694**
Swaps	11,735	2,266	5,706	1,788	1,975
Spots	11	11			
Currency options	2,311	271	183	138	1,719
Forwards	7,300	7,248	10	42	
Total	**95,891**	**32,066**	**28,911**	**12,683**	**22,231**

The debentures and bonds hedged relate to those issued by Telefónica, S.A., as well as those issued by Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

The fair value of Telefónica, S.A. s derivatives portfolio at December 31, 2008 was equivalent to an asset of 1,469 million euros.

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b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of (i) its ordinary business activity, (ii) debt taken on to finance its business, (iii) investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting the Group are as follows:

1. Foreign currency risk

Exchange rate risks arise mainly from two sources. The first is Telefónica s international presence, through its investments and businesses in countries that use currencies other than the euro. These are largely in Latin America, but also in the Czech Republic and the UK. The second is debt denominated in currencies other than that of the country where the business is conducted or the home country of the company taking on the debt.

2. Interest rate risk

This arises from changes in (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates.

3. Share price risk

This arises from changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, there is so-called country risk (which overlaps with market and liquidity risks). This refers to the possible decline in assets, cash flows generated or returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Telefónica, S.A. actively manages these risks with a view to reducing changes in cash flows and the income statement, or offsetting them with opposite changes in debt. In this way, it attempts to protect the group s solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica uses derivatives to manage risks, basically on exchange rates, interest rates and shares.

Exchange rate

The fundamental objective of the exchange rate risk management policy is to offset (at least partly) potential losses of cash flows caused by declines in exchange rates vis-à-vis the euro, with savings on the lower euro value of foreign-denominated debt (from currency depreciation). The degree of hedging varies depending on the type of investment.

To protect its investment in the Czech Republic, the Company has net positions denominated in Czech crowns, which at December 31, 2008 amounted to nearly 75% of the original cost of the investment.

The risk-management objective for pounds sterling is to have sterling borrowings of close to 2 times the OIBDA of the Telefónica Europe business unit in the UK, in line with the Telefónica Group s net debt OIBDA ratio, so as to reduce its sensitivity to changes in the pound sterling/euro exchange rate.

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The Group also manages exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether it has open positions. Such exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in obtaining financing in local currency which does not allow for a low-cost hedge to be arranged, (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

As Telefónica s direct exposure is counterbalanced by the positions held in subsidiaries, the Company analyses its exchange rate risk exposure at the Group level. If the exchange rate position affecting the income statement at the end of December 31, 2008 were constant in 2009 and Latin American currencies depreciated against the US dollar and the rest of the currencies against the euro by 10%, the impact on the Group s income statement would be a negative 107 million euros. Nonetheless, the Group dynamically manages its exposure to such changes to mitigate their impact. For Telefónica, S.A., the impact of the same 10% depreciation would be an increase in profit of 16 million euros.

Interest rate risk

Telefónica s financial expenses are exposed to changes in interest rates. In 2008, the rates applied to the largest volumes of short-term debt were mainly based on the Euribor, the Czech crown Pribor and the dollar Libor. Company manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest-rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. To illustrate the sensitivity of Group borrowing costs to variability in short-term interest rates at December 31, 2008, assuming a 100 basis point rise, the interest rates in all currencies in which there are financial positions and no change in the currency make-up and balance of the position at year end, the finance cost would increase by 178 million euros. For Telefónica, S.A., assuming on financing arranged with external counterparties, the same change would lead to an increase in finance costs of 16 million euros.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

Telefónica, S.A. has a portfolio of holdings in companies exposed to the risk of changes in their share prices (see Notes 8 and 9).

In February 2008, Telefónica announced a plan to buy back up to 100 million shares, representing approximately 2.095% of its share capital at that time. In October 2008, Telefónica announced the extension of this program by 50%, or another 50 million shares. Telefónica manages the share price risk of the share buyback programs by setting the timetable for execution in accordance with the pace of cash flow generation, the share price and other market conditions, while complying with applicable legal, regulatory and bylaw limits.

At December 31, 2008, Telefónica, S.A. held 125,561,011 treasury shares. The liquidation value of the treasury shares could increase or decrease depending on variations in the Telefónica share price.

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Liquidity risk

Telefónica seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, allowing some flexibility. In practice, managing liquidity at the Telefónica Group as a whole means monitoring two key criteria:

1. Group debt must have a longer average maturity than the time it will take to earn the cash to pay it (assuming internal projections are met, and all cash flows generated go to pay down debt rather than on dividends or acquisitions).
2. The Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (although including firm credit lines arranged with banks), assuming budget projections are met.

The principal financing transaction in 2008 (to ensure compliance with the management criteria indicated above) consisted of an issue of 1,250 million euros worth of five-year bonds with an annual coupon of 5.58% (equivalent to 94 basis points above the benchmark 5-year mid-swap rate).

Country risk

Telefónica has managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in its Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

Telefónica, S.A. trades in derivatives with creditworthy counterparties. Therefore, the Company trades with credit entities with senior debt ratings of at least A. The contracts arranged with these include netting agreements, whereby debtor or creditor positions can be offset in case of bankruptcy, limiting the risk to the net position. The Company s maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (Notes 8 and 9) and the guarantees given (Note 19).

Capital management

Telefónica s finance department, which is in charge of the Group s capital management, takes into consideration several factors when determining the Company s capital structure.

The first is the consideration of cost of capital at all times to achieve a combination that optimizes this. For this, the company monitors the financial markets and updates to standard industry approaches for calculating cost of capital (WACC, weighted average cost of capital) in determining this variable. The second, a gearing ratio that enables the Company to obtain and maintain the desired credit rating over the medium term, and with which Telefónica can use to match its potential cash flow generation and the alternative uses of this cash flow at all times.

These general arguments are rounded off with other considerations and specifics, such as country risk in the broadest sense, tax efficiency and volatility in cash flow generation, when determining the Group s financial structure.

Hedging policy

The Group s derivatives policy emphasizes the following points:

Derivatives based on a clearly identified underlying.

Matching of the underlying to the individual conditions of one side of the derivative.

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Ability to measure the derivative at fair value using the valuation techniques available to the Company.

Sale of options only when there is an underlying exposure.

Hedges can be of three types:

Fair value hedges.

Cash flow hedges, which can be set at any value of the risk to be hedged (primarily interest rate and foreign currency) or for a defined range through options.

Hedges of a net investment in a foreign operation.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through to maturity. In fact, hedging relationships may change to allow appropriate management that serves the stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting the share capital.

The risk management guidelines are dictated by the Telefónica Group s Corporate Finance Department. The Corporate Finance Department may allow exceptions to this policy where this can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

The breakdown of the Company s derivatives with counterparties not belonging to the Telefónica Group at December 31, 2008, their fair value at year-end and the expected maturity schedule is as follows:

		(Millions of euros)				
		Notional amount (maturity)				
Derivatives	**Fair value at December 31**	**2009**	**2010**	**2011**	**Subsequent years**	**TOTAL**
Interest rate hedges	**(611)**	**2,031**	**1,748**	**503**	**72**	**4,354**
Cash flow hedges	182	2,028	494	1,749	3,505	**7,776**
Fair value hedges	(793)	3	1,254	(1,246)	(3,433)	**(3,422)**
Foreign currency hedges	**543**	**891**	**2,380**	**788**	**3,689**	**7,748**
Cash flow hedges	543	891	2,380	788	3,689	**7,748**
Fair value hedges	0	0	0	0	0	**0**
Interest and exchange rate hedges	**(17)**	**0**	**224**	**0**	**258**	**482**
Cash flow hedges	(17)	0	224	0	258	**482**
Fair value hedges	0	0	0	0	0	**0**
Hedge of net investment	**(531)**	**(2,830)**	**(517)**	**(1,124)**	**(751)**	**(5,222)**
Derivatives not designated as hedges	**(853)**	**7,274**	**(614)**	**(1,182)**	**(164)**	**5,314**
Interest rate	(270)	8,569	(303)	(1,105)	(1,100)	**6,061**
Foreign currency	(381)	(875)	(145)	(12)	1,026	**(6)**
Interest and exchange rate	(202)	(420)	(166)	(65)	(90)	**(741)**

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(17) INCOME TAX

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group comprised 39 companies in 2008.

(Millions of euros)	**Balance at December 31**
Tax receivables:	**1,843**
Deferred tax assets:	***1,805***
Deferred income tax (income)	41
Other temporary differences, assets	567
Long-term tax loss carryforwards	356
Deductions and other	841
Current tax receivables (Note 10):	***38***
Withholdings	23
VAT and Canary Islands general indirect tax refundable	15
Tax payable:	**581**
Deferred tax liabilities:	***559***
Deferred income tax (expense)	551
Other temporary differences, liabilities	8
Current tax payable:	***22***
Personal income tax withholdings	3
Withholding on investment income, VAT and other	18
Social security	1

The tax group had tax loss carryforwards at December 31, 2008 amounting to 3,324 million euros. These losses must be applied within 15 years.

The balance at December 31, 2008 includes unused tax credits amounting to 356 million euros corresponding to unused tax losses of 1,187 million euros.

Unused tax loss carryforwards relate mainly to a negative adjustment made to the taxable base for corporate income tax at Telefónica Móviles, S.A. (now Telefónica, S.A.) in 2002 as a result of the transfer of certain holdings acquired in previous years where the market value differed from the book value at which they were recognized.

The challenging of this adjustment, which was related to the tax inspection of financial years 2001 to 2004, completed in 2008, has not had an impact on the Company s financial statements. In this respect, the use by the Group of the tax loss carryforward is subject to a successful appeal before the Courts against the assessments arising from this inspection.

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17.1 Deferred tax assets and liabilities

The balances and movements in Deferred tax assets and Deferred tax liabilities for Telefónica, S.A. at December 31, 2008 are as follows:

(Millions of euros)	**Tax credits**	**Temporary differences, assets**	**Deductions**	**Total deferred tax assets**	**Deferred tax liabilities**
Balance at January 1	**380**	**629**	**1,390**	**2,399**	**1,646**
Arising in the year	971	1,863	47	2,881	139
Reversal	(33)	(608)		(641)	
Transfers to Tax Group s net position	(962)		(568)	(1,530)	
Other movements		(1,276)	(28)	(1,304)	(1,226)
Balance at December 31	**356**	**608**	**841**	**1,805**	**559**

The main items for which Telefónica, S.A. recognizes temporary differences are the tax effects of impairment losses on some of its assets, principally investments in subsidiaries (see Note 8), and the amortization of goodwill for tax purposes.

17.2 Reconciliation of accounting profit to taxable income and income tax expense to income tax payable.

The calculation of the income tax expense and income tax payable for 2008 is as follows.

(Millions of euros)	**2008**
Accounting profit before tax	778
Permanent differences	(7,096)
Permanent differences arising from first-time application of PGC 2007	82
Temporary differences:	3,086
Arising in the year	3,577
Arising in prior years	(491)
Tax base	**(3,150)**
Gross tax payable	(945)
Tax credits capitalized	(25)
Corporate income tax refundable	**(970)**
Temporary differences for tax valuation	(926)
Tax effect of first-time application of PGC 2007	(24)
Other effects	(12)
Corporate income tax accrued in Spain	**(1,932)**
Foreign taxes	10
Income tax	**(1,922)**
Current income tax	(945)
Deferred income tax	(977)

The permanent differences relate mainly to changes in investment writedown provisions recorded by the tax Group companies included in the consolidated corporate income tax return, to dividends received from tax group companies or foreign companies taxed at source and to the writedown provisions related to dividends paid by subsidiaries up to the amount of the dividend recorded as non-deductible income at Telefónica, S.A. and to non-deductible provisions.

Within the scope of Law 4/2008 dated December 23, with respect to corporate income tax, Telefónica, S.A. has elected to apply the arrangements of the 29th transitional provisions of this law. In this respect, under the terms of this provision the Company has included two-thirds of the net tax impact of accounting adjustments arising from the first-time application of the new accounting principles.

In 2008, the Company capitalized 25 million euros of tax credits, mainly for double taxation. The cumulative amount and year end principally reflects tax credits in connection with export activity tax credits and deductions for export activities (818 million euros). In 2008, 367 million euros were applied in relation to deductions on reinvestment of capital gains and 138 million euros to double taxation.

Taxes incurred abroad relate mainly to corporate income tax borne in relation to withholdings made abroad.

17.3 On July 4, 2008, the tax inspection of Tax Group 24/90, of which Telefónica, S.A. is the parent company, was concluded. The taxes subject to review were corporate income tax for the years 2001 to 2004, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the year 2002 to 2004.

In addition to the above, the Company has proposed additional adjustments to the tax amounts considered by Telefónica Móviles in 2002 (of 2,125 million euros) of approximately 346 million euros in the tax payable. Telefónica has filed an appeal with the Central Administrative Economic Court to dispute the assessment derived from the tax audit, as the Company considers the tax returns to have been prepared in accordance with applicable tax legislation. Therefore, no liability for this issue was reflected in the financial statements.

No material liabilities arose as a result of the inspection of the other items and financial years, and the Company has not and will not file any appeal.

Telefónica, S.A is open to inspection all the taxes since 2005, as well as those for the last six years for taxes applicable to its permanent establishment in Argentina.

The Company does not expect that any additional material liabilities will arise from the years open to inspection.

Meanwhile, the Courts have yet to rule on the appeal filed in relation to the assessments arising from the inspection of corporate income tax for the years 1998 to 2000. These assessments, which were signed in disagreement in October 2004 and July 2005, gave rise to settlement agreements and imposed fines on Telefónica, S.A. The total amount appealed is 140 million euros.

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In 2007, Telefónica, S.A. filed an administrative appeal before the National Court of Justice, requesting that the execution of the settlements and penalties appealed be suspended by providing the appropriate guarantees. Upon conclusion of the trial period, Telefónica presented in writing its conclusions on September 1, 2008.

In relation to the sale by Terra Networks, S.A. (now Telefónica, S.A.) of it stake in Lycos, Inc. in 2004, the Company began procedures to recognize a higher tax loss of up to 7,418 million euros because of measuring as acquisition value for tax purposes, the market value of Lycos, Inc. shares received, rather than the book value at which they were recorded, in conformity with Article 159 of the Spanish Corporation Law. However, no accounting adjustments have been recorded until the Company receives a definitive ruling on this procedure.

(18) REVENUE AND EXPENSES

18.1 Revenue from operations

In 2008, Telefónica, S.A. arranged contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2008, Rendering of services to group companies included 274 million euros for this item.

Telefónica, S.A. has signed contracts, with effect from January 1, 2008, to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica O2 Holding Limited and Telefónica Internacional, S.A.U. Revenue received for this concept in 2008 amounted to 25 million euros, recognized under Services rendered to Group companies.

In November 1990, Telefónica, S.A. and Telefónica Argentina, S.A. entered into a management agreement which regulates the consultancy and advisory services provided by Telefónica and the price of such services. Revenue received for this concept in 2008 amounted to 5 million euros, recognized under Services rendered to Group companies.

Operating revenues also include property rental income amounting to 41 million euros, mainly from the lease of office space in Distrito C to several Telefónica Group companies (see Note 7.1).

18.2 Non-core and other current operating revenues Group companies relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion. The amount mainly includes billings to Telefónica Móviles España, S.A.U. for 41 million euros and to Telefónica de España, S.A.U. for 28 million euros.

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18.3 Personnel expenses and employee benefits

The breakdown of Personnel expenses is as follows:

(Millions of euros)	**2008**
Wages and salaries	144
Pension plans (Note 4.h)	6
Social security costs, et al	17
Total	**167**

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this Plan are as follows:

Defined contribution of 4.51% of the participating employees base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g. 6.87% in the case of Telefónica de España, S.A.U.) will be maintained.

Mandatory contribution by participants of a minimum of 2.2% of their base salary.

Individual and financial capitalization systems.

This fund was outsourced to Telefónica subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2008, 1,496 employees had signed up for the plan. This figure includes both employees contributing and those who have ceased to contribute to the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company in 2008 amounted to 2.75 million euros.

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements the previous plan and involves additional defined contributions at a certain percentage of the executive s fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the Plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 6 million euros in 2008.

In 2008, some executives left this Plan, leading to the reversal of part of the initial extraordinary contributions amounting to 3 million euros.

No provision was made for this plan as it has been fully externalized.

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The main share-based payment plan is the following:

Telefónica, S.A. share plan: Performance Share Plan

At the General Shareholders Meeting of Telefónica, S.A. on June 21, 2006, its shareholders approved the introduction of a long-term incentive Plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies. Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation.

The Plan was initially intended to last seven years. It is divided into five phases, each three years long, beginning on July 1 (the Start Date) and ending on June 30 three years later (the End Date). At the start of each phase the number of shares to be awarded to Plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered, assuming targets are met, at the End Date of each phase. Each phase is independent from the others. The first started on July 1, 2006 (with shares to be delivered, if targets are met, from July 1, 2009) and the fifth phase begins on July 1, 2010 (with any shares earned delivered from July 1, 2013).

Award of the shares is subject to a number of conditions:

The beneficiary must continue to work for the company throughout the three years of the phase, subject to certain special conditions related to departures.

The actual number of shares awarded at the end of each phase will depend on success in meeting targets and the maximum number of shares assigned to each executive. Success is measured by comparing the Total Shareholder Return (TSR), which includes both share price and dividends offered by Telefónica shares, with the TSRs offered by a basket of listed telecoms companies that comprise the comparison group. Each employee who is a member of the plan is assigned at the start of each phase a maximum number of shares. The actual number of shares awarded at the end of the phase is calculated by multiplying this maximum number by a percentage reflecting their success at the date in question. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica s TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

The maximum number of the shares issuable in each of the three outstanding phases at December 31, 2008 is as follows:

	Number of shares	Unit value	End date
1st phase July 1, 2006	6,530,615	6.43	June 30, 2009
2nd phase July 1, 2007	5,556,234	7.72	June 30, 2010
3rd phase July 1, 2008	5,286,980	8.39	June 30, 2011

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Of the total number of shares, those corresponding to Telefónica, S.A. employees, by phase, are as follows:

	Number of shares	Unit value	End date
1st phase July 1, 2006	1,276,751	6.43	June 30, 2009
2nd phase July 1, 2007	1,102,711	7.72	June 30, 2010
3rd phase July 1, 2008	1,248,067	8.39	June 30, 2011

This plan is equity-settled via the delivery of shares to the executives, with a balancing entry for the 11 million euros of employee benefits expense recorded in 2008 made in equity.

The cost of the shares granted to employees of Group subsidiaries is recognized under Reserves and amounts to 52 million euros. As Telefónica, S.A. will reinvoice these amounts to its subsidiaries, related receivable is recognized under Other non-current financial assets (phases II and III) and Other current financial assets (phase I) (see Note 8).

To ensure the Company has enough shares to meet its obligations at the end of the phase commenced in 2006, Telefónica purchased an instrument from a financial institution that will deliver to Telefónica, at the end of the phase, a number of shares determined using the same measure of success as the plan, i.e. an instrument that mirrors the features of the plan. The cost of this instrument was 46 million euros, which in unit terms is 6.43 euros per share (see Note 9.4.1).

For the third phase, Telefónica has arranged a financial instrument under the same conditions as for the first phase, earmarking up to a maximum of 2,500,000 shares (see Note 9.4.1). The cost of the financial instrument is 25 million euros, equivalent to 9.96 euros per option.

18.4 Average number of employees in 2008 and number of employees at year end

	Employees at 12/31/08			**Average no. of employees 2008**		
Professional category	**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
General managers and chairmen		5	5		5	5
Directors	39	140	179	42	141	183
Managers	76	89	165	77	90	167
Project Managers	85	67	152	88	66	154
University graduates and experts	79	50	129	80	51	131
Administration, clerks, advisors	125	6	131	133	14	147
Total	**404**	**357**	**761**	**420**	**367**	**787**

18.5 External services

The items composing Finance revenue are as follows:

(Millions of euros)	**2008**
Rent	11
Repairs and maintenance	5
Independent professional services	96
Bank charges	49
Marketing and advertising	144
Utilities	11
Other expenses	52
Total	**368**

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establishing the headquarters of the Telefónica Corporate University . The contract included construction and refurbishment of certain facilities by the lessor.

On October 31, 2008, some of the facilities were partially accepted and thus the lease period commenced. The lease period is for 15 years, renewable for another five. In addition to rent, the lessor charges the lessee community expenses. Future minimum rentals payable under non-cancellable leases are as follows:

(Millions of euros)	**Future minimum payments**	**Present value**
Up to one year	5	5
Between one and five years	20	17
More than five years	51	29
Total	**76**	**51**

18.6 Finance revenue

The items composing Finance revenue are as follows:

(Millions of euros)	**2008**
Dividends from group and joint-venture companies	7,135
Dividends from other companies	41
Interest received from loans to group companies	891
Other financial revenues	160
Total	**8,227**

Dividends from group companies and associates mainly includes the following dividends received: 2,486 million euros from Telefónica Móviles de España, S.A., 4,002 million euros from Telefónica de España, S.A.U., 267 million euros from Telefónica O2 Czech Republic, a.s, and 314 million euros from Latin American Holding Corporation, B.V.

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In addition, Revenue from equity investments in associates mainly relates to dividends received from Telefónica, S.A. s investment in Portugal Telecom, which 2008 amounted to 46 million euros.

Interest on loans to group companies includes the return obtained on loans made to subsidiaries to carry out their business (see Note 8.5). Noteworthy is the interest income from Telefónica Móviles México, S.A. de C.V. (259 million euros), Telefónica de España, S.A.U. (250 million euros) and Telefónica Móviles España, S.A.U. (222 million euros).

Other finance revenue mainly includes interest income of 157 million euros.

18.7 Finance costs

The breakdown of Finance costs is as follows:

Finance costs

(Millions of euros)	**2008**
Interest on payables to group companies and associates	2,652
Finance costs payable to third parties net of gains (losses) on interest rate of financial hedges	339
Other finance costs	36
Total	**3,027**

The main amounts of Interest on borrowings from and payables to group companies and associates correspond to Telefónica Emisiones, S.A.U. (836 million euros), Telefónica Europe, B.V. (747 million euros) and Telefónica Finanzas, S.A. (777 million euros).

18.8 Exchange differences:

The breakdown of exchange losses recognized in the income statement is as follows:

(Millions of euros)	**2008**
On current operations	4
On loans and borrowings	1,521
On hedging derivatives	1,964
On other items	87
Total	**3,576**

The breakdown of exchange gains recognized in the income statement is as follows:

(Millions of euros)	**2008**
On current operations	334
On loans and borrowings	650
On hedging derivatives	2,470
On other items	65
Total	**3,519**

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The change in exchange gains and losses in 2008 was due mainly to fluctuations in the US dollar/euro exchange rate (the dollar gained 5.78% in 2008) and in the pound sterling/euro exchange (the pound depreciated 23% in 2008), which was offset by the effect of hedges arranged for this purpose.

18.9 Impairment and gains (losses) on disposal of financial instruments

At the end of 2008, Telefónica, S.A. tested its investments in group companies and associates for impairment (see Note 8.2). As a result, it recognized impairment losses of 3,769 million euros for the stake in Telefónica O2 Holdings Limited and 233 million euros for the stake in Telco, S.p.A.

In addition, an impairment loss of 178 million euros on the stake in Portugal Telecom was recognized in the income statement.

The impairment loss on the stake in Telefónica O2 Holdings, Ltd. shown is after the impact of hedges of the net investment.

(19) OTHER INFORMATION

a) Financial guarantees

At December 31, 2008, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 31,272 million euros. These guarantees are measured in the Company s financial statements as indicated in Note 4 m).

The main Group companies receiving these financial guarantees are:

Telefónica Emisiones, S.A.U., in relation to guarantees given for issues of debentures and bonds in international markets, the outstanding carrying amount of which at December 31, 2008 was 16,827 million euros. The main change in 2008 was due to the issue in June of five-year bonds for a nominal amount of 1,250 million euros under the EMTN program and the maturity of a bond for nominal amount of 300 million euros on October 30, 2008.

Telefónica Europe, B.V., in relation to guarantees given for debentures and bonds issues in international markets, the outstanding carrying amount of which at December 31, 2008 was 5,064 million euros, for the European commercial paper program, with an outstanding balance of 840 million euros, the syndicated loan granted by various institutions for the O2 acquisition, with an outstanding carrying amount of 4,203 million euros, and other guaranteed bank borrowings for 119 million euros. Changes in the year were mainly due to fluctuations in exchange rates and transactions with commercial paper.

Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V. are wholly owned subsidiaries of Telefónica, S.A., which underwrites all their issues.

Telefónica Finanzas México, S.A. de SOFOM, E.N.R. in relation to guarantees given for the peso bonds in circulation, the outstanding carrying amount of which at December 31, 2008 was 617 million euros.

Telefónica Finance USA, LCC, in relation to the guarantee provided for the issue of preferred shares in 2002, the outstanding carrying amount of which was 1,939 million euros at December 31, 2008.

Telefónica Finanzas, S.A. in relation to financing from the European Investment Bank for investment projects in Spain, which at December 31, 2008 had an outstanding carrying amount of 1,297 million euros: (a) in the mobile telecommunications network; (b) in the design, acquisition, construction and startup of telephony equipment; and (c) in the Telefónica Group s research and development activities. During the year, financing for a nominal amount equivalent to approximately 502 million euros matured and 450 million euros were drawn down.

b) Litigation

Telefónica is party to several lawsuits or proceedings that are currently in progress in law courts and administrative and arbitration bodies. It is reasonable to assume that this litigation or cases will not materially affect the Company s financial position or solvency, regardless of the outcome. In this respect, we would highlight that the assessment made by the Company takes into consideration reports by legal counsel on each litigation and case.

Among unresolved cases in which Telefónica is a party (see Note 17 for details of tax-related cases), we would highlight the following:

1. **Procedures deriving from the voluntary bankruptcy proceeding initiated by Sistemas e Instalaciones de Telecomunicaciones, S.A.U. (SINTEL)**

   Sintel, a subsidiary of Telefónica until its sale to the Mastec Group in April 1996, was declared bankrupt in 2001 following a proceeding hearing by the Madrid Court of First Instance. As a result of the company s insolvency and liquidation, two criminal proceedings were initiated affecting, among individuals and corporate entities, Telefónica. These were subsequently added to single preliminary proceedings before Federal Examining Court number 1.

   After a lengthy process, on December 12, 2007, the court ruled that the case be dismissed and that actions against all the Telefónica directors initially charged be filed, acquitting them of any responsibility. The criminal proceeding for the offence of criminal insolvency and crimes against the Treasury continued only for directors and executives of Sintel, S.A. in office after the sale of the company by Telefónica. This ruling was appealed.

   In its judgment of January 16, 2009, Section 4 of the Criminal Court of the Spanish National Court of Justice rejected all the appeals filed against the initial partial dismissal of the cause. Accordingly, the directors involved, as well as Telefónica and Telefónica de España, S.A.U. were cleared of responsibility.

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2. Contentious proceedings in connection with the takeover bid for Terra Networks, S.A. and its subsequent merger with Telefónica

Proceedings derived from the takeover bid

2.1 On May 29, 2003, certain Terra Networks, S.A. shareholders filed two class actions with the Supreme Court of New York State against Telefónica, Terra Networks, S.A. and certain directors of Terra Networks, S.A.

These actions alleged mainly that the Telefónica offer was below the intrinsic value of Terra Networks, S.A. shares. Since the actions were brought, both have remained inactive.

2.2 The World Association of Shareholders of Terra Networks, S.A. (ACCTER) filed an appeal for judicial review at the National Appellate Court against the ruling of June 19, 2003 by the Spanish National Securities Market Commission (CNMV) authorizing the takeover offer by Telefónica for Terra Networks, S.A. Telefónica appears as an intervening non-party in the procedure.

The appeal was rejected by the National Court via ruling issued on via ruling issued on January 24, 2006, against which ACCTER filed an administrative appeal. This appeal was rejected via ruling issued November 25, 2008 by the Third Section of the Supreme Court of Administrative Appeals, with the appellants charged for the court costs.

Proceedings derived from the merger

2.3 On June 30, 2005, ACCTER and its President, on his own account, filed a complaint contesting the merger resolution adopted at the General Shareholders Meeting of Terra Networks, S.A. held on June 2, 2005. The Court of First Instance rejected the claim via ruling on July 14, 2006.

ACCTER and its President appealed this new ruling, which was again rejected by the Barcelona Regional Court in a ruling issued April 7, 2008.

2.4 On September 26, 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the Prospectus of the Initial Public Offering of shares of Terra Networks, S.A. dated October 29, 1999. The case was heard on November 27, 2008, with a judgment to follow in due course.

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3. Claim before the Center for Settlement of Investment Disputes (ICSID) against the Argentine government

As a result of the enactment by the Argentine Government of Public Emergency and Exchange Rules Reform Law 25,561, of January 6, 2002, Telefónica considered that the terms and conditions of the Share Transfer Agreement approved by Decree 2332/90 and the Pricing Agreement ratified by Decree 2585/91, both of which were executed by the Company with the Argentine government had been affected appreciably, since the Law rendered ineffective any dollar or other foreign currency adjustment clauses, or indexation clauses based on price indexes of other countries, or any other indexation mechanism in contracts with the public authorities. The law also required that prices and rates derived from such clauses be denominated in pesos at an exchange rate of one peso to one US dollar.

Accordingly, since negotiations with the Argentine Government were unsuccessful, on May 14, 2003, Telefónica filed a request for arbitration with the International Center for Settlement of Investment Disputes (ICSID) pursuant to the Agreement for the Promotion and Reciprocal Protection of Investments between the Argentine Republic and the Kingdom of Spain. On December 6, 2004, Telefónica filed the Memorial or claim with the ICSID. The ICSID Court is currently considering a plea filed by the Argentine government alleging that the matter is outside its jurisdiction.

On February 15, 2006, Telefónica Argentina, S.A. signed a memorandum of understanding with the Argentine government as a prerequisite to reaching an agreement to renegotiate the transfer contract pursuant to the provisions of Article 9 of Law 25,561. This memorandum of understanding could put an end to the litigation.

Among other issues, the Memorandum of Understanding envisaged the suspension by Telefónica de Argentina, S.A. and Telefónica, S.A. for a period of 210 working days, of all claims, appeals and demands planned or underway, with the administrative, arbitrational or legal courts of Argentina or abroad, which were based on events or measures taken as a result of emergency situation established by Law Nº 25,561 with regard to the Transfer Agreement and the license granted to Telefónica Argentina. This suspension became effective on October 6, 2006 and has been extended on several times for periods of six months, the last of which was authorized by the ICSID on October 6, 2008.

4. Appeal for judicial review against the ruling of the Central Economic-Administrative Tribunal dated February 15, 2007 rejecting several economic-administrative claims filed by Telefónica against assessments from the National Inspection Office of the Spanish Treasury related to consolidated taxes in 1998, 1999 and 2000.

See Note 17.3.

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5. Appeal against the European Commission ruling of July 4, 2007 against Telefónica de España s broadband pricing policy

On July 9, 2007, Telefónica was notified of the decision issued by the European Commission imposing a fine of approximately 152 million euros for breach of Article 82 of EC Treaty rules by charging unfair prices between whole and retail broadband access services. The ruling charged Telefónica with applying a margin squeeze between the prices it charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology between September 2001 and December 2006.

On September 10, 2007, Telefónica and Telefónica de España, S.A.U. filed an appeal to overturn the decision before the Court of First Instance of the European Communities. The Kingdom of Spain, as an interested party, also lodged an appeal to overturn the decision. Meanwhile, France Telecom and the Spanish Association of Bank Users (AUSBANC) filed requests to intervene, to which Telefónica has submitted its comments.

c) Commitments

Agreements with Portugal Telecom (Brazil)

In accordance with the agreements singed between the Telefónica Group and the Portugal Telecom Group governing their 50/50 joint venture, Brasilcel N.V., which groups together their cellular businesses in Brazil, the Portugal Telecom group is entitled to sell to Telefónica, S.A., which is obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica or at any of its subsidiaries that hold a direct or indirect ownership interest in Brasilcel, N.V.

Similarly, Telefónica is entitled to sell to the Portugal Telecom group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom, SGPS, S.A., at PT Móveis, SGPS, S.A or at any of their subsidiaries that hold a direct or indirect ownership interest in Brasilcel N.V.

The price in both cases will be determined on the basis of an independent appraisal (under the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

Guarantee provided for Ipse 2000 S.p.A.

At December 31, 2008, the Telefónica Group had provided guarantees for the Italian company Ipse 2000 S.p.A. (holder of a UMTS license in Italy), in which it owns an indirect stake through Telefónica Móviles de España, S.A. and Solivella B.V., for the 365 million euros payable to the Italian government in connection with the grant of the license.

Telefónica, S.A. (together with the other strategic partners of Ipse 2000 S.p.A) arranged a counterguarantee for a bank which, in turn, issued a bank guarantee for the Italian authorities as security for the deferred payment of the UMTS license.

In the wake of the decision by the Italian government to revoke the UMTS license granted to Ipse 2000 S.p.A., the Company considered that, the contractual conditions governing payment of the license having changed, Ipse was no longer obliged to pay the remaining amount and, the principal obligation no longer existing, the bank guarantee and the partners counterguarantee (cash collateral) had become extinct. Consequently, the Company lodged an appeal against the government to keep the guarantee from being executed and to return the cash collateral to the shareholders in their respective investments.

On June 15, 2008, the civil court in Rome rejected Ipse 2000 S.p.A. claims, forcing the company to pay for its license in full. Similarly, the State Council rejected the company s appeal against the Italian government s refusal to allow Ipse 2000 S.p.A. to return the additional 5Mhz of spectrum for 826 million euros and to revoke its license.

d) **Directors and senior executives compensation and other benefits**

The compensation of Telefónica, S.A. s directors is governed by Article 28 of the bylaws, which states that the compensation paid by the Company to its directors shall be determined at the General Shareholders Meeting and shall remain in force until a resolution is adopted at the Shareholders Meeting to amend it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In this respect, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Board of Directors Advisory or Control committees. In addition, the compensation provided for in the preceding paragraphs, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Therefore, the compensation paid to Telefónica, S.A. Directors in their capacity as members of the Board of Directors, the Standing Committee and/or the Advisory and Control committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Board s Advisory or Control committees. In this respect, it was also agreed that from September 2007, executive directors would not receive the fixed amounts established for their directorships, but only receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

The following table presents the fixed amounts established for membership to Telefónica Board of Directors, Standing Committee and Advisory or Control committees (in euros).

Position	Board of Directors	Standing Committee	Advisory or Control Committees
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	
Board member:			
Executive			
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

In addition, the amounts paid for attendance at each of the Advisory or Control Committee meetings is 1,250 euros.

Total compensation paid to Telefónica directors for discharging their duties in 2008 amounted to 3,922,333 euros in fixed compensation and 215,000 euros in fees for attending the Board Advisory or Control Committee meetings. It should also be noted that the compensation paid to Company directors sitting on the Boards of other Telefónica Group companies amounted to 1,349,794 euros. In addition, the Company directors who are members of the regional advisory committees (Andalusia, Catalonia and Valencia) and the Telefónica Corporate University Advisory Council, received a total of 88,750 euros in 2008.

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The following table presents the breakdown by item of the compensation and benefits paid to Telefónica directors for discharging their duties in 2008 (in euros):

			Other Board Committees		
Board Members	**Board of Directors**	**Standing Committee**	**Fixed payment**	**Attendance fees**	**TOTAL**
Chairman					
César Alierta Izuel	300,000	100,000			400,000
Vice chairmen					
Isidro Fainé Casas	250,000	100,000			350,000
Vitalino Manuel Nafría Aznar	250,000		51,334	30,000	331,334
Members					
Julio Linares López					
José María Abril Pérez	150,000	100,000	14,000	1,250	265,250
José Fernando de Almansa Moreno-Barreda	150,000		42,000	11,250	203,250
José María Álvarez-Pallete López					
David Arculus	150,000		23,333	6,250	179,583
Eva Castillo Sanz	137,500				137,500
Carlos Colomer Casellas	150,000	100,000	36,167	11,250	297,417
Peter Erskine	150,000	100,000	17,500	8,750	276,250
Alfonso Ferrari Herrero (*)	150,000	108,333	82,833	37,500	378,666
Luiz Fernando Furlán	137,500		11,667	5,000	154,167
Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	84,000	43,750	377,750
Pablo Isla Álvarez de Tejera	150,000		72,333	18,750	241,083
Antonio Massanell Lavilla	150,000		47,833	30,000	227,833
Francisco Javier de Paz Mancho	150,000	100,000	56,000	11,250	317,250
TOTAL	**2,575,000**	**808,333**	**539,000**	**215,000**	**4,137,333**

(*) Alfonso Ferrari Herrero was appointed member of the Standing Committee on December 19, 2007 and therefore the compensation for that month is included in the table.

In addition, the breakdown of the total paid to executive directors César Alierta Izuel, Julio Linares López and José María Álvarez-Pallete López for discharging their executive duties by item is as follows:

ITEM	2008 (euros)
Salaries	5,704,005
Variable compensation (1)	7,885,683
Compensation in kind (2)	76,746
Contributions to pension plans	25,444

(1) Variable compensation in 2008 includes a multi-year variable payment (Extraordinary Cash Incentive Program) of 2,075,189 euros for 2005, 2006 and 2007 related to the fulfillment of certain targets and operating and business metrics established for the entire Group for 2005-2007. This payment was made in the first half of 2008.

(2) Compensation in kind includes life and other insurance premiums (general medical and dental insurance).

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In addition, with respect to the Pension Plan for Senior Executives (see Note 18.3), the total amount of contributions made by the Telefónica Group in 2008 in respect of executive directors was 1,860,754 euros.

In addition, related to the Performance Share Plan approved at the General Shareholders Meeting of June 21, 2006 (see Note 18.3), the maximum number of shares corresponding to the first, second and third phases of the Plan will be given (on July 1, 2009, July 1, 2010 and July 1, 2011) to each of Telefónica s executive directors if all the terms established for such delivery are met, is as follows: for César Alierta Izuel, 129,183, 116,239 and 148,818 shares respectively; for Julio Linares López 65,472, 57,437 and 101,466 shares, respectively; for José María Álvarez-Pallete López 62,354, 53,204 and 67,644 shares, respectively).

It should be noted that the non-executive directors do not receive and did not receive in 2008 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica s share price.

In addition, the Company does not grant and did not grant in 2008 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

Meanwhile, the six senior executives[1] of the Company, excluding those that are also members of the Board of Directors, received a total for all items -including the Extraordinary Cash Incentive Program indicated above- in 2008 of 13,223,911 euros. In addition, the contributions by the Telefónica Group in 2008 with respect to the Pension Plan described in Note 18.3 for these directors amounted to 911,041 euros.

Furthermore, the maximum number of shares corresponding to the first, second and third phases of the Performance Share Plan assigned to all the Company senior executives is 157,046 shares for the first phase, 130,911 shares for the second phase and 306,115 shares for the third phase.

Finally, in 2008 Antonio Viana-Baptista, who stepped down from his executive duties on January 31, received 8,584,000 euros of severance in accordance with Clause Nine, section 1 of his senior management contract dated October 21, 1998. Mr Viana-Baptista also received an amount of 3,289,972 euros in 2008 for the following items: (i) fixed and variable compensation; (ii) compensation in kind; (iii) long-service bonus he was entitled to receive in 2008 and accrued in the preceding three years, and (iv) settlement of accrued credits and similar receivable.

[1] For these purposes, Senior Executives are understood to be individuals who perform senior management functions reporting directly to the management bodies, or their executive committees or CEOS,

including the
person in charge
of the internal
audit.

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Detail of the equity investments in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors on their own behalf or on behalf of third parties

Pursuant to Article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003 of July 17, which amends Securities Market Law 24/1988 of July 28, and the revised Spanish Corporation Law, in order to reinforce the transparency of listed corporations, details are given below of the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge in them, on their own behalf or on behalf of others:

Director	Activity	Company	Position or functions	Stake %*
César Alierta Izuel	Telecommunications	Telecom Italia, S.p.A.	Director	
	Telecommunications	China Unicom (Hong Kong) Limited	Director	
Isidro Fainé Casas	Telecommunications	Abertis Infraestructuras, S.A.	Chairman	< 0,01%
Julio Linares López	Telecommunications	Telefónica de España, S.A.U.	Director	
	Telecommunications	Telefónica Móviles España, S.A.U.	Director	
	Telecommunications	Telefónica Europe, Plc.	Director	
	Telecommunications	Telecom Italia, S.p.A.	Director	

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Director	Activity	Company	Position or functions	Stake %*
Fernando de Almansa Moreno-Barreda	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Telefónica del Perú, S.A.A.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Director	
	Telecommunications	Telecomunicaçoes de Sao Paulo, S.A.	Director	
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director	
	Telecommunications	Médi Telecom, S.A.	Director	
José María Álvarez-Pallete López	Telecommunications	Telefónica Internacional, S.A.U.	Executive Chairman	
	Telecommunications	Telefónica DataCorp, S.A.U.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Acting Director	
	Telecommunications	Telecomunicaçoes de Sao Paulo, S.A.	Director/Vice Chairman	
	Telecommunications	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director	
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman	
	Telecommunications	Colombia Telecomunicaciones, S.A. ESP	Director	
	Telecommunications	Telefónica del Perú, S.A.A.	Director	
	Telecommunications	Brasilcel, N.V.	Chairman of Supervisory Board	
	Telecommunications	Telefónica Móviles Colombia, S.A.	Acting Director	
	Telecommunications		Director	

	Telefónica Larga Distancia de Puerto Rico, Inc.	
Telecommunications	Telefónica Móviles Chile, S.A.	Acting Director
Telecommunications	Telefónica Internacional Chile, S.A.	Director
Telecommunications	Telefónica USA, Inc.	Director
Telecommunications	Portugal Telecom, S.G.P.S., S.A.	Director

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Director	Activity	Company	Position or functions	Stake %*
David Arculus	Telecommunications	Telefónica Europe, Plc.	Director	
	Telecommunications	British Sky Broadcasting Group, Plc.		< 0,01%
	Telecommunications	BT Group, Plc.		< 0,01%
Peter Erskine	Telecommunications	Telefónica Europe, Plc.	Director	
Alfonso Ferrari Herrero	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Compañía de Telecomunicaciones de Chile, S.A.	Acting Director	
	Telecommunications	Telefónica de Perú, S.A.A.	Director	
	Telecommunications	Telefónica Móviles Chile, S.A.	Director	
Luiz Fernando Furlán	Telecommunications	Telecomunicaçoes de Sao Paulo, S.A.	Director	
Javier de Paz Mancho	Telecommunications	Atento Holding Inversiones y Teleservicios, S.A.U.	Non-executive Chairman	
	Telecommunications	Telefónica Internacional, S.A.U.	Director	
	Telecommunications	Telefónica de Argentina, S.A.	Director	
	Telecommunications	Telecomunicaçoes de Sao Paulo, S.A.	Director	

(*) Shareholding of less than 0.01% of share capital

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Pursuant to Article 114.2 of the Spanish Corporation Law, also introduced by Law 26/2003 of July 17, it is stated that in the year to which these annual financial statements refer, the Directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the normal course of the Company s business or that were not at arm s length.

d) Related-party transactions

The main transactions between Telefónica, S.A. and its significant shareholders are as follows:

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and subsidiaries comprising the consolidated group:

Financing transactions arranged on an arm s length basis, with approximately 248 million euros drawn down at December 31, 2008.

Derivative transactions arranged on an arm s length basis for a total nominal amount of approximately 6,770 million euros at December 31, 2008.

Fixed-term deposits at market rates on an arm s length basis, for a total nominal amount of approximately 213 million euros at December 31, 2008.

Guarantees granted by BBVA for approximately 13 million euros at December 31, 2008.

Caja de Ahorros y Pensiones de Barcelona, la Caixa, and subsidiaries comprising the consolidated group:

Financing transactions arranged on an arm s length basis, with approximately 646 million euros drawn down at December 31, 2008.

Fixed-term deposits at market rates on an arm s length basis, for a total nominal amount of approximately 368 million euros at December 31, 2008.

Group companies

Telefónica, S.A. is a holding company for various investments in companies in Latin, Spain and the rest of Europe which do business in the telecommunications, media and entertainment sectors.

The balances and transactions between the Company and these subsidiaries at December 31, 2008 are detailed in the notes to these Individual Financial Statements.

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Associates and joint ventures

On December 27, 2002, Telefónica Móviles, S.A. (now Telefónica, S.A. after the merger with economic effect from January 1, 2006) and PT Movéis Servicos de Telecomunicaçoes, S.G.P.S., S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V., via the contribution of 100% of the groups direct and indirect shares in Brazilian cellular operators. This company is consolidated in the consolidated financial statements of the Telefónica Group using proportionate consolidation.

Directors and senior executives

In the financial year to which the accompanying annual financial statements refer, the directors and senior executives did not perform any transactions with Telefónica or any Telefónica Group company.

Compensation and other benefits paid to members of the Board of Directors and senior executives, as well as the detail of the equity interests held in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors for their own account or for third parties, are detailed in this note to these consolidated financial statements.

e) Auditors fees

The fees paid in 2008 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica, S.A. in 2008) belongs, amounted to 3.36 million euros in 2008, broken down as follows.

(Millions of euros)	**2008**
Audit of financial statements	1,27
Other audit services	2,09
TOTAL	**3,36**

f) Environmental matters

As head of the Telefónica Group, Telefónica, S.A. engages in activities relating to the ownership of shares and the provision of financing and corporate advisory services to various Group companies. In view of the business activities in which the Company engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial situation and results. Consequently, the 2008 annual financial statements do not include specific details regarding environmental issues.

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In line with its commitment to the environment, the Company announced at the Zaragoza World s Fair the creation of a Climate Change Office to provide a framework for strategic and RD&I projects in the quest for energy efficient solutions. This initiative entails the launch and implementation of solutions in each area that contributes to optimizing the company s processes (operations, suppliers, employees, customers and society):

In the area of operations, the main objective is to develop and implement projects that will allow for more efficient networks and systems by reducing and optimizing energy consumption.

In the area of suppliers, active efforts are underway to include energy efficiency criteria in the purchasing process for all product lines in the Telefónica value chain.

In the area of employees, the aim is to foster among the Company s employees a culture of respect and awareness regarding the environment and energy saving.

In the area of customers, work is being carried out to better leverage ICTs (Information and Communication Technologies) and increase energy efficiency with the objective of reducing carbon emissions.

And finally, in the area of society, the objective is to promote change in citizens behavior through Telefónica s actions.

(20) CASH FLOW ANALYSIS

Profit before tax in 2008 amounted to 778 million euros (see the income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in 2008.

These adjustments mainly relate to impairment of investments in group companies, associates and other investments (loss of 4,182 million euros) and other items included in the net financial result (net income of 5,148 million euros), adjusted initially to include only movements related to cash inflows or outflows in 2008.

Other cash flows from operating activities amounts to 8,449 million euros, comprising 2,643 million euros of net interest paid, 8,248 million euros of dividends received and 2,844 million euros of income tax collected. The main movements are:

a) Net interest paid: Payments of net interest and other financial expenses amounted to 2,643 million euros, including:

interest paid to external credit entities of 2,120 million euros, and

interest paid to Group companies of 1,404 million euros, less interest received on financing granted by Telefónica, S. A. to Group companies. Interest received mainly included 1,009 million euros from Telefónica Internacional, S.A.U.

b) Dividends received: The main dividends received were from Telefónica Móviles España, S.A.U. (2,487 million euros), Telefónica de España, S.A.U. (2,202 million euros), Telefónica O2 Europe, Ltd. (2,697 million euros) and Telefónica O2 Czech Republic, a.s. (455 million euros). The interim dividend charged against 2008 profit by Telefónica de España, S.A.U. for 1,800 million euros was pending collection at December 31, 2008.

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c) Income tax collected: Telefónica, S.A. is the parent of its consolidated tax group (see Note 17) and therefore it is liable for filing income tax with the Spanish Treasury. It subsequently informs companies included in the Tax Group of the amounts payable by them. In 2008, the amount recognized under this item related to the collection of income tax from:

Telefónica Móviles España, S.A.U.: 1,087 million euros of income tax for 2007.

Telefónica de España, S.A.U.: 1,972 million euros, of which 997 million euros are for income tax in 2006 and 975 million euros are for income tax in 2007.

Payments on investments under Cash flows used in investing activities included a total payment of 2,983 million euros, broken down as follows:

Capital increases: Telefónica Móviles Colombia, S.A. for 155 million euros and Telefónica O2 Europe, Ltd. for 224 million euros (see Note 8.1).

Cancellation of interest-bearing debt of Telefónica de España, S.A.U. for 1,042 million euros.

Delivery of funds to finance other Group companies of 1,562 million euros. The main delivery of funds were to Telefónica Internacional, S.A.U. for 1,134 million euros.

In addition, Proceeds from disposals includes the repayment of loans granted by Telefónica, S.A. to subsidiaries, the most significant of which amounts received from Telefónica Internacional, S.A.U. (942 million euros), Telefónica de España, S.A.U. (698 million euros), Telefónica O2 Ireland, Ltd. (115 million euros) and Telefónica Móviles México, S.A. de C.V. (107 million euros). Also included are amounts received from third parties for the sale of Sogecable, S.A. and shares of Portugal Telecom, S.G.P.S. (see Notes 9.3 and 8.1, respectively).

Cash flows from financing activities includes the following:

i. Payments of equity instruments for 2,224 million euros (see movements in Note 11 a).

ii. Payments of financial liability instruments, which mainly includes net movements in the Company s current accounts with Telefónica Finanzas, S.A.

iii. Dividends and payments on other equity instruments for 4,165 million euros (see movements in Note 11 d).

(21) EVENTS AFTER THE BALANCE SHEET DATE

The following events regarding the Group took place between the balance sheet date and the date of preparation of the accompanying financial statements:

Dividends

At its meeting of January 28, 2009, the Board of Directors of Telefónica, S.A. analyzed and approved a proposal to increase the dividend corresponding to the 2009 financial year to 1.15 euros per share, to be voted on by shareholders. The proposal for adoption of the related corporate resolutions will be made in due time.

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

Financing

On February 3, 2009, Telefónica, S.A., through its Telefónica Emisiones, S.A.U. subsidiary, issued 2,000 million euros worth of bonds (notes) in the euromarket underwritten by Telefónica, S.A., as part of its Guaranteed Euro Medium Term Note Program (EMTN program), registered with the Financial Services Authority (FSA) of London on July 3, 2008. The five-year notes have an annual coupon of 5.431% and were issued at par (100%).

On February 13, 2009, Telefónica, S.A. signed an agreement with the banks involved in the 6,000 million euro credit facility granted on June 28, 2005 and maturing on June 28, 2011, to extend the maturity of 4,000 million euros of the 6,000 million euros drawn down, 2,000 million euros for one year and the remaining 2,000 million euros for two years.

On February 17, 2009, Moody s affirmed Telefónica, S.A. s long-term Baa1 rating, and changed the outlook to positive from stable, reflecting Moody s expectation that, going forward, Telefónica would sustain an improved financial risk profile, in line with Telefónica Group management s publicly stated targets.

Other subsequent events

After the Italian courts rejected Ipse 2000 S.p.A. s case regarding the UMTS license this company held, on January 7, 2009, Telefónica paid 241.3 million euros corresponding to the annual payments of 2006, 2007 and 2008. At the date of approval of these financial statements, the Telefónica Group still owes 151.7 million euros in this respect.

(22) ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

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Appendix I
Disclosure of subsidiary companies at
December 31, 2008

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SUBSIDIARIES AT DECEMBER 31, 2008 (millions of euros)

Companies	% ownership Direct	Indirect	% of voting rights	Share capital	Reserves	Dividends Received	Income (loss) from operations	for the year	Amount amount
Telefónica Europe plc (UK) (1) *Wireless communications services operator* *Wellington Street, Slough, SL1 1YP*	**100.00%**			**13**	**12,328**		**583**	**483**	**26,153**
O2 (Europe) Ltd. (UK) *Wireless communications services operator* *Wellington Street, Slough, SL1 1YP*	**100.00%**			**1,239**	**7,693**			**3**	**8,744**
Telefónica Internacional, S.A. (SPAIN) *Investment in the telecommunications industry abroad* *Gran Vía, 28 - 28013 Madrid*	**100.00%**			**2,839**	**22,394**	**972**	**3,387**	**3,375**	**8,132**
Telefónica Móviles España, S.A.U. (SPAIN) *Wireless communications services provider* *Plaza de la Independencia, 6 - Pta. 5 - 28001 Madrid*	**100.00%**			**423**	**506**		**3,482**	**2,593**	**5,775**
Telefónica de España, S.A.U. (SPAIN) *Provision of telecommunications services in Spain* *Gran Vía, 28 - 28013 Madrid*	**100.00%**			**1,024**	**162**	**6**	**4,348**	**2,950**	**3,034**
Telefónica de Contenidos , S.A.U. (SPAIN) *Organization and operation of multimedia service-related businesses*	**100.00%**			**1,865**	**(1,704)**	**1**	**3**	**(15)**	**2,242**

Don ramón de la Cruz, 84 4ª Pta.- 28006 - Madrid							
Latin America Cellular Holdings, B.V. (NETHERLANDS) ***Holding company*** ***Strawinskylaan 3105, Atium 7th, Amsterdam***	**100.00%**		**1,097**	**11**		**239**	
Telefónica Datacorp, S.A.U. (SPAIN) ***Telecommunications service provider and operator*** ***Gran Vía, 28 - 28013 Madrid***	**100.00%**	**700**	**43**		**9**	**22**	**1,343**
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) ***Holding company*** ***Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349***	**100.00%**	**1,268**	**(228)**		**223**	**228**	**1,176**
Inversiones Telefónica Móviles Holdind Ltd. (CHILE) ***Holding company*** ***Miraflores, 130 - 12º Santiago de Chile***	**100.00%**	**752**	**(128)**			**128**	**741**
Ecuador Cellular Holdings, B.V. (NETHERLANDS) ***Holding company*** ***Strawinskylaan 3105, Atium 7th, Amsterdam***	**100.00%**		**197**			**(5)**	**581**
Atento Holding, Inversiones y Teleservicios, S.A. (SPAIN) ***Telecommunications service provider*** ***C/ Santiago de Compostela, 94 - 28035 Madrid***	**100.00%**	**24**	**138**		**(10)**	**(7)**	**372**
TCG Holdings, S.A. (GUATEMALA) ***Holding company*** ***Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 10 - Guatemala***	**100.00%**	**276**	**(114)**		**38**	**21**	**239**

City						
Panamá Cellular Holdings, B.V. (NETHERLANDS) ***Holding company*** ***Strawinskylaan 3105, Atium 7th, Amsterdam***	**100.00%**		**27**		**13**	**238**
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) ***Holding company*** ***Alameda Roosvelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador***	**100.00%**	**123**	**1**	**4**	**(1)**	**161**
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) ***Ownership of shareholdings in wireless operators in Puerto Rico*** ***Metro Office Park Calle Edificio # 17, Suite 600 - 00968 Guaynabo***	**100.00%**	**109**				**110**
Ateseco Comunicación, S.A. (SPAIN) (2) ***Aormant company*** ***Gran Vía, 28 - 28013 Madrid***	**100.00%**	**6**	**45**		**2**	**108**

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SUBSIDIARIES AT DECEMBER 31, 2008 (millions of euros)

Companies	% ownership Direct	Indirect	% of voting rights	Share capital	Reserves	Dividends Received	Income (loss) from operations	Income (loss) for the year	Amount amount
Terra Networks Asociadas, S.L. (SPAIN) *Holding company* *Gran Vía, 28 - 28,013 Madrid*	**100.00%**			**7**	**(32)**		**4**	**4**	**64**
Guatemala Cellular Holdings, B.V. (NETHERLANDS) *Holding company* *Strawinskylaan 3105, Atium 7th, Amsterdam*	**100.00%**				**1**				**29**
Taetel, S.L. (SPAIN) *Acquisition, ownership and disposal of shares and stakes in other companies* *Gran Vía, 28 - 28013 Madrid*	**100.00%**			**28**	**6**			**1**	**28**
Telefónica Gestión de Servicios Compartidos España, S.A. (SPAIN) *Provision of mangement and administration services* *Gran Vía, 28 - 28013 Madrid*	**100.00%**			**8**	**9**	**5**	**7**	**10**	**24**
Telefónica Capital, S.A. (SPAIN)	**100.00%**			**7**					