

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. REGARDING THE PROPOSED AMENDMENT OF ARTICLES 15, 16, 18, 27, 34 AND 35 OF THE COMPANY'S BY-LAWS AND INCLUSION OF A NEW ARTICLE 18 *BIS*, WHICH SHALL BE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE 2012 ORDINARY GENERAL SHAREHOLDERS' MEETING (ITEM IV OF THE AGENDA).

1. PURPOSE OF THE REPORT

The Agenda for the Ordinary General Shareholders' Meeting of Telefónica, S.A., called to be held on May 13/14, 2012, on first and second call, respectively, includes in item IV a proposal relating to the amendment of Articles 15, 16, 18, 27, 34 and 35 of the Company's By-Laws and the inclusion of a new Article 18 *bis*.

The Board of Directors of Telefónica, S.A. issues this Report in order to set forth the rationale for the proposed amendments to the By-Laws, also including the full text of such amendments.

2. RATIONALE FOR THE PROPOSAL

The main purpose of the amendments proposed to the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. is to make technical improvements in the text of the Company's By-Laws and to align the provisions thereof with the amendments to the restated text of the Companies Act (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010, of July 2, 2010 (the "**Companies Act**"), made by Law 25/2011, of August 1, partially amending the Companies Act and adopting Directive 2007/36/EC, of the European Parliament and of the Council, of July 11, on the exercise of certain rights of shareholders in listed companies ("**Law 25/2011**").

Also taken into account were the amendments to the Companies Act made by Royal Decree-Law 9/2012, of March 16, on simplification of the obligations to report and document mergers and split-offs at stock companies.

For the purpose of voting on the proposed amendments to the By-Laws, and without prejudice to the provision of an individual rationale for each of them, it is proposed to submit all of the amendments as a whole for approval of the shareholders at the General Shareholders' Meeting, as they all serve the same purpose, namely, the introduction of technical improvements and the adjustment to current legislation.

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

Proposed amendment of Article 15 of the Company's By-Laws:

It is proposed to amend Article 15 of the Company's By-Laws in order to adjust the term within which the General Shareholders' Meeting must be held when so requested by the holders of at least five percent of the share capital to the new text of Section 168 of the Companies Act.

Current text	New text proposed
<p>Article 15. Ordinary and Extraordinary General Shareholders' Meeting</p> <p><i>1. The shareholders acting at an Ordinary General Shareholders' Meeting, which shall have previously been called for such purpose, shall meet within the first six months of each fiscal year in order to review corporate management, approve, if appropriate, the financial statements for the prior fiscal year and decide on the allocation of profits/losses. Resolutions may also be adopted regarding any other matter properly coming before the General Shareholders' Meeting as set forth in Article 14 above, provided that such matter appears on the Agenda and a quorum for the Meeting has been established with the presence of such</i></p>	<p>Article 15. Ordinary and Extraordinary General Shareholders' Meeting</p> <p><i>1. The shareholders acting at an Ordinary General Shareholders' Meeting, which shall have previously been called for such purpose, shall meet within the first six months of each fiscal year in order to review corporate management, approve, if appropriate, the financial statements for the prior fiscal year and decide on the allocation of profits/losses. Resolutions may also be adopted regarding any other matter properly coming before the General Shareholders' Meeting as set forth in Article 14 above, provided that such matter appears on the Agenda and a quorum for the Meeting has been established with the presence of such</i></p>

<p>stock as is required by Law.</p> <p>The Ordinary General Shareholders' Meeting shall be valid even if it has been called or is held beyond the applicable deadline.</p>	<p>stock as is required by Law.</p> <p>The Ordinary General Shareholders' Meeting shall be valid even if it has been called or is held beyond the applicable deadline.</p>
<p>2. Any Meeting other than as provided for in the preceding paragraph shall be deemed an extraordinary General Shareholders' Meeting and shall be held at any time of the year, provided that the Board of Directors deems it appropriate.</p>	<p>2. Any Meeting other than as provided for in the preceding paragraph shall be deemed an extraordinary General Shareholders' Meeting and shall be held at any time of the year, provided that the Board of Directors deems it appropriate.</p>
<p>3. In addition, an extraordinary General Shareholders' Meeting shall be held when so requested in writing by the holders of at least five percent of the share capital, which request shall set forth the matters to be dealt with. In this instance, the Board of Directors shall have a maximum period of fifteen days, to be computed from the date of the notarially-recorded request for such call, within which to call the Meeting with such minimum advance notice as is required by Law. The Board of Directors shall prepare the Agenda, in which it shall include at least the matters set forth in the request.</p>	<p>3. In addition, an extraordinary General Shareholders' Meeting shall be held when so requested in writing by the holders of at least five percent of the share capital, which request shall set forth the matters to be dealt with. In this instance, the Board of Directors shall have a maximum period of fifteen days, to be computed from the date of the <u>the General Shareholders' Meeting shall be called to be held within two months of the date on which a notarially-recorded request for such call has been submitted to the Board of Directors, within which to call the Meeting with such minimum advance notice as is required by Law.</u> The Board of Directors shall prepare the Agenda, in which it shall include at least the matters set forth in the request.</p>
<p>4. At all General Shareholders' Meetings, whether ordinary or extraordinary, which have been duly called, a quorum shall be validly established as required by applicable law in each case, taking into account the matters included in the Agenda.</p>	<p>4. At all General Shareholders' Meetings, whether ordinary or extraordinary, which have been duly called, a quorum shall be validly established as required by applicable law in each case, taking into account the matters included in the Agenda.</p>

Proposed amendment of Article 16 of the Company's By-Laws:

It is proposed to amend Article 16 of the Company's By-Laws in order to conform it to the text of Sections 516 and 519 of the Companies Act, as amended by Law 25/2011, in connection with the publication of the call to the General Shareholders' Meeting and with the right of shareholders representing at least five percent of the share capital to submit proposals for resolutions and to supplement the agenda for ordinary General Shareholders' Meetings.

Current text	New text proposed
<p>Article 16. Call to the General Shareholders' Meeting</p> <p>1. The General Shareholders' Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and on the Company's website (www.telefonica.com), as much in advance of the date set for the Meeting as is at a minimum required by Law.</p> <p>The notice published on the Company's website shall be accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate in order to give broader publicity to the call to meeting.</p>	<p>Article 16. Call to the General Shareholders' Meeting</p> <p>1. The General Shareholders' Meeting shall be called, <u>at least as much in advance of the date set for the Meeting as is at a minimum required by Law</u>, through a notice published in:</p> <p><u>a) In the Official Bulletin of the Commercial Registry or in one of the more widely circulated newspapers in Spain.</u></p> <p><u>b) On the website of the National Securities Market Commission [Comisión Nacional del Mercado de Valores].</u></p> <p><u>c) On and on the Company's corporate website (www.telefonica.com).</u></p> <p>The notice published on the Company's website shall be <u>continuously</u> accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate <u>to ensure the public and effective dissemination of</u> in order to give broader publicity to the call to</p>

	meeting.
2. The notices shall contain all the statements required by Law in each case and, in any event, shall set forth the date, place and time of the Meeting upon first call and all the matters to be dealt with thereat. The notice may also set forth the date on which the Meeting shall, if applicable, be held upon second call.	2. The notices shall contain all the statements required by Law in each case and, in any event, shall set forth the date, place and time of the Meeting upon first call and all the matters to be dealt with thereat. The notice may also set forth the date on which the Meeting shall, if applicable, be held upon second call.
3. The shareholders acting at General Shareholders' Meetings may not deliberate on or discuss matters that are not included in the Agenda.	3. The shareholders acting at General Shareholders' Meetings may not deliberate on or discuss matters that are not included in the Agenda.
4. Shareholders representing at least five percent of the share capital may request the publication of a supplement to the call to the General Shareholders' Meeting including one or more items in the agenda. This right must be exercised by means of duly authenticated notice that must be received at the Company's registered office within five days of the publication of the call to meeting.	<p>4. <u>At Ordinary General Shareholders' Meetings, s</u>Shareholders representing at least five percent of the share capital may request the publication of a supplement to the call to the <u>Ordinary</u> General Shareholders' Meeting including one or more items in the <u>Agenda, so long as such new items are accompanied by a rationale or, if applicable, by a well-founded proposal for a resolution.</u></p> <p><u>5. In addition, shareholders representing at least five percent of the share capital may submit well-founded proposals for resolutions regarding items already included or that must be included in the Agenda for the Meeting called. The Company shall ensure that such proposals for resolutions and any attached documentation are disseminated among the other shareholders, in compliance with the provisions of Law.</u></p> <p><u>6. This rightThe rights provided for in the two preceding paragraphs must be exercised by means of duly authenticated notice that must be</u></p>

<p><i>The supplement to the call to meeting must be published in compliance with the legal requirements and as much in advance as is provided by Law.</i></p>	<p><i>received at the Company's registered office within five days of the publication of the call to meeting.</i></p> <p><i>The supplement to the call to meeting <u>and the proposals for resolutions</u> must be published <u>or disseminated</u> in compliance with the legal requirements and as much in advance as is provided by Law.</i></p>
<p><i>5. The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice. However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.</i></p>	<p><i>57. The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice. However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.</i></p>

Proposed amendment of Article 18 of the Company's By-Laws:

It is proposed to amend Article 18 of the Company's By-Laws in order to align it with the text of Section 520 of the Companies Act, as amended by Law 25/2011, which broadens the scope of exercise of the shareholders' right to receive information, by extending such right to the content of the auditor's report and by allowing the shareholders to ask questions regarding information accessible to the public that the Company has provided to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, and also allows for a more dynamic conduct of the proceedings at the General Shareholders' Meeting through the use of lists of questions and answers.

Current text	New text proposed
<p>Article 18. Shareholders' Right to Receive Information</p> <p>1. From the time of publication of the notice of the call to a General Shareholders' Meeting through the seventh day prior to the date set for the holding thereof upon first call, any shareholder may submit a written request to the Board of Directors of the Company for such information or clarifications as it deems are required, or ask written questions it deems are pertinent, regarding the matters included in the Agenda for the Meeting that has been published in the notice of call thereto, or regarding information accessible to the public that the Company has provided to the National Securities Market Commission [Comisión Nacional del Mercado de Valores] since the holding of the immediately prior General Shareholders' Meeting.</p> <p>The Board of Directors shall be required to provide in writing, until the day when the General Shareholders' Meeting is held, the requested information or clarifications, as well as to respond in writing to the questions asked. The answers to the questions and to the requests for information shall be channeled through the Secretary of the Board of Directors and provided by any member thereof or by any person expressly authorized by the Board of Directors to that end.</p>	<p>Article 18. Shareholders' Right to Receive Information</p> <p>1. From the time of publication of the notice of the call to a General Shareholders' Meeting through the seventh day prior to the date set for the holding thereof upon first call, any shareholder may submit a written request to the Board of Directors of the Company for such information or clarifications as it deems are required, or ask written questions it deems are pertinent, regarding the matters included in the Agenda for the Meeting that has been published in the notice of call thereto, or regarding information accessible to the public that the Company has provided to the National Securities Market Commission [Comisión Nacional del Mercado de Valores] since the holding of the immediately prior General Shareholders' Meeting <u>and regarding the auditor's report.</u></p> <p>The Board of Directors shall be required to provide in writing, until the day when the General Shareholders' Meeting is held, the requested information or clarifications, as well as to respond in writing to the questions asked. The answers to the questions and to the requests for information shall be channeled through the Secretary of the Board of Directors and provided by any member thereof or by any person expressly authorized by the Board of Directors to that end.</p>
<p>2. The notice of the call to the Ordinary General Shareholders' Meeting shall state that any shareholder may obtain from the Company, immediately and without</p>	<p>2. The notice of the call to the Ordinary General Shareholders' Meeting shall state that any shareholder may obtain from the Company, immediately and without</p>

<p><i>charge at the registered office, a copy of the documents that will be submitted to the shareholders for approval and the Auditors' report.</i></p>	<p><i>charge at the registered office, a copy of the documents that will be submitted to the shareholders for approval and the Auditors' report.</i></p>
<p><i>3. When the shareholders acting at the General Shareholders' Meeting are to deal with an amendment to the By-Laws, the notice of the call to meeting shall set forth, in addition to the statements required by Law in each case, the right of all shareholders to examine at the registered office the full text of the proposed amendment and of the report thereon and to request that such documents be delivered or sent to them without charge.</i></p>	<p><i>3. When the shareholders acting at the General Shareholders' Meeting are to deal with an amendment to the By-Laws, the notice of the call to meeting shall set forth, in addition to the statements required by Law in each case, the right of all shareholders to examine at the registered office the full text of the proposed amendment and of the report thereon and to request that such documents be delivered or sent to them without charge.</i></p>
<p><i>4. In cases of increase or reduction in share capital, issuance of convertible debentures, merger, split-off, overall assignment of assets and liabilities and relocation of the Company's registered address abroad, the information required by Law in connection with such cases shall be made available.</i></p>	<p><i>4. In cases of increase or reduction in share capital, issuance of convertible debentures, merger, split-off, overall assignment of assets and liabilities and relocation of the Company's registered address abroad, the information required by Law in connection with such cases shall be made available.</i></p>
<p><i>5. During the course of the General Shareholders' Meeting, the shareholders of the Company may verbally request such information or clarifications as they deem appropriate regarding the matters contained in the agenda. In the event that it is not possible to satisfy the shareholder's right at that time, the Directors shall provide such information in writing within seven days of the close of the Meeting.</i></p>	<p><i>5. During the course of the General Shareholders' Meeting, the shareholders of the Company may verbally request such information or clarifications as they deem appropriate regarding the matters contained in the agenda, <u>or regarding the information accessible to the public that the Company has provided to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, or regarding the auditor's report.</u> In the event that it is not possible to satisfy the shareholder's right at that time, the Directors shall provide such information in writing within seven days of the close of the Meeting.</i></p>

<p>6. The Directors shall have the duty to provide the information requested in reliance upon the preceding paragraphs 1 and 5, except in those cases in which it is legally inadmissible and, in particular, when, in the opinion of the Chairman, publication of the requested information may prejudice the corporate interests. This latter exception shall not apply when the request is supported by shareholders representing at least one-fourth of the share capital.</p> <p>Answers to shareholders who attend the General Shareholders' Meeting from a distance by means of data transmission and simultaneously and who exercise their right to receive information through this procedure shall be provided, if applicable, in writing, within seven days following the Meeting.</p>	<p>6. The Directors shall have the duty to provide the information requested in reliance upon the preceding paragraphs 1 and 5, except in those cases in which it is legally inadmissible and, in particular, when, <u>prior to specific questions being asked by the shareholders, the information requested has been clearly and directly made available to all shareholders in question-and-answer format on the Company's website, or when,</u> in the opinion of the Chairman, publication of the requested information may prejudice the corporate interests. This latter<u>last</u> exception shall not apply when the request is supported by shareholders representing at least one-fourth of the share capital.</p> <p>Answers to shareholders who attend the General Shareholders' Meeting from a distance by means of data transmission and simultaneously and who exercise their right to receive information through this procedure shall be provided, if applicable, in writing, within seven days following the Meeting.</p>
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Proposed inclusion of a new Article 18 bis in the Company's By-Laws:

It is proposed to include a new Article 18 bis, which sets forth the rules applicable to the corporate website pursuant to the provisions of Sections 11 bis and 539 of the Companies Act, with the following text:

"Article 18 bis. Rules Applicable to the Corporate Website

1. The Company shall have a corporate website to accommodate the exercise of the shareholders' right to receive information and to

disseminate significant information as required by securities market legislation.

2. The address of the Company's website shall be www.telefonica.com.

3. The Board of Directors may relocate the website, and is also authorized to amend section two of this article and to register such amendment with the Commercial Registry. In any event, such resolution shall remain posted on the relocated website for thirty days following the inclusion thereof."

Proposed amendment of Article 27 of the Company's By-Laws:

It is proposed to amend Article 27 of the Company's By-Laws to adjust it to the new text of Section 246 of the Companies Act, as amended by Law 25/2011, which authorizes one-third of the members of the Board of Directors to call a meeting of the Board under certain circumstances.

Current text	New text proposed
<p>Article 27. Meetings, Quorum and Adoption of Resolutions by the Board of Directors</p> <p><i>1. The Board of Directors shall regularly meet once a month, following a call to meeting. The Board shall meet at the principal office or at the place or places designated by the Chairman.</i></p>	<p>Article 27. Meetings, Quorum and Adoption of Resolutions by the Board of Directors</p> <p><i>1. The Board of Directors shall regularly meet once a month, following a call to meeting. The Board shall meet at the principal office or at the place or places designated by the Chairman.</i></p>
<p><i>2. The Board shall hold extraordinary meetings when so resolved by the Chairman or the person who serves as such. It shall also meet at the request of at least three Directors.</i></p>	<p><i>2. The Board shall hold extraordinary meetings when so resolved by the Chairman or the person who serves as such. <u>It shall also meet at the request of The Chairman shall be required to call a meeting of the Board when so requested by at least three Directors. A meeting of the Board may also be called by at least one-third of the members of the Board of Directors, who shall set forth the agenda for the meeting, if a prior</u></i></p>

	<p><u>request to that effect has been submitted to the Chairman and the latter has failed, without good reason, to call a meeting within a term of one month.</u></p>
<p>3. All Directors who are absent may grant a proxy by letter to another Director who is in attendance, with the right to speak and to vote, at the meeting or session to which the proxy refers. The Director granting the proxy shall endeavor, to the extent possible, to include voting instructions in the letter of proxy.</p>	<p>3. All Directors who are absent may grant a proxy by letter to another Director who is in attendance, with the right to speak and to vote, at the meeting or session to which the proxy refers. The Director granting the proxy shall endeavor, to the extent possible, to include voting instructions in the letter of proxy.</p>
<p>4. A meeting of the Board may be held in several rooms simultaneously so long as real-time interactivity or intercommunication among them is ensured by audiovisual means or by telephone, such that the unity of the act is also ensured.</p>	<p>4. A meeting of the Board may be held in several rooms simultaneously so long as real-time interactivity or intercommunication among them is ensured by audiovisual means or by telephone, such that the unity of the act is also ensured.</p>
<p>5. The Board of Directors shall endeavor, to the extent possible, that absences from Board meetings are kept to an absolute minimum. In the event that any of the Directors whose usual place of residence is in Madrid fails to attend four consecutive meetings without providing sufficient reasons for his absence, the Board of Directors shall have the power to declare his removal from office and to appoint the person that will replace him on an interim basis until such appointment is submitted for ratification by the shareholders at the next General Shareholders' Meeting.</p>	<p>5. The Board of Directors shall endeavor, to the extent possible, that absences from Board meetings are kept to an absolute minimum. In the event that any of the Directors whose usual place of residence is in Madrid fails to attend four consecutive meetings without providing sufficient reasons for his absence, the Board of Directors shall have the power to declare his removal from office and to appoint the person that will replace him on an interim basis until such appointment is submitted for ratification by the shareholders at the next General Shareholders' Meeting.</p>

<p>6. <i>In order for resolutions of the Board to be valid, one-half plus one of all the Directors in office must be in attendance, in person or by proxy; if there is an odd number of Directors in office, the number of Directors present in person or by proxy must be greater than the number of Directors who are absent.</i></p>	<p>6. <i>In order for resolutions of the Board to be valid, one-half plus one of all the Directors in office must be in attendance, in person or by proxy; if there is an odd number of Directors in office, the number of Directors present in person or by proxy must be greater than the number of Directors who are absent.</i></p>
<p>7. <i>Resolutions shall in all cases be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions.</i></p>	<p>7. <i>Resolutions shall in all cases be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions.</i></p>
<p>8. <i>Voting in writing and without a meeting shall be admitted when no Director opposes the use of this procedure.</i></p>	<p>8. <i>Voting in writing and without a meeting shall be admitted when no Director opposes the use of this procedure.</i></p>
<p>9. <i>The deliberations and resolutions of the Board shall be recorded in Minutes signed by the Secretary and approved by the Chairman or by the persons who have acted as such at the meeting in question. The Minutes shall be written down or transcribed in a Minute Book, which may be kept separately from the Minute Book used for the General Shareholders' Meeting. In the event of voting in writing and without a meeting, the resolutions adopted and the votes cast in writing shall also be recorded in the Minute Book.</i></p>	<p>9. <i>The deliberations and resolutions of the Board shall be recorded in Minutes signed by the Secretary and approved by the Chairman or by the persons who have acted as such at the meeting in question. The Minutes shall be written down or transcribed in a Minute Book, which may be kept separately from the Minute Book used for the General Shareholders' Meeting. In the event of voting in writing and without a meeting, the resolutions adopted and the votes cast in writing shall also be recorded in the Minute Book.</i></p>

Proposed amendment of Article 34 of the Company's By-Laws:

It is proposed to amend Article 34 of the Company's By-Laws in order to technically improve the text thereof, adjusting the terminology used therein to that used in the Companies Act.

Current text	New text proposed
<p>Article 34. Fiscal Year and Submission of the Annual Financial Statements</p> <p>1. The fiscal year shall commence on January 1 and shall end on December 31 of each year.</p>	<p>Article 34. Fiscal Year and Submission of the Annual Financial Statements</p> <p>1. The fiscal year shall commence on January 1 and shall end on December 31 of each year.</p>
<p>2. Within three months following the end of the fiscal year, the Board of Directors shall prepare, in compliance with the provisions of applicable legislation, the annual financial statements, the management report and the proposed allocation of corporate profits/losses.</p>	<p>2. Within three months following the end of the fiscal year, the Board of Directors shall prepare, in compliance with the provisions of applicable legislation, the annual financial statements, the management report and the proposed allocation of corporate profits/losses.</p>
<p>3. The annual financial statements – which consist of the Balance Sheet, the Profit and Loss Statement and the Notes– as well as the Management Report, shall be subject to verification as provided by Law and thereafter submitted for approval by the shareholders at the General Shareholders’ Meeting, who shall decide on the allocation of the profits/losses for the Fiscal Year based on the approved Balance Sheet.</p>	<p>3. The annual financial statements – which consist of the Balance Sheet, the Profit and Loss Statement and the Notes – as well as and the mManagement rReport, shall be subject to verification as provided by Law and thereafter submitted for approval by the shareholders at the General Shareholders’ Meeting, who shall decide on the allocation of the profits/losses for the Fiscal Year based on the approved Balance Sheet.</p>
<p>4. The provisions of this article shall apply, to the extent appropriate and if at all, to the consolidated annual financial statements and the consolidated management report.</p>	<p>4. The provisions of this article shall apply, to the extent appropriate and if at all, to the consolidated annual financial statements and the consolidated management report.</p>

Proposed amendment of Article 35 of the Company’s By-Laws:

It is proposed to amend Article 35 of the Company’s By-Laws in order to technically improve the text thereof, explaining the meaning of “liquid securities” for purposes of the payment of dividends in kind.

Current text	New text proposed
<p>Article 35. Allocation of Profits/Losses</p> <p>1. The shareholders acting at the General Shareholders' Meeting shall decide on the allocation of the profits/losses for the Fiscal Year based on the approved Balance Sheet.</p>	<p>Article 35. Allocation of Profits/Losses</p> <p>1. The shareholders acting at the General Shareholders' Meeting shall decide on the allocation of the profits/losses for the Fiscal Year based on the approved Balance Sheet.</p>
<p>2. Once such payments as are provided for by Law or these By-Laws have been made, dividends may only be distributed with a charge against the profits for the Fiscal Year or against unrestricted reserves, if the net book value of the shareholders' equity is not, or does not become as a result of the distribution, less than that of the share capital.</p>	<p>2. Once such payments as are provided for by Law or these By-Laws have been made, dividends may only be distributed with a charge against the profits for the Fiscal Year or against unrestricted reserves, if the net book value of the shareholders' equity is not, or does not become as a result of the distribution, less than that of the share capital.</p>
<p>3. Dividends shall be distributed to ordinary shareholders in proportion to the capital paid by them.</p>	<p>3. Dividends shall be distributed to ordinary shareholders in proportion to the capital paid by them.</p>
<p>4. The shareholders acting at the General Shareholders' Meeting may decide that dividends, or the share premium, be paid in kind, provided that the assets or securities to be distributed are homogeneous and are admitted to trading on an official Market at the time the distribution resolution becomes effective. This latter requirement shall be deemed to have been met when the Company provides adequate guarantees of liquidity.</p>	<p>4. The shareholders acting at the General Shareholders' Meeting may decide that dividends, or the share premium, be paid in kind, provided that the assets or securities to be distributed are homogeneous and <u>liquid. The latter requirement shall be deemed to be complied with when the securities</u> are admitted to trading on an official Market at the time the distribution resolution becomes effective, <u>or will be so admitted within the following year, or .—This latter requirement shall be deemed to have been met—</u>when the Company provides adequate guarantees of liquidity.</p>
<p>The rule set forth in the preceding paragraph shall likewise apply to the</p>	<p>The rule set forth in the preceding paragraph shall likewise apply to the</p>

<i>return of contributions in the event of a reduction in share capital.</i>	<i>return of contributions in the event of a reduction in share capital.</i>
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3. PROPOSED RESOLUTION SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING UNDER ITEM IV OF THE AGENDA

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

Amendment of Articles 15, 16, 18, 27, 34 and 35 of the Company's By-Laws and inclusion of a new Article 18 bis, for adjustment thereof to the latest legislative developments.

It is resolved to amend the aforementioned By-Law provisions, which shall henceforth read as follows:

New text of Article 15 of the Company's By-Laws:

"Article 15. Ordinary and Extraordinary General Shareholders' Meeting

1. The shareholders acting at an Ordinary General Shareholders' Meeting, which shall have previously been called for such purpose, shall meet within the first six months of each fiscal year in order to review corporate management, approve, if appropriate, the financial statements for the prior fiscal year and decide on the allocation of profits/losses. Resolutions may also be adopted regarding any other matter properly coming before the General Shareholders' Meeting as set forth in Article 14 above, provided that such matter appears on the Agenda and a quorum for the Meeting has been established with the presence of such stock as is required by Law.

The Ordinary General Shareholders' Meeting shall be valid even if it has been called or is held beyond the applicable deadline.

2. *Any Meeting other than as provided for in the preceding paragraph shall be deemed an extraordinary General Shareholders' Meeting and shall be held at any time of the year, provided that the Board of Directors deems it appropriate.*

3. *In addition, an extraordinary General Shareholders' Meeting shall be held when so requested in writing by the holders of at least five percent of the share capital, which request shall set forth the matters to be dealt with. In this instance, the General Shareholders' Meeting shall be called to be held within two months of the date on which a notarially-recorded request for such call has been submitted to the Board of Directors. The Board of Directors shall prepare the Agenda, in which it shall include at least the matters set forth in the request.*

4. *At all General Shareholders' Meetings, whether ordinary or extraordinary, which have been duly called, a quorum shall be validly established as required by applicable law in each case, taking into account the matters included in the Agenda."*

New text of Article 16 of the Company's By-Laws:

"Article 16. Call to the General Shareholders' Meeting

1. *The General Shareholders' Meeting shall be called, at least as much in advance of the date set for the Meeting as is at a minimum required by Law, through a notice published:*

a) *In the Official Bulletin of the Commercial Registry or in one of the more widely circulated newspapers in Spain.*

b) *On the website of the National Securities Market Commission [Comisión Nacional del Mercado de Valores].*

c) *On the Company's corporate website.*

The notice published on the Company's website shall be continuously accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate to ensure the public and effective dissemination of the call to meeting.

2. *The notices shall contain all the statements required by Law in each case and, in any event, shall set forth the date, place and time of the Meeting upon first call and all the matters to be dealt with thereat. The notice may also set forth the date on which the Meeting shall, if applicable, be held upon second call.*

3. *The shareholders acting at General Shareholders' Meetings may not deliberate on or discuss matters that are not included in the Agenda.*

4. *At Ordinary General Shareholders' Meetings, shareholders representing at least five percent of the share capital may request the publication of a supplement to the call to the Ordinary General Shareholders' Meeting including one or more items in the Agenda, so long as such new items are accompanied by a rationale or, if applicable, by a well-founded proposal for a resolution.*

5. *In addition, shareholders representing at least five percent of the share capital may submit well-founded proposals for resolutions regarding items already included or that must be included in the Agenda for the Meeting called. The Company shall ensure that such proposals for resolutions and any attached documentation are disseminated among the other shareholders, in compliance with the provisions of Law.*

6. *The rights provided for in the two preceding paragraphs must be exercised by means of duly authenticated notice that must be received at*

the Company's registered office within five days of the publication of the call to meeting.

The supplement to the call to meeting and the proposals for resolutions must be published or disseminated in compliance with the legal requirements and as much in advance as is provided by Law.

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

New text of Article 18 of the Company's By-Laws:

"Article 18. Shareholders' Right to Receive Information

1. From the time of publication of the notice of the call to a General Shareholders' Meeting through the seventh day prior to the date set for the holding thereof upon first call, any shareholder may submit a written request to the Board of Directors of the Company for such information or clarifications as it deems are required, or ask written questions it deems are pertinent, regarding the matters included in the Agenda for the Meeting that has been published in the notice of call thereto, or regarding information accessible to the public that the Company has provided to the National Securities Market Commission [Comisión Nacional del Mercado de Valores] since the holding of the immediately prior General Shareholders' Meeting and regarding the auditor's report.

The Board of Directors shall be required to provide in writing, until the day when the General Shareholders' Meeting is held, the requested information or clarifications, as well as to respond in writing to

the questions asked. The answers to the questions and to the requests for information shall be channeled through the Secretary of the Board of Directors and provided by any member thereof or by any person expressly authorized by the Board of Directors to that end.

2. The notice of the call to the Ordinary General Shareholders' Meeting shall state that any shareholder may obtain from the Company, immediately and without charge at the registered office, a copy of the documents that will be submitted to the shareholders for approval and the Auditors' report.

3. When the shareholders acting at the General Shareholders' Meeting are to deal with an amendment to the By-Laws, the notice of the call to meeting shall set forth, in addition to the statements required by Law in each case, the right of all shareholders to examine at the registered office the full text of the proposed amendment and of the report thereon and to request that such documents be delivered or sent to them without charge.

4. In cases of increase or reduction in share capital, issuance of convertible debentures, merger, split-off, overall assignment of assets and liabilities and relocation of the Company's registered address abroad, the information required by Law in connection with such cases shall be made available.

5. During the course of the General Shareholders' Meeting, the shareholders of the Company may verbally request such information or clarifications as they deem appropriate regarding the matters contained in the agenda, or regarding the information accessible to the public that the Company has provided to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, or regarding the auditor's report. In the event that it is not possible to satisfy the shareholder's right at that time, the Directors shall

provide such information in writing within seven days of the close of the Meeting.

6. *The Directors shall have the duty to provide the information requested in reliance upon the preceding paragraphs 1 and 5, except in those cases in which it is legally inadmissible and, in particular, when, prior to specific questions being asked by the shareholders, the information requested has been clearly and directly made available to all shareholders in question-and-answer format on the Company's website, or when, in the opinion of the Chairman, publication of the requested information may prejudice the corporate interests. This last exception shall not apply when the request is supported by shareholders representing at least one-fourth of the share capital.*

Answers to shareholders who attend the General Shareholders' Meeting from a distance by means of data transmission and simultaneously and who exercise their right to receive information through this procedure shall be provided, if applicable, in writing, within seven days following the Meeting."

Inclusion of a new Article 18 bis in the Company's By-Laws:

"Article 18 bis. Rules Applicable to the Corporate Website

1. *The Company shall have a corporate website to accommodate the exercise of the shareholders' right to receive information and to disseminate significant information as required by securities market legislation.*

2. *The address of the Company's website shall be www.telefonica.com.*

3. *The Board of Directors may relocate the website, and is also authorized to amend section two of this article and to register such amendment with the Commercial Registry. In any event, such resolution*

shall remain posted on the relocated website for thirty days following the inclusion thereof.”

New text of Article 27 of the Company’s By-Laws:

“Article 27. Meetings, Quorum and Adoption of Resolutions by the Board of Directors

1. The Board of Directors shall regularly meet once a month, following a call to meeting. The Board shall meet at the principal office or at the place or places designated by the Chairman.

2. The Board shall hold extraordinary meetings when so resolved by the Chairman or the person who serves as such. The Chairman shall be required to call a meeting of the Board when so requested by at least three Directors. A meeting of the Board may also be called by at least one-third of the members of the Board of Directors, who shall set forth the agenda for the meeting, if a prior request to that effect has been submitted to the Chairman and the latter has failed, without good reason, to call a meeting within a term of one month.

3. All Directors who are absent may grant a proxy by letter to another Director who is in attendance, with the right to speak and to vote, at the meeting or session to which the proxy refers. The Director granting the proxy shall endeavor, to the extent possible, to include voting instructions in the letter of proxy.

4. A meeting of the Board may be held in several rooms simultaneously so long as real-time interactivity or intercommunication among them is ensured by audiovisual means or by telephone, such that the unity of the act is also ensured.

5. The Board of Directors shall endeavor, to the extent possible, that absences from Board meetings are kept to an absolute minimum. In the event that any of the Directors whose usual place of residence is in Madrid

fails to attend four consecutive meetings without providing sufficient reasons for his absence, the Board of Directors shall have the power to declare his removal from office and to appoint the person that will replace him on an interim basis until such appointment is submitted for ratification by the shareholders at the next General Shareholders' Meeting.

6. *In order for resolutions of the Board to be valid, one-half plus one of all the Directors in office must be in attendance, in person or by proxy; if there is an odd number of Directors in office, the number of Directors present in person or by proxy must be greater than the number of Directors who are absent.*

7. *Resolutions shall in all cases be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions.*

8. *Voting in writing and without a meeting shall be admitted when no Director opposes the use of this procedure.*

9. *The deliberations and resolutions of the Board shall be recorded in Minutes signed by the Secretary and approved by the Chairman or by the persons who have acted as such at the meeting in question. The Minutes shall be written down or transcribed in a Minute Book, which may be kept separately from the Minute Book used for the General Shareholders' Meeting. In the event of voting in writing and without a meeting, the resolutions adopted and the votes cast in writing shall also be recorded in the Minute Book."*

New text of Article 34 of the Company's By-Laws:

"Article 34. Fiscal Year and Submission of the Annual Financial Statements

1. *The fiscal year shall commence on January 1 and shall end on December 31 of each year.*
2. *Within three months following the end of the fiscal year, the Board of Directors shall prepare, in compliance with the provisions of applicable legislation, the annual financial statements, the management report and the proposed allocation of profits/losses.*
3. *The annual financial statements and the management report shall be subject to verification as provided by Law and thereafter submitted for approval by the shareholders at the General Shareholders' Meeting, who shall decide on the allocation of profits/losses.*
4. *The provisions of this article shall apply, to the extent appropriate and if at all, to the consolidated annual financial statements and the consolidated management report.”*

New text of Article 35 of the Company's By-Laws:

“Article 35. Allocation of Profits/Losses

1. *The shareholders acting at the General Shareholders' Meeting shall decide on the allocation of the profits/losses for the Fiscal Year based on the approved Balance Sheet.*
2. *Once such payments as are provided for by Law or these By-Laws have been made, dividends may only be distributed with a charge against the profits for the Fiscal Year or against unrestricted reserves, if the net book value of the shareholders' equity is not, or does not become as a result of the distribution, less than that of the share capital.*
3. *Dividends shall be distributed to ordinary shareholders in proportion to the capital paid by them.*
4. *The shareholders acting at the General Shareholders' Meeting may decide that dividends, or the share premium, be paid in kind,*

provided that the assets or securities to be distributed are homogeneous and liquid. The latter requirement shall be deemed to be complied with when the securities are admitted to trading on an official Market at the time the distribution resolution becomes effective, or will be so admitted within the following year, or when the Company provides adequate guarantees of liquidity.

The rule set forth in the preceding paragraph shall likewise apply to the return of contributions in the event of a reduction in share capital.”

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Madrid, April 10, 2012