AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE YEAR ENDED DECEMBER 31, 2010

Audit Report

TELEFÓNICA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2010

ERNST & YOUNG

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Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 23)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2010, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company's Directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2.a) to the notes to the financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with the regulatory audit standards prevailing in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2010 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, 2010, and of the results of its operations and cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

The accompanying 2010 management report contains such explanations as the Directors consider appropriate concerning the situation of the Company, 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 2010 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.

José Luis Perelli Alonso

April 14, 2011

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TELEFÓNICA, S.A.

ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

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

ASSETS	Notes	2010	2009
NON-CURRENT ASSETS		**87,748**	**75,589**
Intangible assets	**5**	**71**	**129**
Patents, licenses, trademarks, and others		4	45
Software		14	19
Other intangible assets		53	65
Property, plant and equipment	**6**	**381**	**411**
Land and buildings		150	178
Property, plant and equipment		157	179
Property, plant and equipment under construction and prepayments		74	54
Investment property	**7**	**345**	**328**
Land		65	65
Buildings		280	263
Non-current investments in Group companies and associates	**8**	**81,726**	**70,565**
Equity instruments		78,870	66,542
Loans to companies		2,832	4,000
Other financial assets		24	23
Non-current financial investments	**9**	**3,008**	**3,059**
Equity instruments		473	544
Loans to third parties		36	59
Derivatives	16	2,486	2,358
Other financial assets		13	98
Deferred tax assets	**17**	**2,217**	**1,097**
CURRENT ASSETS		**5,369**	**9,549**
Non-current assets held for sale	**8**	**624**	**-**
Trade and other receivables	**10**	**574**	**844**
Current investments in Group companies and associates	**8**	**3,335**	**3,199**
Loans to companies		3,295	3,141
Derivatives		12	29
Other financial assets		28	29
Current financial investments	**9**	**414**	**522**
Loans to companies		29	5
Derivatives	16	360	517
Other financial assets		25	-
Current deferred expenses		**6**	**13**
Cash and cash equivalents		**416**	**4,971**
Cash and cash equivalents		416	4,971
TOTAL ASSETS		**93,117**	**85,138**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these balance sheets.

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

EQUITY AND LIABILITIES	Notes	2010	2009
EQUITY		**29,400**	**28,290**
CAPITAL AND RESERVES		**29,550**	**28,617**
Share capital	**11**	**4,564**	**4,564**
Share premium	**11**	**460**	**460**
Reserves	**11**	**24,710**	**20,145**
Legal		984	984
Other reserves		23,726	19,161
Treasury shares and own equity instruments	**11**	**(1,376)**	**(527)**
Profit for the year	**3**	**4,130**	**6,252**
Interim dividend	**3**	**(2,938)**	**(2,277)**
UNREALIZED GAINS (LOSSES) RESERVE	**11**	**(150)**	**(327)**
Available-for-sale financial assets		**(5)**	**(91)**
Hedging instruments		**(145)**	**(236)**
NON-CURRENT LIABILITIES		**43,693**	**40,642**
Non-current provisions		**42**	**42**
Other provisions		42	42
Non-current borrowings	**12**	**8,009**	**8,579**
Bonds and other marketable debt securities	13	148	192
Bank borrowings	14	6,822	6,833
Derivatives	16	1,031	1,488
Other debts		8	66
Non-current borrowings from Group companies and associates	**15**	**34,864**	**31,984**
Deferred tax liabilities	**17**	**778**	**37**
CURRENT LIABILITIES		**20,024**	**16,206**
Current provisions		**4**	**4**
Current borrowings	**12**	**1,455**	**2,121**
Bonds and other marketable debt securities	13	104	335
Bank borrowings	14	1,176	481
Derivatives	16	175	1,305
Current borrowings from Group companies and associates	**15**	**16,009**	**13,829**
Trade and other payables	**18**	**2,522**	**244**
Current deferred income		**34**	**8**
TOTAL EQUITY AND LIABILITIES		**93,117**	**85,138**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these balance sheets.

TELEFÓNICA, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Notes	2010	2009
Revenue from operations	**19**	**7,439**	**6,863**
Rendering of services to Group companies and associates		583	433
Rendering of services to non-group companies		4	5
Dividends from Group companies and associates		6,474	5,763
Interest income on loans to Group companies and associates		378	662
Impairment and gains (losses) on disposal of financial instruments	**19**	**(1,985)**	**1,080**
Impairment losses and other losses	8	(1,985)	1,087
Gains (losses) on disposal and other gains and losses		-	(7)
Other operating income	**19**	**103**	**145**
Non-core and other current operating revenues - Group companies and associates		91	88
Non-core and other current operating revenues - non-group companies		12	57
Personnel expenses	**19**	**(193)**	**(169)**
Wages, salaries and others		(165)	(140)
Social security costs		(28)	(29)
Other operating expenses		**(687)**	**(375)**
External services - Group companies and associates	19	(85)	(74)
External services - non-group companies	19	(592)	(290)
Taxes other than income tax		(10)	(11)
Depreciation and amortization	**5, 6 and 7**	**(70)**	**(68)**
Gains (losses) on disposal of fixed assets		**(11)**	**-**
OPERATING PROFIT		**4,596**	**7,476**
Finance revenue	**19**	**224**	**104**
From equity investments of third parties		37	16
From marketable securities and other financial instruments		187	88
Finance costs	**19**	**(1,812)**	**(1,888)**
Borrowings from Group companies and associates		(1,791)	(1,717)
Third-party borrowings		(21)	(171)
Change in fair value of financial instruments		**(245)**	**(11)**
Trading portfolio and other securities		(2)	23
Gain (loss) on available-for-sale financial assets recognized in the period	11	(243)	(34)
Exchange gains (losses)	**19**	**122**	**(75)**
NET FINANCIAL EXPENSE		**(1,711)**	**(1,870)**
PROFIT BEFORE TAX	**21**	**2,885**	**5,606**
Income tax	**17**	**1,245**	**646**
PROFIT FOR THE YEAR		**4,130**	**6,252**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these income statements.

TELEFÓNICA, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(Millions of euros)	Notes	2010	2009
Profit for the period		**4,130**	**6,252**
Total income and expense recognized directly in equity	**11**	**(44)**	**(146)**
From measurement of available-for-sale financial assets		(120)	164
From cash flow hedges		57	(371)
Income tax		19	61
Total amounts transferred to income statement	**11**	**221**	**(30)**
From measurement of available-for-sale financial assets		243	34
From cash flow hedges		73	(76)
Income tax		(95)	12
TOTAL RECOGNIZED INCOME AND EXPENSE		**4,307**	**6,076**

The accompanying Notes 1 to 23 and Appendix are an integral part of these statements of changes in equity.

TELEFÓNICA, S.A.

B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Share capital	Share premium	Reserves	Treasury shares and own equity investments	Profit for the year	Interim dividend	Net unrealized gains (losses) reserve	TOTAL
Balance at December 31, 2008	**4,705**	**460**	**24,087**	**(2,179)**	**2,700**	**(2,296)**	**(151)**	**27,326**
Total recognized income and expense	-	-	-	-	6,252	-	(176)	**6,076**
Transactions with shareholders and owners	(141)	-	(4,346)	1,652	-	(2,277)	-	**(5,112)**
Capital decreases	(141)	-	(2,167)	2,308	-	-	-	**-**
Dividends paid	-	-	(2,280)	-	-	(2,277)	-	**(4,557)**
Transactions with treasury shares or own equity instruments (net)	-	-	101	(656)	-	-	-	**(555)**
Appropriation of prior year profit (loss)	-	-	404	-	(2,700)	2,296	-	**-**
Balance at December 31, 2009	**4,564**	**460**	**20,145**	**(527)**	**6,252**	**(2,277)**	**(327)**	**28,290**
Total recognized income and expense	-	-	-	-	4,130	-	177	**4,307**
Transactions with shareholders and owners	-	-	(2,959)	(849)	-	(2,938)	-	**(6,746)**
Capital decreases	-	-	-	-	-	-	-	**-**
Dividends paid	-	-	(2,934)	-	-	(2,938)	-	**(5,872)**
Transactions with treasury shares or own equity instruments (net)	-	-	(25)	(849)	-	-	-	**(874)**
Other movements	-	-	3,549	-	-	-	-	**3,549**
Appropriation of prior year profit (loss)	-	-	3,975	-	(6,252)	2,277	-	**-**
Balance at December 31, 2010	**4,564**	**460**	**24,710**	**(1,376)**	**4,130**	**(2,938)**	**(150)**	**29,400**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these statements of changes in equity.

Telefónica

TELEFÓNICA, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	**Notes**	**2010**	**2009**
A) CASH FLOWS FROM OPERATING ACTIVITIES		**6,833**	**8,437**
Profit before tax		2,885	5,606
Adjustments to profit:		(3,115)	(5,567)
Depreciation and amortization	5, 6 and 7	70	68
Impairment of investments in Group companies and associates	8	1,985	(1,087)
Impairment of investments in non-group companies		-	7
Change in trade provisions		(40)	-
Losses on disposal of property, plant and equipment		11	-
Dividends from Group companies and associates	19	(6,474)	(5,763)
Interest income on loans to Group companies and associates	19	(378)	(662)
Net financial expense	19	1,711	1,870
Change in working capital		310	16
Trade and other receivables		53	86
Other current assets		(64)	(51)
Trade and other payables		392	47
Other current liabilities		(50)	1
Other non-current assets and liabilities		(21)	(67)
Other cash flows from operating activities	21	6,753	8,382
Net interest paid		(1,061)	(974)
Dividends received		6,621	7,784
Income tax receipts (payments)		1,193	1,572
B) CASH FLOWS (USED IN) / FROM INVESTING ACTIVITIES		**(8,429)**	**804**
Payments on investments	21	(10,521)	(1,403)
Proceeds from disposals	21	2,092	2,207
C) CASH FLOWS USED IN FINANCING ACTIVITIES		**(2,992)**	**(4,790)**
Proceeds from/(payments on) equity instruments	11	(883)	(311)
Proceeds from/(payments on) financial liabilities	21	3,763	78
Debt issues		14,848	8,338
Repayment and redemption of debt		(11,085)	(8,260)
Dividends paid	11	(5,872)	(4,557)
D) NET FOREIGN EXCHANGE DIFFERENCE		**33**	**(85)**
E) NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(4,555)**	**4,366**
Cash and cash equivalents at January 1		4,971	605
Cash and cash equivalents at December 31		416	4,971

Notes 1 to 23 and Appendix I are an integral part of these cash flow statements.

TELEFÓNICA, S.A.

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. ("Telefónica" or the “Company”) is a public limited company incorporated on April 19, 1924 for an indefinite period, 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 Code of Commerce, developed in the Spanish GAAP in force (2007 Spanish GAAP) and other prevailing legislation 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 2010.

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.

b) Comparison of information

The aforementioned 2007 Spanish GAAP were subsequently amended by Royal Decree 1159/2010 of September 17, which affects individual financial statements as from January 1, 2010. The third and fifth transitional provisions of this Royal Decree establish that the new criteria are not to be applied retroactively, and therefore the comparative information for 2009 has not been modified under the new criteria. The financial statements for the year ended December 31, 2010 are therefore considered to be the opening financial statements in order to comply with the consistency principle and comparability requirement.

Acquisition of Brasilcel, N.V. and subsequent merger with Telefónica, S.A.

On July 28, 2010, Telefónica and Portugal Telecom, SGPS, S.A. signed an agreement for the acquisition by Telefónica, S.A. of 50% of the capital stock of Brasilcel, N.V. owned by Portugal Telecom. Brasilcel owned, approximately, 60% of Vivo Participaçoes, S.A. The acquisition price for the aforementioned capital stock of Brasilcel, N.V. is 7,500 million euros, of which 2,000 million euros will be paid on October 31, 2011 (Note 18), although Portugal Telecom will be able to request for this last payment to be made on July 29, 2011. This agreement also establishes inter alia that Portugal Telecom waives the declared dividend payable by Brasilcel, N.V. amounting to 49 million euros, which were recognized as a reduction in the cost of this acquisition. Taking into account the conditions established, the discounted price at which this acquisition was recognized is 7,419 million euros (See Notes 8.1 and 8.4).

Subsequently, on September 27, 2010 the two boards of directors approved the merger of Telefónica and Brasilcel, N.V., which was recognized on that date. This merger was subscribed in the Mercantile Registry on December 21, 2010 and gave rise to a reserve of 3,602 million euros, reduced by 49 million euros corresponding to the aforementioned dividends. The net amount by which Telefónica, S.A.'s equity was affected by this transaction was therefore 3,553 million euros (See Note 11).

Reduction of stake in Portugal Telecom, SGPS, S.A.

On June 23, Telefónica S.A. reduced its ownership interest in Portugal Telecom, SGPS, S.A. (hereinafter Portugal Telecom) by 6.49%, receiving a cash inflow of 512 million euros from the sale of the owernship interest. In addition, Telefónica signed three equity swap contracts with different financial entities. These swaps are based on the share price of Portugal Telecom and are settled for by differences, thereby obtaining the same economic returns. The value of these contracts at year end is recognized under Non-current assets held for sale. At December 31, 2010 Telefónica, S.A. holds a 2.02% interest in Portugal Telecom, which was also reclassified to this heading (See Note 8.1).

Tax amortization of goodwill

In December 2007, the European Commission opened an investigation involving the Kingdom of Spain with respect to the potential consideration as stated aid of the tax deduction for the tax basis amortization of the goodwill generated on certain foreign investments under the provisions of article 12.5 of the revised Spanish corporate income tax law (“TRLIS”). This investigation led to widespread uncertainties regarding the scope of the European Commission’s decision on the future for, among others, the Telefónica Group.

As a result, the Company deemed it necessary to recognize a liability as the deduction was applied in the consolidated financial statements until the investigation was concluded.

In December 2009, the text of the European Commission's decision regarding the investigation was released, which deemed the deduction as state aid. Investments made prior to December 21, 2007 (as is the case for the Telefónica Group's investments in O2 Group companies, the operators reacquired from BellSouth, Colombia Telecomunicaciones, S.A., ESP and Telefónica O2 Czech Republic, a.s.) are not affected by this decision. As a result of this decision, and considering the corporate structure of these investments, the income statement of Telefonica, S.A. for the year ended December 31, 2009 reflects a lower income tax expense due to the reversal of this liability in an amount of 584 million euros.

c) Use of estimates

The financial statements have been prepared 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 an 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.

(3) PROPOSED APPROPRIATION OF PROFIT

Telefónica, S.A. obtained 4,130 million euros of profit in 2010.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2010 profit for approval at the Shareholders' Meeting:

	Millions of euros
Proposed appropriation:	
Profit for the year	4,130
Distribution to:	
Interim dividend (paid in May 2010)	2,938
Goodwill reserve (Note 11 c)	2
Voluntary reserves	1,190

At its meeting of April 28, 2010, the Company's Board of Directors resolved to pay an interim dividend against 2010 profit of a fixed gross 0.65 euros for each of the outstanding shares carrying dividend rights. This dividend was paid in full on May 11, 2010, and the total amount paid was 2,938 million euros (see Note 11.1.d).

In accordance with Article 277 of the Spanish Enterprise Law, 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 April 28, 2010	
Income from January 1 through March 31, 2010	5,029
Mandatory appropriation to reserves	-
Distributable income	5,029
Proposed interim dividend (maximum amount)	**2,967**
Cash position at April 28, 2010	
Funds available for distribution	
Cash and cash equivalents	4,271
Unused credit facilities	5,889
Proposed interim dividend (maximum amount)	(2,967)
Difference	7,193

To ensure its liquidity requirements are met throughout 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 2010 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.

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 assessed for impairment 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 3 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 and investment property

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

Cost includes external costs plus any 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 costs due to the use of the asset.

Costs incurred for expansion, remodeling or improvements which increase the productivity, capacity, or prolong the useful life of the asset are capitalized when the capitalization 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).

The Company depreciates its property, plant and equipment once the 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
Other plant or equipment, furniture and fixtures	10
Other items of property, plant and equipment	4-10

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

Investment property is measured using the same criteria described for land and buildings for own use. Buildings included in investment property are depreciated on a straight-line basis over 40 years.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting 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 of 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. When 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 a period of three to five years. For periods beyond the strategic plan, 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 the income statement and the depreciation charge is adjusted in future periods to the asset's revised carrying amount.

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 costs 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 costs are taken to 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 and associates, and available-for-sale financial assets. When 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 exercises control, 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. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

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 12 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 reliably determined, these investments are carried at cost.

Loans and r*eceivables* includes trade or non-trade financial assets, 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 recognition, 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 is recorded when there is objective evidence of customer collection risk. The amount of the impairment 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 Group assesses at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss has been incurred on a financial asset carried at amortized cost, 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, with the asset's amortized cost had no impairment loss been recognized as the upper limit. 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, according to the general principle, the loss is not reversed in the income statement for the period, but rather in equity, as the instrument is measured at its new fair value, with any changes taken to equity.

Recoverable amount for estimating impairment of investments in Group companies, joint ventures and associates is the higher 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).

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; or

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 on the balance sheet include 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 reporting 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.

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;

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 a 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 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 on a net investment in a foreign operation is accounted for in a way similar to foreign currency fair value hedges. 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.

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 hedge 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 retrospectively, 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.

Call options on treasury shares which will be settled through the physical delivery of a fixed number of shares at a set price are considered as treasury shares. They are stated at the premium paid as a reduction of equity. If they are exercised on maturity, the amount previously recognized is reclassified to treasury shares along with the consideration paid. If the call options are not exercised, their value 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 retranslated at the 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 reporting 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 tax loss carryforwards.

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 reporting 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 reporting 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 reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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.

The income obtained by the Company in dividends received from Group companies and associates, and from the interest accrued on loans and credits given to them are included in revenue in compliance with the provisions of consultation No. 2 of BOICAC 79, published on September 30, 2009.

l) Related party transactions

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

In mergers and spin-offs involving the parent company and its direct or indirect subsidiary, acquired assets are carried at the amount at which they would state in the consolidated financial statements, once the transaction is completed, in accordance with the Code of Commerce developed in the Standards on Preparing Consolidated Financial Statements. Any difference is taken to reserves. For accounting purposes, the effective date of the transaction is taken as the first day of the year in which the merger or spin-off was approved, to the extent that it falls after the companies were incorporated into the group. If one of the companies joins the group in the year of the merger or spin-off, the acquisition date is used for accounting purposes.

m) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 20 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 serving 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 take to the income statement corresponding to accrued income.

n) Non-current assets held for sale

Non-current assets (and certain groups of assets and liabilities defined as disposal groups) are classified as *held for sale* when their carrying amounts will be recovered primarily through their sale, which is considered to be highly probable. Non-current assets (and disposal groups) *held for sale* are accounted for at the lower of their carrying amount and fair value less cost to sell, and are recognized on a separate line of the balance sheet.

o) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, 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 2010 are as follows:

Item	*Millions of euros*
Total assets	129,775
Equity:	
Attributable to equity holders of the parent	24,452
Attributable to minority interests	7,232
Revenue from operations	60,737
Profit for the year:	
Attributable to equity holders of the parent	10,167
Attributable to minority interests	95

(5) INTANGIBLE ASSETS

The movements in the items composing intangible assets and the related accumulated amortization in 2010 and 2009 are as follows:

(Millions of euros) *2010*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**346**	**6**	**(42)**	**1**	**311**
Patents, licenses, trademarks, and others	62	2	(42)	-	22
Software	171	4	-	1	176
Other intangible assets	113	-	-	-	113
ACCUMULATED AMORTIZATION	**(217)**	**(25)**	**2**	**-**	**(240)**
Patents, licenses, trademarks, and others	(17)	(3)	2	-	(18)
Software	(152)	(10)	-	-	(162)
Other intangible assets	(48)	(12)	-	-	(60)
Net carrying amount	**129**	**(19)**	**(40)**	**1**	**71**

(Millions of euros) *2009*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**325**	**73**	**(60)**	**8**	**346**
Patents, licenses, trademarks, and others	29	50	(17)	-	62
Software	196	10	(43)	8	171
Other intangible assets	100	13	-	-	113
ACCUMULATED AMORTIZATION	**(244)**	**(25)**	**52**	**-**	**(217)**
Patents, licenses, trademarks, and others	(25)	(2)	10	-	(17)
Software	(181)	(13)	42	-	(152)
Other intangible assets	(38)	(10)	-	-	(48)
Net carrying amount	**81**	**48**	**(8)**	**8**	**129**

In 2010 the rights to operate and commercialize the Altamira Platform were sold to a company outside the Telefónica Group. The carrying amount of this asset was 40 million euros on the sale date.

Proceeds from disposals of intangible assets in 2009 were not material for the Company's income statement.

At December 31, 2010 commitments exist to acquire intangible assets amounting to 0.3 million euros. At December 31, 2009, no such commitments existed. Future finance lease commitments are also disclosed in Note 20 c.

At December 31, 2010 and 2009, the Company had 167 million euros and 152 million euros, respectively, of fully amortized intangible assets. In 2009, fully amortized intangible assets worth 52 million euros were written off.

(6) PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2010 and 2009 are as follows:

(Millions of euros) *2010*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	**591**	**33**	**-**	**(26)**	**598**
Land and buildings	243	-	-	(24)	219
Property, plant and equipment	294	2	-	9	305
Property, plant and equipment under construction and prepayments	54	31	-	(11)	74
ACCUMULATED DEPRECIATION	**(180)**	**(37)**	**-**	**-**	**(217)**
Buildings	(65)	(4)	-	-	(69)
Property, plant and equipment	(115)	(33)	-	-	(148)
Net carrying amount	**411**	**(4)**	**-**	**(26)**	**381**

(Millions of euros) *2009*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	**562**	**52**	**(15)**	**(8)**	**591**
Land and buildings	239	4	-	-	243
Property, plant and equipment	304	1	(12)	1	294
Property, plant and equipment under construction and prepayments	19	47	(3)	(9)	54
ACCUMULATED DEPRECIATION	**(158)**	**(35)**	**13**	**-**	**(180)**
Buildings	(61)	(4)	-	-	(65)
Property, plant and equipment	(97)	(31)	13	-	(115)
Net carrying amount	**404**	**17**	**(2)**	**(8)**	**411**

Firm commitments to acquire property, plant and equipment at December 31, 2010 and 2009 amounted to 0.3 million euros and 2 million euros, respectively.

Furthermore, in December 2010 the new headquarters of the Telefónica Group in Barcelona were partially accepted. The lease agreement was finally signed in 2011 on final delivery of the building. The agreement establishes a non-cancellable lease term of 15 years, which can be extended to 50 years. Future payment commitments associated with this lease are as follows:

(Millions of euros)	2010
Up to one year	6
Between one and five years	26
More than five years	69
Total	**101**

In 2010 and 2009, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2010 and 2009, the Company had 21 million euros and 17 million euros, respectively, of fully depreciated items of 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 2010 and 2009, 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 134 million euros and 158 million euros, respectively.

Also included is the net carrying amount of the land and buildings occupied by Telefónica, S.A. at the central offices of District C of 95 million euros at the 2010 and 2009 year ends.

(7) INVESTMENT PROPERTIES

The movements in the items composing investment properties in 2010 and 2009 and the related accumulated depreciation are as follows:

(Millions of euros) *2010*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	**361**	**-**	**-**	**25**	**386**
Land	65	-	-	-	65
Buildings	296	-	-	25	321
ACCUMULATED DEPRECIATION	**(33)**	**(8)**	**-**	**-**	**(41)**
Buildings	(33)	(8)	-	-	(41)
Net carrying amount	**328**	**(8)**	**-**	**25**	**345**

(Millions of euros) *2009*	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	**361**	**-**	**-**	**-**	**361**
Land	65	-	-	-	65
Buildings	296	-	-	-	296
ACCUMULATED DEPRECIATION	**(25)**	**(8)**	**-**	**-**	**(33)**
Buildings	(25)	(8)	-	-	(33)
Net carrying amount	**336**	**(8)**	**-**	**-**	**328**

The Company has buildings with a total area of 361,475 square meters leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 92.97% of the buildings it has earmarked for lease. In 2009, it had a total of 341,470 square meters leased, equivalent to an occupancy rate of 91.51% of the buildings earmarked for lease.

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

Total income from leased buildings amounted to 43 million euros in 2010 (40 million euros in 2009) (see Note 19.1). Future minimum rentals receivable under non-cancellable leases are as follows:

	2010		2009	
(Millions of euros)	Future minimum payments	Present value	Future minimum payments	Present value
Up to one year	50		43	
Between one and five years	-		54	
Total	**50**	**48**	**97**	**90**

The main contract in which Telefónica, S.A. acts as lessee is described in Note 19.5.

(8) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

8.1 The movements in the items composing investments in Group companies, joint ventures and associates in 2010 and 2009 are as follows:

(Millions of euros) *2010*	Opening balance	Additions	Disposals	Business combinations	Transfers	Exchange gains (losses)	Dividends	Hedges of a net investment	Closing balance	Fair value
Non-current:										
-Equity instruments (Net) (1):	66,542	9,219	-	3,505	(610)	-	(21)	235	78,870	78,750
Equity instruments (Cost)	72,535	11,204	(5)	3,505	(629)	-	(21)	235	86,824	
Impairment losses	(5,993)	(1,985)	5	-	19	-	-	-	(7,954)	
- Loans to group companies and associates	4,000	769	(30)	-	(2,116)	209	-	-	2,832	2,832
-Other financial assets	23	24	-	-	(23)	-	-	-	24	24
Total non-current investment in Group companies and associates	**70,565**	**10,012**	**(30)**	**3,505**	**(2,749)**	**209**	**(21)**	**235**	**81,726**	**81,606**
Current:										
- Loans to group companies and associates	3,141	1,115	(3,095)	-	2,116	18	-	-	3,295	3,295
-Derivatives	29	12	(29)	-	-	-	-	-	12	12
-Other financial assets	29	23	(47)		23	-	-	-	28	28
Total current investments in Group companies and associates	**3,199**	**1,150**	**(3,171)**	**-**	**2,139**	**18**	**-**	**-**	**3,335**	**3,335**

(1) Fair value at December 31, 2010 of Group companies and associates quoted in an active market (Telefónica de Perú, S.A.A. and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year; for the rest of the shareholdings at carrying amount.

(Millions of euros) *2009*	Opening balance	Additions	Disposals	Transfers	Exchange gains (losses)	Dividends	Hedges of a net investment	Closing balance	Fair value
Non-current:									
-Equity instruments (Net) (1):	63,795	25	960	1,422	-	(92)	432	66,542	66,656
Equity instruments (Cost)	70,882	25	(127)	1,415	-	(92)	432	72,535	-
Impairment losses	(7,087)	-	1,087	7	-	-	-	(5,993)	-
- Loans to group companies and associates	6,070	36	(59)	(2,042)	(5)	-	-	4,000	4,000
-Other financial assets	24	16	-	(17)	-	-	-	23	23
Total non-current investment in Group companies and associates	**69,889**	**77**	**901**	**(637)**	**(5)**	**(92)**	**432**	**70,565**	**70,679**
Current:									
- Loans to group companies and associates	9,383	2,823	(9,714)	661	(12)	-	-	3,141	3,141
-Derivatives	101	3	(75)	-	-	-	-	29	29
-Other financial assets	28	12	(28)	17	-	-	-	29	29
Total current investments in Group companies and associates	**9,512**	**2,838**	**(9,817)**	**678**	**(12)**	**-**	**-**	**3,199**	**3,199**

(1) Fair value at December 31, 2009 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.

On June 23, Telefónica S.A. reduced its ownership interest in Portugal Telecom by 6.49%, resulting in cash inflow of 512 million euros from the sale of these shares. In addition, Telefónica has entered into three equity swap contracts for Portugal Telecom shares with a number of financial institutions, subject to net settlement, which grant Telefónica the equivalent total return of the investment. This investment had been recognized under “Investments in associates” and has since been reclassified to “Non-current assets held for sale”. At December 31, 2010 Telefónica, S.A. holds a 2.02%

interest in Portugal Telecom, which was also reclassified to this heading (Note 2 b). Both movements were included under "Transfers".

On June 11, 2009, the Company agreed the capitalization of loans granted to Telefónica Móviles México, S.A. de C.V. for a total amount, including principal and interest accrued, of 26,000 million Mexican pesos (1,381 million euros). This transaction is included in “Transfers” (see Note 8.5).

In addition to the two capitalizations described above, the remainder of the amounts included under “Loans to Group companies and associates” in “Transfers” in the table of movements in investments relate mainly to short-term movements required to meet the repayment schedules of the loans.

The impact in 2010 of hedges of net investments in foreign operations amounted to a gain of 235 million euros (compared to a gain of 432 million euros in 2009).

In 2010 and 2009, Telefónica, S.A. bought and sold the following investments:

a) Acquisitions of investments and capital increases:

	Millions of euros	
Companies	***2010***	***2009***
Subsidiaries:		
Brasilcel, N.V.	7,419	-
Telfin Ireland, Ltd.	3,410	-
Telefónica O2 Europe, Ltd.	35	-
Telefónica de Argentina, S.A.	-	23
Others	340	2
Total subsidiaries	**11,204**	**25**

2010

On February 10, 2010 the Irish company Telfin Ireland Limited was incorporated by means of a 919 million euro contribution by Telefonica, S.A. (its sole shareholder). On April 28, 2010, Telefonica, S.A. invested an additional amount of 243 million euros as capital increase in this company. Then on May 21, 2010, Telefónica, S.A. injected a further 1,379 million euros and on June 24, 2010 another 869 million euros. These funds were used by Telfin Ireland, Ltd. to finance other Group companies in transactions performed during 2010.

On July 28, 2010 Telefónica, S.A. and Portugal Telecom signed an agreement through which Telefónica, S.A. acquired 50% of the stock capital of Brasilcel, N.V. (a company in which Portugal Telecom and Telefónica had equal joint interests until that date, which holds approximately 60% of the share capital of the Brazilian company Vivo Participações, S.A.) held by Portugal Telecom. The acquisition price for the aforementioned capital stock of Brasilcel, N.V. was 7,500 million euros, of which 2,000 million euros will be paid on October 31, 2011 (Note 18), although Portugal Telecom will be able to request for this last payment to be made on July 29, 2011 and therefore, in such case, the price of the acquisition and the closing payment would be reduced by approximately 25 million euro (Note 20 c). This agreement also establishes inter alia that Portugal Telecom waives the declared dividend payable by Brasilcel, N.V. amounting to 49 million euros, which were recognized as a reduction in the cost of this acquisition. Taking into account the conditions established, the discounted price at which this acquisition was recognized is 7,419 million euros.

2009

In December 2009, following approval by the Comisión Nacional de Valores de la República Argentina ("CNV"), the Argentine securities regulator, Telefónica, S.A. acquired shares representing 1.8% of the share capital of Telefónica de Argentina, S.A. held by minority shareholders. The total investment amounted to 23 million euros. Following this acquisition, the Telefónica Group holds 100% of the share capital of Telefónica de Argentina, S.A.

b) Disposals of investments and capital decreases:

	Millions of euros	
Companies	***2010***	***2009***
Subsidiaries:		
Brasilcel, N.V.	-	74
Telefónica Internacional Wholesale Services América, S.A.	-	24
Telefónica Global Technology, S.A. (formerly Ateseco Comunicación, S.A.)	-	27
Others	5	2
Total subsidiaries	**5**	**127**

2010

In January 2010, Mobipay Internacional was liquidated. Full provision had been made for the investment in this company of 5 million euros.

2009

On November 16, 2009, approval was given at the General Shareholders' Meeting of Brasilcel, N.V. to return capital to shareholders in accordance with their percentage interest, for a total amount of 123 million US dollars, of which 61.5 million US dollars (41 million euros) corresponded to Telefónica, S.A.

On December 22, 2009, approval was given at the General Shareholders' Meeting of Brasilcel, N.V. to return capital to shareholders in accordance with their percentage interest, for a total amount of 93 million US dollars, of which 46.5 million US dollars (33 million euros) corresponded to Telefónica, S.A.

On December 1, 2009, approval was given at the General Shareholders' Meeting of Telefónica Internacional Wholesale Services América, S.A. to reduce capital by 35.7 million US dollars (24 million euros), with the full amount going to Telefónica, S.A. As a result, the Company's stake decreased from 78.22% to 76.85%.

In December 2009, approval was given at the General Shareholders' Meeting of Telefónica Global Technology, S.A. (formerly Ateseco Comunicación, S.A.) to return the share premium to its shareholder Telefónica, S.A. of 27 million euros.

Business combinations

On September 27, 2010 the corresponding boards of directors agreed to start the take-over of Brasilcel, N.V. by Telefónica, which was completed on December 21, 2010 after being subscribed in the Madrid Mercantile Registry.

Brasilcel, N.V. had the following merger balance sheet:

(Millions of euros)	
Investments in Group companies	4,574
Other assets	103
Total assets	**4,677**
Liabilities and equity	**4,677**

As a result of this transaction, Telefónica, S.A. acquired direct investments in Vivo Participaçoes, S.A. (35.89%), Portelcom Participaçoes, S.A. (84.78%), PTelecom Brasil, S.A. (100%), and increased its stake in Telefónica Brasil Sul Celular Participaçoes, Ltda. to 74.39%. The total direct and indirect stake in Vivo Participaçoes held by Telefónica, S.A. at December 31, 2010 amounted to approximately 60%. The gross value of these stakes amounts to 13,021 million euros which, less the acquisition cost of Brasilcel, N.V., amounts to 3,505 million euros, as shown in the "Business combinations" column of the table showing investments in Group companies and associates in 2010.

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

At each year end, the Company re-estimates 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 December 31, 2010 and 2009.

As a result of these re-estimations and the effect of the net investment hedge, an impairment provision of 1,985 million euros was recognized. This amount primarily comprises the 1,984 million euro impairment provision recognized for Telefónica Europe, plc., 124 million euros of which corresponds to the effect of the net investment hedge.

In 2009, the Company recognized a reversal of write-downs amounting to 1,457 million euros (1,087 million euros after the effect of net investment hedges). This amount mainly arose from the reversal recognized by Telefónica Europe, plc. for 1,311 million euros (911 million euros, net of the investment hedge).

8.3 The detail of subsidiaries and associates is shown in Appendix I.

8.4 Transactions protected for tax purposes.

Transactions carried out in 2010 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VII 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. Only one transaction of this type involving subsidiaries belonging to the Tax Group headed by Telefónica, S.A. took place in 2010.

On December 16, 2010 the cross-border merger involving the take-over of the Dutch company Brasilcel, N.V. by Telefónica, S.A. was executed by public deed, with the latter acquiring all the rights and obligations of the former. This transaction was inscribed in the Madrid Mercantile Registry on December 21.

As a result of this merger, Brasilcel, N.V. was dissolved without liquidation, and all its rights and obligations were transferred en bloc to Telefónica, S.A., which also acquires all these rights and obligations by universal succession, with Brasilcel, N.V. being wound up.

8.5 The breakdown and maturity of loans to Group companies and associates in 2010 and 2009 are follows:

2010 Company *(millions of euros)*	2011	2012	2013	2014	2015	2016 and subsequent years	Final balance, current and non-current
Telefónica de España, S.A.U.	1,079	698	-	-	-	-	1,777
Telefónica Móviles España, S.A.U.	236	-	-	-	-	-	236
Telefónica Móviles México, S.A. de C.V.	1,697	-	-	-	-	-	1,697
Telefónica de Contenidos, S.A.U.	28	-	1,142	-	79	-	1,249
Telefónica Móviles Argentina, S.A.	8	8	5	-	-	-	21
Inversiones Telefónica Móviles Holding, Ltd.	50	-	-	-	-	-	50
Telefónica Global Technology, S.A.	4	5	5	5	2	66	87
Telco, S.p.A.	14	600	-	-	-	-	614
Telefónica Internacional, S.A.U.	56	-	-	-	-	-	56
Others	123	24	86	14	16	77	340
Total	**3,295**	**1,335**	**1,238**	**19**	**97**	**143**	**6,127**

2009 Company *(millions of euros)*	2010	2011	2012	2013	2014	2015 and subsequent years	Final balance, current and non-current
Telefónica de España, S.A.U.	1,142	697	698	-	-	-	2,537
Telefónica Móviles España, S.A.U.	407	-	-	-	-	-	407
Telefónica Móviles México, S.A. de C.V.	250	1,244	-	-	-	-	1,494
Telefónica de Contenidos, S.A.U.	9	-	-	1,142	-	79	1,230
Telefónica Internacional, S.A.U.	1,110	-	-	-	-	-	1,110
Telefónica Móviles Argentina, S.A.	81	-	-	22	-	29	132
Inversiones Telefónica Móviles Holding, Ltd.	50	-	-	-	-	-	50
Others	92	18	-	3	-	68	181
Total	**3,141**	**1,959**	**698**	**1,167**	**-**	**176**	**7,141**

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 1,395 million euros at December 31, 2010, of which 698 million euros are long term and 697 million euros are short term. The short-term amount includes accrued interest payable of 11 million euros (14 million euros in 2009).

  Financial year 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. This loan was cancelled on November 15, 2009.

  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 was recognized under "Current assets - Loans to Group companies and associates". The movement is shown in "Disposals" in the table of movements for fiscal 2009.

- Financing granted to Telefónica Móviles España, S.A.U. in 2008 comprised a participating loan dated October 1, 2002, for 3,101 million euros, paying annual fixed interest plus a floating interest rate based on the performance of the company. The loan matured on December 22, 2009 and was offset with a debt granted by Telefónica Móviles España, S.A.U. to Telefónica, S.A. (see Note 15.1).

- 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 dollars was published by the Bank of Mexico on November 28, 2008. The conditions regarding interest and maturity of the loans were not altered.

  On June 11, 2009, Telefónica, S.A. agreed to capitalize 10,340 million Mexican pesos of the principal of these loans and 15,660 million Mexican pesos of accrued interest receivable (equivalent to 1,381 million euros). On that date, 10,000 million Mexican pesos were capitalized, with the remainder pending capitalization until December 11, 2009. The capitalization was recognized with a transfer in the 2009 movement of financial assets (see Note 8.1).

  After the capitalization, the total amount drawn (loan principle) at December 31, 2009 was 27,912 million Mexican pesos, equivalent to 1,494 million euros. One of the lines of credit of 4,519 million Mexican pesos (279 million euros) matured in 2010, which was offset by a payable Telefónica had with Telfisa Global, B.V. for the same amount in euros. No cash flow therefore occurred in relation to this repayment. The movement was recognized as a disposal in the 2010 table of movements. The balance of the two outstanding lines of credit amounted to 23,393 million Mexican pesos at December 31, 2010 (equivalent to 1,418 million euros).

  On September 23, 2010, an additional loan of 269 million euros was extended to Telefónica Móviles México, S.A. de C.V. which matures in March 2011, to cover the financing requirements of the subsidiary during the second half of 2010. At year end, this loan had been fully drawn down, and was recognized under current loans.

  At December 31, 2010 accrued interest receivable on the aforementioned loans extended to Telefónica Móviles México, S.A. de C.V. amounted to 11 million euros.

- Financing granted to Telefónica de Contenidos, S.A.U. comprises a 1,142 million euros participating loan, fully drawn down at December 31, 2010 and 2009, 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. This second loan was also fully drawn down at December 31, 2010 and 2009. The current portion of this loan in 2010 includes accrued interest receivable of 11 million euros.

- On January 11, 2010, Telco, S.p.A. ("Telco") arranged a 1,300 million euro loan with Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A., Société Générale, S.p.A. and Unicredito, S.p.A. maturing on May 31, 2012, part of which is secured with Telecom Italia, S.p.A. shares. The lending banks have granted Telco shareholders a call option on the Telecom Italia, S.p.A. shares that they may be entitled to receive as a result of the potential execution of the pledge.

  In line with the commitments assumed by Telco shareholders, on December 22, 2009, the rest of Telco's financing needs with respect to debt maturities were met with a bridge loan granted by shareholders Telefónica, Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for approximately 902 million euros, and a bank bridge loan granted by Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for the remaining 398 million euros.

The financing from the bridge loans was substituted with a bond subscribed by Telco's shareholder groups, on a pro-rate basis in accordance with their interests in the company, on February 19, 2010 for 1,300 million euros, of which 600 million euros corresponded to Telefónica, accruing interest at a fixed rate of 4%. At 2010 year end, this bond had generated accrued interest receivable of 14 million euros.

- A loan was granted to Telefónica Internacional, S.A.U. on April 15, 2008 for 1,000 million euros, maturing in April 2011. As of December 31, 2009, 794 million euros were drawn down. This loan was repaid on April 14, 2010 and although the line of credit is still available, no drawdown exists at year end.

- In January 2010, a 19 million euro loan was extended to Telefónica Global Technology, S.A. (hereinafter TGT), which matures in 2015 and accrues interest at a variable rate linked to the six-month Euribor. The loan was granted to enable this subsidiary to meet various payment commitments. At 2010 year end, 18 million euros had been drawn down. On September 10, 2010, Telefónica, S.A. extended a 111 million euro participating loan maturing in 2020 to TGT to cover its general financing requirements. This loan accrues interest based on the performance of the company. At December 31, 2010 68 million euros was drawn down.

- At December 31, 2009, financing granted to Telefónica Móviles Argentina, S.A. comprised three US dollar-denominated loans, maturing between 2010 and 2015 and bearing a fixed interest rate. Two of these loans amounting to 111 million US dollars and 43 million US dollars (82 million euros and 32 million euros, respectively) were repaid during 2010.

- Financing granted to Inversiones Telefónica Móviles Holding, Ltd. was arranged on November 4, 2008 as a result of the loan assigned by Telefónica Internacional Chile, S.A. to Telefónica, S.A. for 284 million euros. This loan fell due in 2010, but was extended to July 26, 2011 and is therefore recognized as a current loan. At the 2010 and 2009 year ends, an amount of 50 million euros had been drawn down.

- "Disposals" of current assets – loans to Group companies and associates includes the cancellation of balances receivable from subsidiaries belonging to Telefónica, S.A.'s Tax Group on debts with them of 1,166 million euros (2009: 1,859 million euros).

- The Company has also extended 703 million euros (1,116 million euros in 2009) 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 236 million euros to Telefónica Móviles España, S.A.U. (407 million euros in 2009), 371 million euros to Telefónica de España, S.A.U. (430 million euros in 2009) and 56 million euros to Telefónica Internacional, S.A.U. (313 million euros in 2009), all falling due in the short term.

  "Loans to Group companies and associates" includes accrued interest receivable at December 31, 2010 amounting to 51 million euros (21 million euros in 2009).

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 maturing in 2011, 2012 and 2013 (see Note 19.3).

(9) FINANCIAL INVESTMENTS

9.1. The breakdown of "Financial investments" at December 31, 2010 and 2009 is as follows:

2010	ASSETS AT FAIR VALUE						ASSETS AT AMORTIZED COST					
					Measurement hierarchy							
(Millions of euros)	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Subtotal liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial investments	**473**	**936**	**1.550**	**2.959**	**473**	**2.486**	**36**	**13**	**49**	**49**	**3.008**	**3.008**
Equity instruments	473	-	-	473	473	-	-	-	-	-	473	473
Derivatives (Note 16)	-	936	1,550	2,486	-	2,486	-	-	-	-	2,486	2,486
Loans to third parties and other financial assets	-	-	-	-	-	-	36	13	49	49	49	49
Current financial investments	**-**	**170**	**190**	**360**	**-**	**360**	**29**	**25**	**54**	**54**	**414**	**414**
Loans to third parties	-	-	-	-	-	-	29	25	54	54	54	54
Derivatives (Note 16)	-	170	190	360	-	360	-	-	-	-	360	360
Total financial investments	**473**	**1,106**	**1,740**	**3,319**	**473**	**2,846**	**65**	**38**	**103**	**103**	**3,422**	**3,422**

2009	ASSETS AT FAIR VALUE						ASSETS AT AMORTIZED COST					
					Measurement hierarchy							
(Millions of euros)	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Loans and receivables	Other financial assets	Subtotal assets at amortized cost	Subtotal liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial investments	**544**	**839**	**1,519**	**2,902**	**544**	**2,358**	**59**	**98**	**157**	**157**	**3,059**	**3,059**
Equity instruments	544	-	-	544	544	-	-	-	-	-	544	544
Derivatives (Note 16)	-	839	1,519	2,358	-	2,358	-	-	-	-	2,358	2,358
Loans to third parties and other financial assets	-	-	-	-	-	-	59	98	157	157	157	157
Current financial investments	**-**	**476**	**41**	**517**	**-**	**517**	**5**	**-**	**5**	**5**	**522**	**522**
Loans to third parties	-	-	-	-	-	-	5	-	5	5	5	5
Derivatives (Note 16)	-	476	41	517	-	517	-	-	-	-	517	517
Total financial investments	**544**	**1,315**	**1,560**	**3,419**	**544**	**2,875**	**64**	**98**	**162**	**162**	**3,581**	**3,581**

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

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.

9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivate financial instruments at December 31, 2010 and 2009 (see Note 16).

9.3 Available-for-sale financial 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, 2010 and 2009 are as follows:

December 31, 2010				
(Millions of euros)	**Opening balance**	**Additions**	**Fair value adjustments**	**Closing balance**
Banco Bilbao Vizcaya Argentaria, S.A.	468	49	(99)	418
Amper, S.A.	11	-	(6)	5
Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, SGPS, S.A.	65	-	(15)	50
Total	**544**	**49**	**(120)**	**473**

December 31, 2009				
(Millions of euros)	**Opening balance**	**Additions (disposals)**	**Fair value adjustments**	**Closing balance**
Banco Bilbao Vizcaya Argentaria, S.A.	314	3	151	468
Amper, S.A.	8	-	3	11
Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, SGPS, S.A.	55	-	10	65
Other equity investments	6	(6)	-	-
Total	**383**	**(3)**	**164**	**544**

In 2010, Telefónica, S.A. transferred the stake in Banco Bilbao Vizcaya Argentaria, S.A. of 191 million euros and in Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, S.G.P.S., S.A. of 52 million euros from equity to net financial expense. These transfers were recognized in "Gain (loss) on available-for-sale financial assets recognized in the period".

In June 2009, Telefónica, S.A. transferred 34 million euros to profit and loss for its shareholding in Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, S.G.P.S., S.A. This transfer was recognized in "Gain (loss) on available-for-sale financial assets recognized in the period".

The investment held by Telefónica, S.A. in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 represents 0.98% of the bank's share capital at 2010 year end. The amount included under "Additions" in 2010 corresponds to the share capital increase on November 30, 2010 during which Telefónica, S.A. acquired 7,359,889 new shares. The amount included under “Additions” in 2009 relates to the recognition of the dividend in kind approved at BBVA's General Shareholders’ Meeting held on March 13, 2009, whereby one new share was granted to each 62 existing shares held by shareholders.

In addition to the transfers to results described above, in 2010 and 2009 unrealized gains (losses) on available-for-sale financial assets were recognized by Telefónica, S.A. amounting to a gross loss of 120 million euros (tax effect of 36 million euros) in 2010 and a gross gain of 164 million euros (tax effect of 49 million euros) in 2009 (Note 11.2).

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2010 and 2009 is as follows:

(Millions of euros)	**2010**	**2009**
Other non-current financial assets		
Loans to third parties	36	59
Prepayments	1	1
Guarantees given	12	97
Other current financial assets:		
Loans to third parties	29	5
Guarantees given	25	-
Total	**103**	**162**

9.4.1 Loans to third parties

Non-current loans to third parties includes the cost of options arranged at December 31, 2010 to cover shared-based payment schemes involving Telefónica, S.A. shares (fourth phase) for 34 million euros (see Note 19.3).

The cover for the third phase that was recognized as non-current in 2009 was reclassified to current loans at 2010 year end, as it matures in June 2011 (25 million euros).

9.4.2 Guarantees given

“Guarantees given” under non-current assets in 2009 mainly comprises deposits made to cover the guarantees provided for Ipse 2000 S.p.A., which totaled 86 million euros. In 2010, the 65 million euro installment for the UMTS licence for 2010 was paid. The remaining amount was reclassified to current guarantee deposits until it can be recovered.

(10) TRADE AND OTHER RECEIVABLES

The breakdown of “Trade and other receivables” at December 31, 2010 and 2009 is as follows:

(Millions of euros)	2010	2009
Trade receivables	39	65
Trade receivables from Group companies and associates	388	639
Other receivables	20	7
Receivables from employees	2	-
Tax receivables (Note 17)	125	133
Total	**574**	**844**

"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 office rental fees (see Note 7).

"Trade receivables" and "Trade receivables from Group companies and associates" include balances in foreign currency equivalent to 91 million euros (94 million euros at year end 2009). In December 2010, there were receivables in US dollars equivalent to 57 million euros and Czech crowns equivalent to 34 million euros. In December 2009, there were receivables in US dollars equivalent to 66 million euros and Czech crowns equivalent to 28 million euros.

These balances gave rise to exchange gains in the income statement of approximately 9 million euros in 2010 (1 million euros of exchange gains in 2009).

(11) EQUITY

11.1 Capital and reserves

a) Share capital

At December 31, 2010, Telefónica, S.A.'s share capital amounted to 4,563,996,485 euros and consisted of 4,563,996,485 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, Tokyo, Buenos Aires, Sao Paulo and Lima Stock Exchanges.

With respect to authorizations given regarding share capital, on June 21, 2006, authorization was given at the Annual Shareholders' Meeting of Telefónica, S.A. for the Board of Directors, at its discretion and in accordance with the Company's needs, 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 former Spanish Corporation Law (article 297.1.b of the prevailing Spanish Enterprise Law) up to a maximum increase of 2,460 million euros, equivalent to half of Telefónica, S.A.'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 former Spanish Corporation Law (article 311.1 of the prevailing Spanish Enterprise Law). The Board of Directors was also empowered to exclude, partially or fully, pre-emptive subscription rights under the terms of Article 159.2 of the former Spanish Corporation Law (article 506 of the prevailing Spanish Enterprise Law) and related provisions.

In addition, at the June 2, 2010 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 Telefónica, S.A. and/or exchangeable for shares of Telefónica, S.A., of any of the Group companies or of any other company. 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. When calculating the aforementioned limit, the outstanding balance of promissory notes issued under this authorization. As at December 31, 2010, the Board of Directors had exercised these powers, approving a program to issue corporate promissory notes for 2011.

In addition, on June 2, 2010, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum period of five years 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 the maximum legal percentage at any time (currently 10% of Telefónica, S.A.'s share capital).

On December 28, 2009, the deed of capital reduction formalizing the implementation by Telefónica, S.A.'s Board of Directors of the resolution adopted in its meeting on June 23, 2009, was executed. Capital was reduced through the cancellation of treasury shares previously acquired by Telefónica, S.A. as authorized by the Shareholders' Meeting. As a result, 141,000,000 Telefónica, S.A. treasury shares were cancelled and the Company's share capital was reduced by a nominal amount of 141,000,000 euros. Article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,563,996,485 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 December 30, 2009.

At December 31, 2010 and 2009, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/10	55,188,046	17.01	16.97	937	1.20920%

(1) Millions of euros

	Number of shares	Euros per share		Market value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.13868%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2009 and 2010 is as follows:

	Number of shares
Treasury shares at 12/31/08	**125,561,011**
Acquisitions	65,809,222
Disposals	(40,730,735)
Delivery PSP Phase I (Note 19.3)	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	**6,329,530**
Acquisitions	52,650,000
Disposals	(827,047)
Delivery PSP Phase II (Note 19.3)	(2,964,437)
Treasury shares at 12/31/10	**55,188,046**

In addition to the Company's treasury shares, at 2010 year end 16,896 Telefónica, S.A. shares were held by Telefónica Móviles Argentina, S.A.

The amount paid to acquire treasury shares in 2010 and 2009 was 897 million euros and 1,005 million euros, respectively.

On June 30, 2009, following the end of the first phase of the Performance Share Plan (PSP) (see Note 19.3), a total of 7,200,000 treasury shares were added, corresponding to the derivative financial instrument arranged by the Company to meet its obligations to deliver treasury shares to managers and executives. The gross number of shares linked to the Plan amounted to 4,533,393 shares, with a net 3,309,968 shares finally delivered.

On June 30, 2010, subsequent to the maturing of the second phase of the Performance Share Plan (PSP) (see Note 19.3) a total of 2,964,437 treasury shares have been delivered at a price of 16.93 euros per share (50.1 million euros).

On September 6, 2009, Telefónica and the Chinese telecommunications company, China Unicom (Hong Kong) Limited ("China Unicom") entered into a wide strategic alliance which includes, among others, the areas of: the joint procurement of infrastructure and client equipment; common development of mobile service platforms; joint provision of services to multinational customers; roaming; research and development; co-operation and sharing of best practices and technical, operational and management know-how; joint development of strategic initiatives in the area of the network evolution and joint participation in international alliances; and exchange of senior management.

In addition, on the same date, Telefónica and China Unicom executed a mutual share exchange agreement, which was implemented on October 21, 2009 through the subscription by Telefónica through its wholly owned subsidiary Telefónica Internacional, S.A.U., of 693,912,264 newly issued shares of China Unicom, satisfied by a contribution in kind to China Unicom of 40,730,735 shares of Telefónica, S.A.

Following the completion of the transaction, Telefónica Internacional, S.A.U. increased its share of China Unicom's voting share capital from 5.38% to 8.06% and obtained the right to appoint a member to its board of directors, while China Unicom became owner of approximately 0.87% of Telefónica's voting share capital at that date. Subsequently, after the capital reduction carried out by China Unicom, the Telefónica Group had a shareholding equivalent to 8.37% of the company's voting share capital..

Treasury shares sold in 2010 and 2009 amounted to 14 million euros and 766 million euros, respectively.

At December 31, 2010, Telefónica, S.A. held firm call options on 160 million treasury shares (150 million treasury shares in 2009).

The Company also holds a derivative on 25.64 million Telefónica shares, settled by differences.

b) Legal reserve

According to the text of the Corporate Enterprises Act, 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, 2010, the Company had duly set aside this reserve.

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, at the end of 2010, an amount of 16 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to "Other reserves." In 2009, an amount of 15 million euros was reclassified in this connection. The balance of this reserve at December 31, 2010 and 2009 was 141 million euros and 157 million euros, respectively.

- Reserve for cancelled share capital:

  In accordance with Article 335.c) of the Spanish Corporate Law and to render null and void the right of opposition provided for in Article 334 of the 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 2009, a reserve for cancelled share capital amounting to 141 million euros was recorded, the same amount as the capital reduction made in the year. The cumulative amount of the reserve for cancelled share capital at December 31, 2010 and 2009 was 498 million euros.

- Pursuant to the provisions of Royal Decree 1514/2007 approving the new accounting principles in Spain, after the distribution of 2008 profits the Company set aside a non-distributable reserve for the amount of goodwill of 1.7 million euros. The balance of this reserve at December 31, 2010 was 3.4 million euros. The proposed appropriation of 2010 profit (see Note 3) includes an allocation of 1.7 million euros to this restricted reserve.

- In addition to the restricted reserves explained above, “Other reserves” includes unrestricted reserves from gains obtained by the Company in prior years.

- On September 27, 2010, subsequent to the merger approved by the competent corporate bodies, the merger between Telefónica, S.A. and Brasilcel, N.V. was recognized, and inscribed thereafter on December 21, 2010 in the Madrid Mercantile Registry. This merger generated a distributable reserve of 3,602 million euros. This amount was reduced by 49 million euros corresponding to the dividends of Brasilcel, N.V. (Note 2 b). The net amount by which Telefónica, S.A.'s equity was affected by this transaction was therefore 3,553 million euros.

d) Dividends

Dividends paid in 2010

At its meeting of April 28, 2010, Telefónica’s Board of Directors resolved to pay an interim dividend against 2010 profit of a fixed gross 0.65 euros per outstanding share carrying dividend rights. This dividend was paid in full on May 11, 2010, and the total amount paid was 2,938 million euros.

In addition, approval was given at the General Shareholders’ Meeting on June 2, 2010 to pay a gross 0.65 euros dividend per share outstanding with a charge to unrestricted reserves. This dividend was paid in full on November 8, 2010, and the total amount paid was 2,934 million euros.

Dividends paid in 2009

At its meeting of April 29, 2009, Telefónica, S.A.’s Board of Directors resolved to pay an interim dividend against 2009 profit of 0.50 euros (before tax) for each of the Company's outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2009, and the total amount paid was 2,277 million euros.

In addition, at its meeting held on June 23, 2009, the Company’s Board of Directors resolved to pay a dividend charged to unrestricted reserves for a fixed gross amount of 0.5 euros per outstanding share carrying dividend rights, up to a maximum total amount of 2,352 million euros. This dividend was paid in full on November 11, 2009, and the total amount paid was 2,280 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing “Unrealized gains (losses) reserve” in 2010 and 2009 are as follows:

(Millions of euros) *2010*	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	(91)	(120)	36	243	(73)	(5)
Cash flow hedges (Note 16)	(236)	57	(17)	73	(22)	(145)
Total	**(327)**	**(63)**	**19**	**316**	**(95)**	**(150)**

(Millions of euros) *2009*	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
Available-for-sale financial assets (Note 9.3)	(229)	164	(49)	34	(11)	(91)
Cash flow hedges (Note 16)	78	(371)	110	(76)	23	(236)
Total	**(151)**	**(207)**	**61**	**(42)**	**12**	**(327)**

(12) FINANCIAL LIABILITIES

The breakdown of “Financial liabilities” at December 31, 2010 and 2009 is as follows:

2010	**LIABILITIES AT FAIR VALUE**									
				Measurement hierarchy			**LIABILITIES AT AMORTIZED COST**			
(Millions of euros)	**Financial liabilities held for trading**	**Hedges**	**Subtotal financial liabilities at fair value**	**Level 1: quoted prices**	**Level 2: Estimates based on other directly observable market inputs**	**Level 3: Estimates not based on other directly observable market data**	**Trade and other payables**	**Subtotal liabilities at fair value**	**TOTAL CARRYING AMOUNT**	**TOTAL FAIR VALUE**
Non-current financial liabilities	**630**	**401**	**1,031**	**-**	**1,031**	**-**	**41,842**	**41,842**	**42,873**	**42,570**
Payable to Group companies and associates	-	-	-	-	-	-	34,864	34,864	34,864	34,969
Bank borrowings	-	-	-	-	-	-	6,822	6,822	6,822	6,446
Bonds and other marketable debt securities	-	-	-	-	-	-	148	148	148	116
Derivatives (Note 16)	630	401	1,031	-	1,031	-	-	-	1,031	1,031
Other financial liabilities	-	-	-	-	-	-	8	8	8	8
Current financial liabilities	**109**	**66**	**175**	**-**	**175**	**-**	**17,289**	**17,289**	**17,464**	**18,303**
Payable to Group companies and associates	-	-	-	-	-	-	16,009	16,009	16,009	16,866
Bank borrowings	-	-	-	-	-	-	1,176	1,176	1,176	1,157
Bonds and other marketable debt securities	-	-	-	-	-	-	104	104	104	105
Derivatives (Note 16)	109	66	175	-	175	-	-	-	175	175
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
Total financial liabilities	**739**	**467**	**1,206**	**-**	**1,206**	**-**	**59,131**	**59,131**	**60,337**	**60,873**

2009	**LIABILITIES AT FAIR VALUE**									
				Measurement hierarchy			**LIABILITIES AT AMORTIZED COST**			
(Millions of euros)	**Financial liabilities held for trading**	**Hedges**	**Subtotal financial liabilities at fair value**	**Level 1: quoted prices**	**Level 2: Estimates based on other directly observable market inputs**	**Level 3: Estimates not based on other directly observable market data**	**Trade and other payables**	**Subtotal liabilities at fair value**	**TOTAL CARRYING AMOUNT**	**TOTAL FAIR VALUE**
Non-current financial liabilities	**460**	**1,028**	**1,488**	**-**	**1,488**	**-**	**39,075**	**40,852**	**40,563**	**42,436**
Payable to Group companies and associates	-	-	-	-	-	-	31,984	33,795	31,984	33,891
Bank borrowings	-	-	-	-	-	-	6,833	6,812	6,833	6,812
Bonds and other marketable debt securities	-	-	-	-	-	-	192	179	192	179
Derivatives (Note 16)	460	1,028	1,488	-	1,488	-	-	-	1,488	1,488
Other financial liabilities	-	-	-	-	-	-	66	66	66	66
Current financial liabilities	**266**	**1,039**	**1,305**	**-**	**1,305**		**14,889**	**14,876**	**16,194**	**16,181**
Payable to Group companies and associates	-	-	-	-	-	-	13,829	13,816	13,829	13,816
Bank borrowings	-	-	-	-	-	-	481	482	481	482
Bonds and other marketable debt securities	-	-	-	-	-	-	335	334	335	334
Derivatives (Note 16)	266	1,039	1,305	-	1,305		-	-	1,305	1,305
Other financial liabilities	-	-	-	-	-	-	244	244	244	244
Total financial liabilities	**726**	**2,067**	**2,793**	**-**	**2,793**	**-**	**53,964**	**55,728**	**56,757**	**58,617**

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

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.

(13) BONDS AND OTHER MARKETABLE SECURITIES

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2010 and 2009 are as follows:

(Millions of euros) *2010*	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	**159**	**368**	**527**
Depreciation and amortization	(19)	(272)	(291)
Revaluation and other movements	8	8	16
Closing balance	**148**	**104**	**252**
Detail of maturities:			
Non-current	148	-	148
Current	-	104	104

(Millions of euros) *2009*	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	**997**	**858**	**1,855**
Depreciation and amortization	(800)	(504)	(1,304)
Revaluation and other movements	(38)	14	(24)
Closing balance	**159**	**368**	**527**
Detail of maturities:			
Non-current	138	54	192
Current	21	314	335

Maturities of the nominal amounts of debenture and bond issues at December 31, 2010 and 2009 are as follows:

2010			Maturity						
Name	**Interest rate**	**% interest rate**	**2011**	**2012**	**2013**	**2014**	**2015**	**Subsequent years**	**TOTAL**
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%	-	-	-	-	-	61	61
MARCH 00	FLOATING	3.994%(*)	-	-	-	-	50	-	50
Total issues			**-**	**-**	**-**	**-**	**50**	**61**	**111**

2009			Maturity						
Name	**Interest rate**	**% interest rate**	**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**TOTAL**
DEBENTURES AND BONDS:									
FEBRUARY 1990 SERIES C	FIXED	12.60	4	-	-	-	-	-	4
FEBRUARY 1990 SERIES F	ZERO COUPON (**)	12.82	15	-	-	-	-	-	15
JULY 99	ZERO COUPON (**)	6.39	-	-	-	-	-	57	57
MARCH 00	FLOATING	5.276(*)	-	-	-	-	-	50	50
Total issues			**19**	**-**	**-**	**-**	**-**	**107**	**126**

(*) 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 amortized cost.

13.2 The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2010 and 2009 is as follows:

2010

Issue	Redemption date	Redemption rate	Redemption value
DEBENTURES AND BONDS:			
JULY 99	07/21/2029	637.639%	191
Total			**191**

2009

Issue	Redemption date	Redemption rate	Redemption value
DEBENTURES AND BONDS:			
FEBRUARY 1990 SERIES F	02/26/2010	1,069.470%	15
JULY 99	07/21/2029	637.639%	191
Total			**206**

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

13.3 At December 31, 2010, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

Amount (millions of euros)	Placement system	Nominal amount of the promissory note	Terms of the Promissory notes	Placement
2,000	Auctions	1,000 euros	3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Tailored	100,000 euros	Between 7 and 750 days	Specific transactions

At December 31, 2010 the outstanding balance on this promissory note program was 42 million euros (254 million euros in 2009).

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 euro) "Loan Notes" program. This program, enacted under UK law, entitles the seller of the shares to rights to 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, 2009 amounted to 49 million pounds sterling (55 million euros). This amount has been fully redeemed during 2010, thereby ending the program.

13.4 The average interest rate during 2010 on debentures and bonds outstanding during the year was 5.68% (5.47% in 2009) and the average interest rate on corporate promissory notes was 0.685% (1.318% in 2009).

(14) INTEREST-BEARING DEBT AND DERIVATIVES

14.1 The balances at December 31, 2010 and 2009 are as follows:

	December 31, 2010		
Item *(millions of euros)*	**Current**	**Non-current**	**Total**
Loans and borrowings	1,176	6,822	7,998
Derivative financial liabilities (Note 16)	175	1,031	1,206
Total	**1,351**	**7,853**	**9,204**

	December 31, 2009		
Item *(millions of euros)*	**Current**	**Non-current**	**Total**
Loans and borrowings	453	6,833	7,286
Foreign-currency loans and borrowings	28	-	28
Derivative financial liabilities (Note 16)	1,305	1,488	2,793
Total	**1,786**	**8,321**	**10,107**

14.2 The nominal values of the main interest-bearing debts at December 31, 2010 and 2009 are as follows:

	December 31, 2010					
Description	**Value date**	**Maturity date**	**Currency**	**Limit at 12/31/10**	**Balance (million currency)**	**Balance (million euros)**
€6bn syndicated loan	07/28/10	07/28/15	EUR	8,000	6,000	6,000
Syndicated loan savings banks	04/21/06	0421//17	EUR	700	700	700
€6bn syndicated loan	06/28/05	06/28/11	EUR	650	300	300

	December 31, 2009					
Description	**Value date**	**Maturity date**	**Currency**	**Limit at 12/31/09**	**Balance (million currency)**	**Balance (million euros)**
ECAS syndicated loan	11/26/04	11/15/10	USD	377	40	28
€6bn syndicated loan	06/28/05	06/28/13	EUR	6,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21//17	EUR	700	700	700

14.3 Maturities of balances at December 31, 2010 and 2009 are as follows:

	December 31, 2010						
	Maturity						
Item *(millions of euros)*	**2011**	**2012**	**2013**	**2014**	**2015**	**Subsequent years**	**Closing balance**
Loans and borrowings	1,176	35	2,967	5	2,979	836	7,998
Derivative financial liabilities (Note 16)	175	103	69	95	214	550	1,206
Total	**1,351**	**138**	**3,036**	**100**	**3,193**	**1,386**	**9,204**

	December 31, 2009						
	Maturity						
Item *(millions of euros)*	**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**Closing balance**
Loans and borrowings	453	780	2,677	2,000	-	1,376	7,286
Foreign-currency loans and borrowings	28	-	-	-	-	-	28
Derivative financial liabilities (Note 16)	1,305	210	94	56	60	1,068	2,793
Total	**1,786**	**990**	**2,771**	**2,056**	**60**	**2,444**	**10,107**

14.4 On June 28, 2010, Telefónica, S.A. obtained a syndicated line of credit with a group of national and international participating banks up to a maximum of 8,000 million euros. The line of credit has two tranches: the first for up to 5,000 million euros and a term of three years and the second, for up to 3,000 million euros, which is structured as a revolving credit facility with a five-year term. At December 31, 2010, the outstanding balance drawn down on this line of credit amounted to 6,000 million euros.

On February 12, 2010, Telefónica, S.A. signed a long-term line of credit of 472 million US dollars at a fixed rate and guaranteed by the Swedish Export Credits Guarantee Board (EKN) to acquire equipment and networks from a supplier in this country. This line of credit is structured into three tranches: a tranche of 232 US dollars maturing on November 30, 2018, another of 164 million US dollars maturing on April 30, 2019, and a third of 76 million US dollars maturing on November 30, 2019. At December 31, 2010, no amounts had been drawn under the line of credit.

On April 21, 2006, Telefónica S.A. arranged a 700 million euro syndicated loan, denominated in euros and bearing interest linked to Euribor. In 2010, 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. During 2010, Telefónica, S.A. made voluntary early repayments and partially cancelled part of the limit up to 650 million euros. At December 31, 2010, the outstanding balance drawn down on this line of credit amounted to 300 million euros.

In addition, Telefónica signed three equity swap contracts with different financial entities in June 2010. These swaps are based on the share price of Portugal Telecom and are settled for by differences, thereby obtaining the same economic returns. The amount received from these contracts is 541 million euros, recognized as current interest-bearing debts.

14.5 Average interest on loans and borrowings

The average interest rate in 2010 on loans and borrowings denominated in euros was 1.17% and on foreign-currency loans and receivables it was 3.86%.

The average interest rate in 2009 on loans and borrowings denominated in euros was 1.448% and on foreign-currency loans and receivables it was 1.626%.

14.6 Unused credit facilities

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

At December 31, 2010 and 2009, Telefónica had undrawn credit facilities amounting to 8,670 million and 5,322 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2010 and 2009 is not subject to compliance with any financial covenants.

(15) PAYABLE TO GROUP COMPANIES AND ASSOCIATES

15.1 The breakdown at December 31, 2010 and 2009 is as follows:

December 31, 2010			
(Millions of euros)	**Non-current**	**Current**	**Total**
Loans	34,520	15,800	50,320
Trade payables to Group companies and associates	-	132	132
Derivatives (Note 16)	6	20	26
Payable to subsidiaries due to taxation on a consolidated basis	338	57	395
Total	**34,864**	**16,009**	**50,873**

December 31, 2009			
(Millions of euros)	Non-current	Current	Total
Loans	31,643	13,637	45,280
Trade payables to Group companies and associates	37	82	119
Derivatives (Note 16)	16	17	33
Payable to subsidiaries due to taxation on a consolidated basis	288	93	381
Total	**31,984**	**13,829**	**45,813**

The maturity of these loans at year-end 2010 and 2009 is as follows:

December 31, 2010							
Company *(millions of euros)*	2011	2012	2013	2014	2015	2016 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	3,713	634	3,452	4,395	3,428	13,802	29,424
Telefónica Europe, B.V.	1,804	4,708	1,996	-	-	1,555	10,063
Telfisa Global, B.V.	1,812	-	-	-	-	-	1,812
Telefónica Finanzas, S.A.U.	8,461	-	-	-	475	75	9,011
Others	10	-	-	-	-	-	10
Total	**15,800**	**5,342**	**5,448**	**4,395**	**3,903**	**15,432**	**50,320**

December 31, 2009							
Company *(millions of euros)*	2010	2011	2012	2013	2014	2015 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,986	2,942	632	2,463	4,244	12,265	24,532
Telefónica Europe, B.V.	2,519	-	4,540	2,245	-	1,463	10,767
Telefónica Móviles España, S.A.U.	301	-	-	-	-	-	301
Telefónica Finanzas, S.A.U.	8,066	300	-	-	-	549	8,915
Others	765	-	-	-	-	-	765
Total	**13,637**	**3,242**	**5,172**	**4,708**	**4,244**	**14,277**	**45,280**

The carrying amount of financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2010 was 10,063 million euros (10,767 million euros at 2009 year end). This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate in 2010 was 3.94% (4.11% in 2009).

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 on 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. At December 31, 2010, the balance outstanding on this loan was 2,945 million euros (3,091 million euros at 2009 year end).

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2010 was 29,424 million euros (24,532 million euros in 2009). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2010 was 5.06% (4.98% in 2009). 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 the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2010 mainly by tapping the European and US capital markets, issuing the following bonds totaling 5,484 million euros (8,044 million euros in 2009):

Description	Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
EMTN bonds	03/24/2010	03/24/2015	1,400,000,000	EUR	3.406%
	09/19/2010	09/18/2017	1,000,000,000	EUR	3.661%
	10/08/2010	10/08/2029	400,000,000	GBP	5.445%
SEC bond	04/26/2010	04/26/2013	1,200,000,000	USD	2.582%
	04/26/2010	04/27/2015	900,000,000	USD	3.729%
	04/26/2010	04/27/2020	1,400,000,000	USD	5.134%

Meanwhile, at December 31, 2010, 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 9,011 million euros (8,915 million euros in 2009) in a series of loans earning market interest rates.

At December 31, 2008, there was a loan with Telefónica Móviles España, S.A.U. for 3,402 million euros. Telefónica Móviles España, S.A.U. also had a participating loan for 3,101 million euros (see Note 8.5) maturing on December 22, 2009. On that date, authorization was given to offset the amounts, leaving a balance of 301 million euros in favor of Telefónica Móviles España S.A.U. which was cancelled on December 21, 2010.

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes restatements to amortized cost at December 31, 2010 as a result of fair value interest rate and exchange rate hedges.

"Loans to Group companies" under current assets include accrued interest receivable at December 31, 2010 amounting to 776 million euros (774 million euros in 2009).

15.2 The balance of "Payables to subsidiaries due to taxation on a consolidated basis" was 395 million euros and 381 million euros at December 31, 2010 and 2009, respectively. This basically includes payables to Group companies for their contribution of taxable income (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 estimates of when the actual payment flows will take place.

The main amounts are those relating to Telefónica Internacional, S.A.U. (147 million euros), Telefónica Móviles España, S.A.U. (128 million euros) and Telefónica de España, S.A.U. (20 million euros).

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

a) Derivative financial instruments

During 2010, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2010, the total outstanding balance of derivative transactions was 102,008 million euros (96,132 million euros in 2009), of which 81,470 million euros related to interest rate risk and 20,538 million euros to foreign currency risk. In 2009, 73,785 million euros corresponded to interest rate risk and 22,347 million euros to foreign currency risk.

It should be noted that at December 31, 2010, Telefónica, S.A. had transactions with financial institutions to hedge interest and exchange rate risk for other Telefónica Group companies amounting to 38 million euros and 987 million euros, respectively. In 2009, trades of this nature amounted to 35 million euros for interest rate risk and 847 million euros for exchange rate risk. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. 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, 2010, their notional amounts at year end and the expected maturity schedule is as follows:

2010					
Type of risk	**Value in**	**Telefónica receives**		**Telefónica pays**	
Millions of euros	**euros**	**Carrying**	**Currency**	**Carrying**	**Currency**
Euro interest rate swaps	**56,424**				
Fixed to fixed	55	55	EUR	55	EUR
Fixed to floating	18,290	18,290	EUR	18,290	EUR
Floating to fixed	37,987	37,984	EUR	37,984	EUR
Floating to floating	92	92	EUR	92	EUR
Foreign currency interest rate swaps	**17,325**				
Fixed to floating	*14,261*				
GBP/GBP	1,801	1,550	GBP	1,550	GBP
JPY/JPY	138	15,000	JPY	15,000	JPY
USD/USD	12,322	16,465	USD	16,465	USD
Floating to fixed	*3,064*	-		-	
GBP/GBP	1,098	945	GBP	945	GBP
USD/USD	1,966	2,628	USD	2,628	USD
Exchange rate swaps	**11,122**				
Fixed to fixed	*621*				
EUR/BRL	129	107	EUR	288	BRL
EUR/CLP	140	112	EUR	87,800	CLP
EUR/CZK	352	352	EUR	8,818	CZK
Fixed to floating	*183*				
JPY/EUR	95	15,000	JPY	95	EUR
MAD/EUR	88	1,000	MAD	88	EUR
Floating to fixed	*143*				
EUR/MAD	89	90	EUR	1,000	MAD
USD/ARS	54	90	USD	285	ARS
Floating to floating	*10,175*				
EUR/CZK	328	322	EUR	8,228	CZK
EUR/GBP	1,098	1,373	EUR	945	GBP
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	8,571	11,395	USD	8,570	EUR
Forwards	**7,375**				
EUR/BRL	12	11	EUR	27	BRL
EUR/CZK	697	705	EUR	17,457	CZK
EUR/GBP	961	984	EUR	828	GBP
EUR/MXN	2	2	EUR	36	MXN
EUR/USD	1,576	1,571	EUR	2,106	USD
GBP/EUR	2,247	1,927	GBP	2,246	EUR
GBP/USD	26	23	GBP	35	USD
USD/BRL	144	185	USD	320	BRL
USD/CLP	-	1	USD	274	CLP
USD/COP	-	-	USD	246	COP
USD/EUR	818	1,094	USD	818	EUR
USD/GBP	70	94	USD	60	GBP
USD/MXN	548	727	USD	9,039	MXN
MXN/USD	274	4,519	MXN	366	USD
Spot	**1**				
MXN/EUR	1	23	MXN	1	EUR
Subtotal	**92,247**				

(Millions of euros) **Notional amounts of structured products with options**	**Value in euros**	**Notional**	**Currency**
Interest rate options Caps & Floors	**7,721**		
External counterparties			
USD	62	83	USD
EUR	5,800	5,800	EUR
GBP	1,859	1,600	GBP
Currency options	**2,040**		
External counterparties	-		
USD/EUR	2,040	2,725	USD
Subtotal	**9,761**		
TOTAL	**102,008**		

The breakdown by average maturity is as follows:

(Millions of euros) **Hedged underlying item**	**Notional**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**
With underlying instrument					
Promissory notes	**587**	**51**	**56**	**280**	**200**
Loans	**26,170**	**11,469**	**6,350**	**2,586**	**5,765**
In national currency	23,485	11,394	5,177	2,400	4,514
In foreign currencies	2,685	75	1,173	186	1,251
Debentures and bonds MtM	**55,231**	**10,662**	**5,423**	**11,195**	**27,951**
In national currency	22,080	4,666	2,092	6,791	8,531
In foreign currencies	33,151	5,996	3,331	4,404	19,420
Without underlying*	**20,020**	**8,795**	**3,212**	**3,685**	**4,328**
Swaps	10,615	1,297	3,024	3,524	2,770
Spots	1	1	-	-	-
Currency options	2,040	183	138	161	1,558
Forwards	7,364	7,314	50	-	-
Total	**102,008**	**30,977**	**15,041**	**17,746**	**38,244**

* Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

The breakdown of Telefónica, S.A.'s derivatives in 2009, their fair value at year end and the expected maturity schedule is as follows:

2009					
Type of risk	**Value in**	**Telefónica receives**		**Telefónica pays**	
Millions of euros	**euros**	**Carrying**	**Currency**	**Carrying**	**Currency**
Euro interest rate swaps	**52,565**				
Fixed to fixed	35	35	EUR	35	EUR
Fixed to floating	20,723	20,723	EUR	20,723	EUR
Floating to fixed	31,765	31,765	EUR	31,765	EUR
Floating to floating	42	42	EUR	42	EUR
Foreign currency interest rate swaps	**13,974**				
Fixed to floating	*10,588*				
GBP/GBP	1,295	1,150	GBP	1,150	GBP
JPY/JPY	113	15,000	JPY	15,000	JPY
USD/USD	9,180	13,225	USD	13,225	USD
Floating to fixed	*3,386*				
CZK/CZK	430	11,375	CZK	11,375	CZK
GBP/GBP	1,065	945	GBP	945	GBP
MXN/MXN	1	9	MXN	9	MXN
USD/USD	1,890	2,722	USD	2,722	USD
Exchange rate swaps	**12,958**				
Fixed to fixed	*2,948*				
EUR/BRL	115	107	EUR	288	BRL
EUR/CLP	120	112	EUR	87,800	CLP
EUR/CZK	333	352	EUR	8,818	CZK
USD/EUR	2,380	2,207	USD	2,380	EUR
Fixed to floating	*319*				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
Floating to fixed	*271*				
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	182	320	USD	994	ARS
USD/MXN	1	1	USD	12	MXN
Floating to floating	*9,420*				
EUR/CZK	622	550	EUR	16,455	CZK
EUR/GBP	1,937	2,537	EUR	1,720	GBP
GBP/EUR	1,014	775	GBP	1,014	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,667	7,450	USD	5,667	EUR
USD/MXN	2	3	USD	30	MXN
Forwards	**6,955**				
ARS/USD	32	231	ARS	45	USD
EUR/CZK	1,143	1,184	EUR	30,257	CZK
EUR/GBP	394	389	EUR	350	GBP
EUR/MXN	10	10	EUR	180	MXN
EUR/USD	1,723	1,678	EUR	2,482	USD
GBP/EUR	2,342	2,117	GBP	2,342	EUR
GBP/USD	95	92	GBP	137	USD
USD/BRL	159	226	USD	400	BRL
USD/EUR	667	979	USD	667	EUR
USD/GBP	150	218	USD	133	GBP
USD/MXN	240	343	USD	4,519	MXN
Spots	**394**				
EUR/GBP	394	388	EUR	350	GBP
Subtotal	**86,846**				

(Millions of euros) **Notional amounts of structured products with options**	**Value in euros**	**Notional**	**Currency**
Interest rate options Caps & Floors	**7,246**		
External counterparties			
USD	206	297	USD
EUR	5,576	5,576	EUR
GBP	1,464	1,300	GBP
Currency options	**2,040**		
External counterparties			
USD/EUR	2,040	2,939	USD
Subtotal	**9,286**		
TOTAL	**96,132**		

The breakdown by average maturity is as follows:

(Millions of euros) **Hedged underlying item**	**Notional**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**
With underlying instrument					
Promissory notes	**887**	**500**	**107**	**280**	**-**
Loans	**20,586**	**7,877**	**8,782**	**419**	**3,508**
In national currency	17,603	6,510	7,299	400	3,394
In foreign currencies	2,983	1,367	1,483	19	114
Debentures and bonds MtM	**53,650**	**14,821**	**10,728**	**5,488**	**22,613**
In national currency	21,586	7,557	5,192	3,741	5,096
In foreign currencies	32,064	7,264	5,536	1,747	17,517
Without underlying (*)	**21,009**	**10,008**	**2,173**	**4,463**	**4,365**
Swaps	11,666	2,751	1,963	4,306	2,646
Currency options	2,040	-	183	138	1,719
Forwards	7,303	7,257	27	19	-
Total	**96,132**	**33,206**	**21,790**	**10,650**	**30,486**

* Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

The fair value of Telefónica, S.A.'s derivatives portfolio at December 31, 2010 amounts to a net asset of 1,626 million euros (a net asset of 78 million euros in 2009).

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 incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Telefónica are as follows:

1. Foreign currency risk

Exchange rate risk arises primarily from: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America, but also in the United Kingdom and the Czech Republic), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt.

2. Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting: (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

Share price risk arises primarily from changes in the value of our equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of our treasury shares and from equity derivatives.

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

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

Telefónica actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of our cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of our liquidity.

Exchange rate risk

The fundamental objective of our exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by our businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of our debt denominated in such currencies. The degree of exchange rate hedging we employ varies depending on the type of investment.

Telefónica aims to protect itself against declines in Latin American currencies relative to the euro affecting our asset values through the use of dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2010, pound sterling-denominated net debt was approximately 2.4 times the value of our 2010 OIBDA from the Telefónica Europe business unit in the United Kingdom. Telefónica’s aim is to maintain this same proportion of pound sterling-denominated net debt to OIBDA as the Telefónica net debt to OIBDA ratio, on a consolidated basis, in order to help to reduce its sensitivity to changes in the pound sterling to euro exchange rate.

To protect its investment in the Czech Republic, the Company had net positions denominated in Czech crowns, which at December 31, 2010 amounted to nearly 36% of the original cost of the investment (compared to 59% of the original cost of the investment in 2009). This percentage has been reduced with a view to introduce the same management criterion adopted for the pound sterling. Consequently, the ratio of net debt in Czech crowns to OIBDA is 1.6 in consolidated terms and 2.3 in proportional terms, currently very close to the net debt-OIBDA ratio for the Telefónica Group in 2010.

We also manage exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether we have open positions. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in sourcing local currency finance which makes it impossible to arrange a low-cost hedge (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, and (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 foreign currency risk exposure at the Group level. To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2010 were constant during 2011 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that exchange gains or losses recorded for 2011 would be -105 million euros. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to a decrease in finance costs of 112 million euros. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

Telefónica financial expenses are exposed to changes in interest rates. In 2010, the rates applied to the largest amount of our short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. Telefónica 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. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2010 has been assumed, as well as a 100 basis point decrease in all currencies except the USD and GBP, in order to avoid negative rates. A constant position equivalent to that prevailing at year end was also assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2010 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

In both cases, only operations with external counterparties were considered in all cases.

	Impact on consolidated result	Impact on Telefónica SA individual income statement (1)	Impact on consolidated equity	Impact on Telefónica SA individual equity (1)
+100pb(2)	(222)	(95)	575	575
+100pb(2)	209	89	(626)	(626)

(1) Same external operations for cash flow hedges considered as in the consolidated financial statements.
(2) Impact on results of 100 bp change in all currencies, except the pound sterling and the dollar.

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.

According to the PSP, the shares delivered under such plan may be either the Telefónica, S.A. treasury shares, acquired by them or any of its Group companies; or newly-issued shares. The possibility of delivering shares to employees in the future, in accordance with relative total shareholders' return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each cycle, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for our ordinary shareholder as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk to us associated with variations in share price under this plan, Telefónica has acquired financial instruments that replicate the risk profile of some of the shares derivable under the plan as explained in Note 19. Telefónica will assess if at the moment of implementation it will have to take any action in order to reduce any risk implied in this plan.

During 2010, an incentive plan for Group employees to purchase Telefónica shares, approved at the Ordinary General Shareholders' Meeting of 2009, was initiated. The cost of this plan will not exceed 50 million euros, as agreed in the aforementioned Ordinary General Shareholders' Meeting (see Note 19 for further details).

In addition, part of the treasury shares of the parent company held at December 31, 2010 may be used to cover shares deliverable under the Plan. At December 2010, Telefónica, S.A. holds 55,188,046 treasury shares (see Note 11), part of which can be used to cover the PSP. The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A.'s share price.

Liquidity risk

Telefónica seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The average maturity of our net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.
2. Telefónica must be able to pay all commitments over the next 12 months without accessing new borrowing or accessing the capital markets (although including firm credit lines arranged with banks), assuming budget projections are met.

Country risk

Telefónica 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; and,
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 trades in derivatives with creditworthy counterparties. Therefore, the parent company trades with credit entities with senior debt ratings of at least “A”. In Spain, where it holds most of Telefónica’s derivatives portfolio, it has netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. For other subsidiaries, particularly those in Latin America, given the stable sovereign rating provides a ceiling and is below “A,” trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Telefónica also considers managing commercial credit risk as crucial to meeting its business and customer base growth targets in a manner that is consistent with Telefónica’s risk-management policy.

Therefore, Telefónica’s commercial credit risk-management approach is based on continuous monitoring of the risk assumed and the resources necessary to manage the Group's various units, in order to optimize the risk-reward relationship in its operations. Particular attention is given to those clients that could cause a material impact on the Group's financial statements for which, depending on the segment and type of relation, hedges or collateral may be required to mitigate exposure to credit risk.

All Group companies adopt a general framework, authorization procedures and homogeneous management practices, based on particular market conditions and best international practices, and incorporating this commercial credit risk management approach into the Group's decision policy both from a strategic and operating perspective.

Meanwhile, with credit risk arising from cash and cash equivalents, Telefónica places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a general framework, revised annually based on the conditions of the market and countries where Telefónica operates. The general framework sets: (i) the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); (ii) the maximum tenor of the investment; and (iii) the instruments in which the surpluses may be invested. For Telefónica S.A., which places the bulk of Telefónica surpluses, the maximum placement in 2010 was 180 days and the creditworthiness of the counterparties used, measured by their debt ratings, remained above A- and/or A3 by Standard & Poor's and Moody's, respectively.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica.

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2010, these guarantees amounted to approximately 228 million euros.

Furthermore, in relation to the public offering to acquire the ordinary shares in Vivo Participaçoes, S.A. that are not held by the Telefónica Group, described in Note 20 c), Telefónica, S.A. provided the guarantees normally required in this type of transaction, totaling 818 million euros at December 31, 2010.

Capital management

Telefónica's corporate finance department, which is in charge of Telefónica's capital management, takes into consideration several factors when determining Telefónica's capital structure, with the aim of ensuring sustainability of the business and maximizing the value to shareholders.

Telefónica monitors its cost of capital with a goal of optimizing its capital structure. In order to do this, Telefónica monitors the financial markets and updates to standard industry approaches for calculating weighted average cost of capital, or WACC. The second, a maximum gearing ratio of 2.5 times OIBDA in the medium term (excluding non-recurrent or exceptional factors), 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 principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, tax efficiency and volatility in cash flow generation, when determining our financial structure.

Hedging policy

Telefónica's derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative's fair value using the valuation systems available to Telefónica.
- Sale of options only when there is an underlying exposure.
- Hedge accounting

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 rates and foreign currency) or for a defined range through options.
- Hedges of net investment in a foreign operation.

Hedges can comprise a combination of different derivatives. There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through to maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in market view. Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model.

Risk management guidelines are issued by Telefónica's Finance Department. This department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2010, the Company recognized a loss of 3.8 million euros for the ineffective part of cash flow hedges (17 million euros in 2009).

The breakdown of the Company's derivatives with counterparties not belonging to the Telefónica Group at December 31, 2010 and December 31, 2009 by type of hedge, their fair value at year end and the expected maturity schedule is as follows:

	(Millions of euros)					
2010	**Fair value (**)**	**Notional amount MATURITIES (*)**				
Derivatives		**2011**	**2012**	**2013**	**Subsequent years**	**Total**
Interest rate hedges	**(353)**	**(5,998)**	**60**	**(2,084)**	**7,170**	**(852)**
Cash flow hedges	267	(3,652)	556	(438)	8,487	**4,953**
Fair value hedges	(620)	(2,346)	(496)	(1,646)	(1,317)	**(5,805)**
Foreign currency hedges	**(409)**	**854**	**112**	**577**	**4,323**	**5,866**
Cash flow hedges	(409)	854	112	577	4,323	**5,866**
Fair value hedges						
Interest and exchange rate hedges	**(223)**	**27**	**130**	**926**	**2,004**	**3,087**
Cash flow hedges	(223	27	130	926	2,004	**3,087**
Fair value hedges	-	-	-	-	-	-
Hedge of net investment	**(288)**	**(1,770)**	**-**	**(160)**	**(980)**	**(2,910)**
Derivatives not designated as hedges	**(367)**	**4,453**	**316**	**(289)**	**(478)**	**4,002**
Interest rate	(238)	4,415	426	(427)	(1,316)	**3,098**
Exchange rate	(115)	106	(109)	138	838	**973**
Interest and exchange rate	(14)	(68)	(1)	-	-	**(69)**

(*) For interest rate hedges, the positive amount is in terms of fixed "payment". For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.
(**) Positive amounts indicate payables.

2009 Derivatives	Fair value (**)	(Millions of euros) Notional amount MATURITIES (*) 2010	2011	2012	Subsequent years	Total
Interest rate hedges	**(282)**	**3,023**	**(7)**	**4**	**(2,535)**	**485**
Cash flow hedges	145	1,769	1,239	500	3,024	**6,532**
Fair value hedges	(427)	1,254	(1,246)	(496)	(5,559)	**(6,047)**
Foreign currency hedges	**1,052**	**2,511**	**788**	**112**	**4,900**	**8,311**
Cash flow hedges	1,052	2,511	788	112	4,900	**8,311**
Fair value hedges	-	-	-	-	-	-
Interest and exchange rate hedges	**37**	**224**	**-**	**89**	**95**	**408**
Cash flow hedges	37	224	-	89	95	**408**
Fair value hedges	-	-	-	-	-	-
Hedge of net investment	**(300)**	**(1,977)**	**(907)**	**-**	**(818)**	**(3,702)**
Derivatives not designated as hedges	**(589)**	**4,943**	**287**	**275**	**(794)**	**4,711**
Interest rate	(298)	4,946	413	483	(1,770)	**4,072**
Foreign currency	(248)	157	(63)	(141)	976	**929**
Interest and exchange rate	(43)	(160)	(63)	(67)	-	**(290)**

(*) For interest rate hedges, the positive amount is in terms of fixed "payment". For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.
(**) Positive amounts indicate payables.

(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 in 2010 comprised 46 companies. Included during the year were Atento Impulsa, Atento Servicios Técnicos y Consultoría, S.L., Atento Teleservicios España, S.A., Gloway Broadcast Services, S.L, Teléfonica Global Applications, S.L, and Telefónica Producciones S.L. The first three companies were incorporated through merger in 2009, the fourth was acquired in 2009, and the fifth and sixth companies were newly incorporated in 2010.

Tax balances are as follows:

(Millions of euros)	2010	2009
Tax receivables:	**2,342**	**1,230**
Deferred tax assets:	*2,217*	***1,097***
Deferred income tax (income)	140	44
Other temporary differences, assets	1,569	410
Long-term tax loss carryforwards	443	443
Deductions and other	65	200
Current tax receivables (Note 10):	***125***	***133***
Withholdings	42	49
Corporate income tax payable	66	9
VAT and Canary Islands general indirect tax refundable	17	75
Tax payable:	**824**	**186**
Deferred tax liabilities:	***778***	***37***
Deferred income tax (expense)	10	11
Other temporary differences, liabilities	768	26
Non-current payables to public administrations:	-	59
Deferral of corporate income in tax in accordance with the 28th transitional provision of the income tax law	-	59
Current payables to public administrations (Note 18):	***46***	***90***
Personal income tax withholdings	5	4
Corporate income tax payable	18	12
Withholding on investment income, VAT and other	10	73
Social security	13	1

The Tax Group had tax loss carryforwards at December 31, 2010 amounting to 3,612 million euros. These losses must be applied within 15 years.

The balance at December 31, 2010 includes unused tax credits amounting to 443 million euros corresponding to unused tax losses of 1,475 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, amounting to 2,137 million euros and resulting from 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. However, the use by the Group of the tax loss carryfoward is subject to a successful appeal before the Courts against the assessments arising from this inspection.

As head of the Telefónica Tax Group, in 2010 Telefónica, S.A. made payments on account of 2010 income tax amounting to 729 million euros.

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, 2010 and 2009 are as follows:

2010 *(Millions of euros)*	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	**443**	**454**	**200**	**1,097**	**37**
Arising in the year	-	728	40	768	19
Reversal	-	(80)	-	(80)	(15)
Transfers to the Tax Group’s net position	-	-	(258)	(258)	-
Other movements	-	607	83	690	737
Closing balance	**443**	**1,709**	**65**	**2,217**	**778**

2009 *(Millions of euros)*	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	**356**	**608**	**841**	**1,805**	**559**
Arising in the year	2	137	33	172	-
Reversal	-	(270)	-	(270)	(445)
Transfers to the Tax Group’s net position	85	(21)	(674)	(610)	(77)
Other movements	-	-	-	-	-
Closing balance	**443**	**454**	**200**	**1,097**	**37**

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

Deferred tax liabilities include 2.1 million euros corresponding to the tax amortization of goodwill generated on acquiring stakes in the Brazilian subsidiaries of Brasilcel, N.V. (Note 8.1 c). No impact has been recognized in profit and loss, pending the official release of the European Commission's decision regarding the legal action relating to the Spanish legislation regulating this regime. Furthermore, based on changes in the differences between the tax bases and carrying amounts of Telefónica, S.A.'s investments, primarily due to impairments in 2010 (see Note 8.2), the Company concluded that the net position of these differences is not a fair view of the present situation, and therefore recognized the associated assets and liabilities taking this into account. The impact is recognized in "Other movements" in the table of movements in deferred tax assets and liabilities in 2010.

In accordance with article 12.3 of the revised Spanish Income Tax Law (“TRLIS”), as well as with transitional provision 29 of that law, taxable income declared at 2009 year end, a positive adjustment of 586 million euros was provisionally included in the company's taxable income in connection with the decline in value of investees. Finally, using the subsidiaries' definitive accounting records, 174 million euros was included in the income tax return.

At December 31, 2009 2,588 million euros is pending inclusion for reversal of the adjustment in future periods.

In 2009 the variation in goodwill of investees amounts to 3,881 million euros and mainly relates to Telefónica O2 UK, Ltd., Telefónica O2 Germany, GMBH & Co. OHG and Telefónica Móviles México, S.A. de C.V.

In addition, at the 2010 year end, an increase of 248 million euros was provisionally incorporated in the Company's taxable income in connection with impairment of investees for tax purposes.

At December 31, 2010 2,550 million euros is pending inclusion for reversal of the adjustment in future periods.

In 2010, the variation in equity of investees for which a provision was made amounts to 2,589 million euros.

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 2010 and 2009 is as follows.

(Millions of euros)	2010	2009
Accounting profit before tax	2,885	5,606
Permanent differences	(6,598)	(6,138)
Permanent differences arising from the first-time application of PGC 2007	210	205
Temporary differences:	2,060	(686)
Arising in the year	2,008	(1,052)
Arising in prior years	52	366
Tax result	**(1,443)**	**(1,013)**
Gross tax payable	(433)	(304)
Tax credits capitalized	(40)	(33)
Corporate income tax refundable	**(473)**	**(337)**
Temporary differences for tax valuation	(618)	206
Tax effect of first-time application of PGC 2007	(63)	(61)
Other effects	(100)	(445)
Corporate income tax accrued in Spain	(1,254)	(637)
Foreign taxes	9	(9)
Income tax	**(1,245)**	**(646)**
Current income tax	(487)	(365)
Deferred income tax	(758)	(281)

The permanent differences relate mainly to changes in investment write-down 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 that meet certain requirements, and to the write-down 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.

In addition, they include as a permanent difference the decrease in income tax expense derived from the tax amortization of financial goodwill for foreign shareholding acquisitions made before December 21, 2007. This income of 584 million euros was recognized in 2009 after the European Commission released its decision regarding the legal action against the Kingdom of Spain in this respect (see Note 2 b). In 2010, it comprised income of 139 million euros.

Temporary differences mainly comprise positive adjustments on eliminating the tax base of impairment provisions that are not tax deductible.

Meanwhile, within the scope of Law 4/2008 dated December 23, with respect to corporate income tax Telefónica, S.A. has elected to apply the provisions of the 28th 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. During 2010, 63 million euros was applied, and at December 31, 2010 no amounts were pending inclusion in taxable income.

In 2010 and 2009, the Company capitalized 40 million euros and 33 million euros, respectively, of tax credits, mainly for donations to non-profit organizations and for double taxation relief. The cumulative amount at year end principally reflects tax credits in connection with export activity tax credits and deductions for export activities (approximately 65 million euros). In 2010, 258 million euros were applied in relation to deductions in connection with export activity and 43 million euros to double taxation.

In accordance with article 42 of the Spanish Income Tax Law RDL/2004 and having met the reinvestment requirement on February 6, 2006, in 2006 Telefónica, S.A. applied deductions for reinvestment of gains amounting to 1,809 million euros. This deduction mainly arose in connection with the sale of Telefónica Publicidad e Información, S.A. In 2007 and 2008 the Company also applied similar deductions of 18 million euros and 12 million euros, respectively, after meeting the reinvestment requirement on October 24, 2007.

17.3 On September 25, 2002, tax inspections commenced at several companies included in Tax Group 24/90, of which Telefónica, S.A. is the parent company for the years from 1998 to 2000.

The tax assessments related to this review, which included settlement agreements and imposed fines on Telefónica, were signed by the company in disagreement in October 2004 and July 2005. The total amount of these assessments was 140 million euros.

In April 2007, Telefónica, S.A. filed an administrative appeal before the National Court of Justice. The Company also requested that the execution of the settlements and penalties appealed be suspended by providing the appropriate guarantees.

On February 22, 2010, Telefónica received the notification of the ruling by the National Court of Justice dated February 4, 2010, in which it partially accepted the Company's allegations.

On May 18, 2010, the National Court of Justice accepted Telefónica, S.A.'s appeal and ruled on April 5, 2010 to refer the case to the Supreme Court. On June 4, 2010, the tax authorities filed an appeal before the Supreme Court against one of the rulings of the National Court of Justice partially accepting Telefónica's allegations. In January 2011, Telefónica submitted a brief of opposition against that appeal.

In addition, a new tax inspection for the period 2001 to 2004 commenced in June 2006 and concluded in July 2008.

In relation to the Tax Group's income tax and in addition to the above, the inspection has proposed additional adjustments to the tax amounts considered by Telefónica Móviles in 2002 (of 2,137 million euros), of approximately 346 million euros. Telefónica filed an administrative appeal before the Central Administrative Economic Court, which on September 10, 2009 ruled against the interests of the Company.

On November 16, 2009, Telefónica filed an administrative appeal before the National Court of Justice against this resolution of September 10, 2009. In April 2010, Telefónica, S.A. filed the claim.

In June 2010, new inspections of various companies in the 24/90 Tax Group, of which Telefónica, S.A. is the parent were initiated. The taxes subject to review were corporate income tax for the years 2005 to 2007, 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 second half of 2006 and 2007.

Therefore, including the years under inspection, Telefónica, S.A. has all taxes since 2005 open to inspection.

In relation to the sale by Terra Networks, S.A. (now Telefónica, S.A.) of its 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 their carrying amount, 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.

At 2010 year end, it is not expected that the final outcome of these assessments, lawsuits, and inspections in progress or pending for years open to inspection will require any additional significant liabilities to be recognized in Telefónica, S.A.'s financial statements.

(18) TRADE AND OTHER PAYABLES

The breakdown of “trade and other payables” is as follows:

(Millions of euros)	2010	2009
Suppliers	410	85
Other payables	2,065	69
Current income tax liabilities (Note 17)	18	12
Other payables to public administrations (Note 17)	29	78
Total	**2,522**	**244**

a) Trade payables

This line includes Telefónica's irrevocable commitment to pay a 280 million euro donation to the Telefónica Foundation to provide this entity with the financing required to enable the Foundation to operate in the short and medium term, providing this entity therefore with the funding required to implement the social programs and activities it currently performs or could initiate in the short and medium term to fulfill its purpose as a foundation.

Information on deferred payments to third parties. (Third additional provision, "Information requirement" of Law 15/2010 of 5 July).

In accordance with Law 15/2010 of July 5, amending Law 3/2004 of December 29 establishing measures to avoid defaults on payments in commercial operations, it is disclosed that at December 31, 2010 there are no balances payable to Spanish suppliers outstanding after the legal payment term.

b) Sundry creditors

This line includes 1,977 million euros corresponding to the value of the final payable to Portugal Telecom (2,000 million euros) for the acquisition of 50% of Brasilcel, N.V. (Note 8.1).

(19) REVENUE AND EXPENSES

19.1 Revenue from operations

a) Rendering of services

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 2010 and 2009, "Rendering of services to Group companies" included 518 million euros and 369 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica O2 Holding, Ltd. and Telefónica Internacional, S.A.U. Revenue received for this concept in 2010 and 2009 amounted to 13 million euros in both years, recognized under "Services rendered to Group companies."

Operating revenues also include property rental income amounting to 43 million euros in 2010 and 40 million euros in 2009, mainly from the lease of office space in District C to several Telefónica Group companies (see Note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2010 and 2009 is as follows:

(Millions of euros)	2010	2009
Telefónica Móviles España, S.A.U.	2,190	2,602
Telefónica de España, S.A.U.	2,827	1,193
Telefónica O2 Europe, plc.	708	1,352
Telefónica O2 Czech Republic, a.s.	331	340
Latin American Cellular Holding, B.V.	65	168
Brasilcel, N.V.	82	-
Subsidiaries of Brasilcel, N.V.	47	-
Portugal Telecom	44	44
Other companies	180	64
Total	**6,474**	**5,763**

The dividends of Brasilcel, N.V. relate to distributions approved prior to the merger. On December 17 2010, dividend revenue of 47 million euros from the subsidiaries acquired by Telefónica, S.A. through this merger was recognized. These dividends are receivable at 2010 year end.

c) Interest income on loans to Group companies and associates

This heading includes the return obtained on loans made to subsidiaries to carry out their business (see Note 8.5). The breakdown of the main amounts is as follows:

(Millions of euros)	**2010**	**2009**
Telefónica Móviles México, S.A. de C.V.	188	215
Telefónica de España, S.A.U.	130	187
Telefónica Móviles España, S.A.U.	-	214
Other companies	60	46
Total	**378**	**662**

19.2 "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 includes billings to Telefónica Móviles España, S.A.U., which amounted to 30 million euros and 35 million euros in 2010 and 2009, respectively, and to Telefónica de España, S.A.U., for 28 million euros and 30 million euros, respectively.

19.3 Personnel expenses and employee benefits

The breakdown of "Personnel expenses" is as follows:

(Millions of euros)	**2010**	**2009**
Wages, salaries and other personnel expenses	165	135
Pension plans (Note 4.h)	10	11
Social security costs, and others	18	23
Total	**193**	**169**

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, 2010, 1,536 employees had signed up for the plan (1,535 employees in 2009). 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 amounted to 3 million euros in 2010 and 2.73 million euros in 2009.

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 6.2 million euros in 2010 (7.7 million euros in 2009).

In 2010, some executives left this Plan, leading to the reversal of part of the initial extraordinary contributions amounting to 2 million euros (0.5 million euros in 2009).

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

The share-based payment plans are the following:

Telefónica, S.A. share plan: "Performance Share Plan" (PSP).

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 in July 2009) and the fifth phase began on July 1, 2010 (with any shares earned being 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.

June 30, 2009 marked the end of the first phase of this plan, which entailed the following maximum number of shares allocated:

	Number of shares	Unit value	End date
1st phase July 1, 2006	6,530,615	6.43	June 30, 2009

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives is as follows:

	Number of shares	Unit value	End date
1st phase July 1, 2006	1,276,751	6.43	June 30, 2009

With the maturity of the Plan, in July 2009 a total of 3,309,968 shares (corresponding to a total of 4,533,393 gross shares less a withholding of 1,224,610 shares at the choice of employees) were delivered to Telefónica Group directors included in the first phase. The shares delivered were deducted from the Company's treasury shares in 2009 (see Note 11.1 a). The total net shares delivered to Telefónica, S.A. managers and executives were 1,240,834.

All the shares included in the first phase of the plan were hedged with a financial instrument acquired in 2006. The cost of this instrument was 46 million euros, which in unit terms is 6.43 euros per share. At June 30, 2009, the bank with which the financial instrument was entered into delivered to Telefónica, S.A. the own shares contracted, which totaled 7,200,000 shares. These were accounted for as treasury shares.

The cost of the gross amount of shares delivered to the directors of each subsidiary was subsequently billed by Telefónica, S.A., as previously established, with a unit value of 6.43 euros per share. The tax obligations of the directors in each of their countries related to the increase in their personal income from the receipt of the incentive were met by each subsidiary and subsequently charged to Telefónica, S.A., which recognized the cost under "Reserves" for an amount of 21 million euros in 2009.

The second phase of this Plan matured on June 30, 2010, with the maximum number of shares issued as follows:

	Number of shares	Unit value	End date
2nd phase July 1, 2007	5,556,234	7.70	June 30, 2010

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives is as follows:

	Number of shares	Unit value	End date
2nd phase July 1, 2007	1,102,711	7.70	June 30, 2010

With the maturity of the second phase of the plan, on June 30, 2010 a total of 2,964,437 shares (corresponding to a total of 4,091,071 gross shares less a withholding of 1,132,804 shares at the choice of employees) were delivered to Telefónica Group directors included in the second phase. The shares delivered were deducted from the Company's treasury shares in 2010 (see Note 11.1 a). The total net shares delivered to Telefónica, S.A. managers and executives were 816,893.

The cost of the gross amount of shares delivered to the directors of each subsidiary was subsequently billed by Telefónica, S.A., as previously established, with a unit value of 7.7 euros per share. The tax obligations of the directors in each of their countries related to the increase in their personal income from the receipt of the incentive were met by each subsidiary and subsequently charged to Telefónica, S.A., which recognized the cost under "Reserves" for an amount of 15 million euros in 2010.

The maximum number of the shares issuable in each of the three outstanding phases at December 31, 2010 is as follows:

	Number of shares	Unit value	End date
3rd phase July 1, 2008	5,286,980	8.39	June 30, 2011
4th phase July 1, 2009	6,356,597	8.41	June 30, 2012
5th phase July 1, 2010	5,025,657	9.08	June 30, 2013

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
3rd phase July 1, 2008	1,248,067	8.39	June 30, 2011
4th phase July 1, 2009	1,555,382	8.41	June 30, 2012
5th phase July 1, 2010	1,249,407	9.08	June 30, 2013

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 2010 (10 million euros in 2009) in equity, net of the related tax effect.

The cost of the shares granted to employees of Group subsidiaries is recognized under "Reserves" and amounted to 52 million euros in 2010 (52 million euros in 2009). As Telefónica, S.A. will reinvoice these amounts to its subsidiaries at the maturity of the phases, the related receivable is recognized under "Other non-current financial assets (phases IV and V) and "Other current financial assets" (phase III) (see Note 8.6).

For the sole purpose of ensuring the shares necessary at the end of the phase begun in 2008 (the third phase of the plan), Telefónica, S.A. purchased an instrument from a financial institution that will deliver to Telefónica, at the end of the phase, a total of 2,500,000 shares, part of the shares necessary to settle the phase. This instrument is indexed to the success of the plan; i.e. the instrument has the features as the plan. The cost of the financial instrument was 25 million euros, equivalent to 9.96 euros per option (see Note 9.4.1).

For the fourth phase of the Plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4,000,000 shares). The cost of the financial instrument was 34 million euros, equivalent to 8.41 euros per option (see Note 9.4.1).

Telefónica, S.A. share plan: "Global Employee Share Plan"

At the General Shareholders' Meeting of Telefónica, S.A. on June 23, 2009, the shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide, with certain exceptions. Under this plan, participants who met the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares, with this company assuming the obligation of giving participants a certain number of Telefónica, S.A. shares free of charge.

The plan was initially intended to last two years. Employees joining the plan can acquire Telefónica, S.A. shares through maximum monthly installments of 100 euros (or the local currency equivalent), up to a maximum of 1,200 euros over a period of 12 months (acquisition period). The shares will be awarded where applicable when the plan is consolidated, as from September 1, 2012, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), subject to certain special conditions related to departures.

- The actual number of shares awarded at the end of the consolidation period will depend on the number of shares acquired and retained by each employee. Each employee who is a member of the plan, remains in the Group and has retained the shares acquired for an additional twelve-month period after the acquisition date, will be entitled to receive one free share per share acquired and retained until the end of the consolidation period.

The acquisition period started in August 2010, and at December 31, 2010 41,152 Telefónica Group employees were members of this plan. This plan will be equity-settled via the delivery of shares to the employees. Accordingly, a balancing entry for the employee benefits expenses was made in equity. In 2010, Telefónica, S.A. recognized an expense of 158 thousand euros for this item in its income statement.

19.4 Average number of employees in 2010 and 2009 and number of employees at year end:

2010	**Employees at 12/31/10**			**Average no. of employees in 2010**		
Professional category	**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
General managers and chairmen	-	5	5	-	5	5
Directors	38	127	165	40	134	174
Managers	82	87	169	81	94	175
Project Managers	92	80	172	91	77	168
University graduates and experts	81	38	119	80	37	117
Administration, clerks, advisors	138	21	159	137	20	157
Total	**431**	**358**	**789**	**429**	**367**	**796**

2009	Employees at 12/31/09			Average no. of employees in 2009		
Professional category	**Women**	**Men**	**Total**	**Women**	**Men**	**Total**
General managers and chairmen	-	5	5	-	5	5
Directors	40	134	174	40	130	170
Managers	75	100	175	77	91	168
Project Managers	91	72	163	88	68	156
University graduates and experts	80	56	136	78	53	131
Administration, clerks, advisors	136	19	155	130	19	149
Total	**422**	**386**	**808**	**413**	**366**	**779**

19.5 External services

The items composing this heading are as follows:

(Millions of euros)	2010	2009
Rent	15	13
Repairs and maintenance	5	4
Independent professional services	140	107
Bank charges	44	45
Donations (Note 18)	333	52
Marketing and advertising	77	76
Utilities	12	14
Other expenses	51	53
Total	**677**	**364**

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 (until 2023), renewable for another five.

Future minimum rentals payable under non-cancellable leases without penalization at December 31, 2010 and 2009 are as follows:

	2010		2009	
(Millions of euros)	Future minimum payments	Present value	Future minimum payments	Present value
Up to one year	6		5	
Between one and five years	19		20	
More than five years	37		46	
Total	**62**	**46**	**71**	**49**

19.6 Finance revenue

The items composing "Finance revenue" are as follows:

(Millions of euros)	2010	2009
Dividends from other companies	37	16
Other finance revenue	187	88
Total	**224**	**104**

"Other finance revenue" includes the 57 million euros in gains accrued from the equity swap contracts on the share price of Portugal Telecom.

19.7 Finance costs

The breakdown of "Finance costs" is as follows:

(Millions of euros)	2010	2009
Interest on borrowings from Group companies and associates	1,791	1,717
Finance costs payable to third parties and gains (losses) on interest rates of financial hedges	21	170
Other finance costs	-	1
Total	**1,812**	**1,888**

The breakdown by Group company of debt interest expenses is as follows:

(Millions of euros)	2010	2009
Telefónica Europe, B.V.	454	518
Telefónica Emisiones, S.A.U.	1,286	981
Other companies	51	218
Total	**1,791**	**1,717**

Other companies includes financial costs with Telefónica Finanzas, S.A.U. related to current payables for specific cash needs. In 2010, there were not as many withdrawals of funds in this way, as a result of which the financial charge passed on from this subsidiary to Telefónica, S.A. decreased.

19.8 Exchange differences:

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

(Millions of euros)	2010	2009
On current operations	-	100
On loans and borrowings	1,161	439
On hedging derivatives	1,019	1,528
On other items	24	38
Total	**2,204**	**2,105**

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

(Millions of euros)	2010	2009
On current operations	20	3
On loans and borrowings	408	511
On hedging derivatives	1,834	1,458
On other items	64	58
Total	**2,326**	**2,030**

Exchange losses in 2009 were mainly related with cash deposits in pound sterling current accounts.

The change in exchange gains and losses in 2010 was due mainly to fluctuations in the dollar/euro exchange rate with the dollar gaining 7.2% in 2010 (the dollar weakened 3.4% in 2009) and in the pound sterling/euro exchange with the pound sterling gaining 3,18% in 2010 (the pound depreciated 7.25% in 2009), which was offset by the effect of hedges arranged for this purpose.

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

In 2010, the values of the investments in Group companies and associates were reviewed based on the calculations of their future discounted cash flows. These reviews lead to the recognition of an impairment provision amounting to 1,985 million euros (in 2009, a reversal of 1,087 million euros was recognized). The main impairment loss is associated with the stake in Telefónica Europe, plc. amounting to 1,984 million euros (Note 8.2).

In addition, in 2009 the entire impairment loss on Portugal Telecom, for 178 million euros, was reversed following the rebound in the share price on the Lisbon stock exchange. In 2010, prior to the stake being reduced, the share price of this company fell and therefore a provision of 17 million euros was recognized.

(20) OTHER INFORMATION

a) Financial guarantees

At December 31, 2010, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 39,973 million euros (35,913 million euros at 2009 year end). These guarantees are measured in the Company's financial statements as indicated in Note 4 m).

(Millions of euros) *Nominal amounts*	2010	2009
Debentures and bonds	31,946	28,882
Promissory notes & commercial paper	1,613	551
Loans and other payables	4,414	4,409
Other marketable debt securities	2,000	2,000
Other transactions	-	71
Total	**39,973**	**35,913**

The debentures and bonds in circulation at December 31, 2010 issued by Telefónica Emisiones, S.A.U., Telefonica Europe, B.V. and Telefónica Finanzas México, S.A. de C.V. were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 31,946 million euros at December 31, 2010 (28,882 million euros at December 31, 2009). During 2010, these companies issued debt instruments on capital markets for a nominal amount of 5,484 million euros (8,044 million euros in 2009).

The commercial paper program of Telefónica Europe, B.V. is also guaranteed by Telefónica, S.A. At December 31, 2010 the outstanding balance of commercial `paper in circulation issued through this program is 1,613 million euros (551 million euros at December 31, 2009).

The main loans and other debts guaranteed by Telefónica, S.A. are: a syndicated loan granted to Telefonica Europe, B.V. by various institutions for the acquisition of shares in O2, Plc. in 2006, the principal of which at December 31, 2010 was equivalent to 2,945 million euros (3,091 million euros at December 31, 2009); and credit facilities obtained by Telefónica Finanzas, S.A. from the European Investment Bank, the outstanding principal of which at December 31, 2010 was equivalent to 1,171 million euros (1,206 million euros at December 31, 2009).

"*Other marketable debt securities*" includes the guarantee for preferred shares issued by Telefonica Finance USA, LLC, the redemption value of which amounts to 2,000 million euros guaranteed by Telefónica, S.A.

b) Litigation

Telefónica is party to several lawsuits or proceedings that are currently in progress in the law courts and administrative and arbitration bodies of the various countries in which the Telefónica Group is present.

Considering the reports of the Company's legal advisors regarding these proceedings, it is reasonable to assume that this litigation or cases will not materially affect the financial position or solvency of the Telefónica Group, regardless of the outcome.

Among unresolved cases or those underway in 2010, we would highlight the following:

1. Contentious proceedings in connection with the merger between Terra Networks, S.A. and Telefónica

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. This ruling was appealed on December 4, 2009.

On June 16, 2010, Telefónica was notified of the written appeal filed by the appellants. Telefónica rejected this appeal, which the Court accepted as filed on January 5, 2011.

2. 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 wholesale 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 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. In addition, on November 4, 2010 the ECTA (*European Competitive Telecommunications Association*) filed a request to intervene in support of the EC's findings.

3. 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).

c) Commitments

Agreements with Portugal Telecom (Brazil)

In accordance with the agreement signed on July 28, 2010 between Telefónica and Portugal Telecom described in Note 8 for the acquisition by Telefónica of shares representing 50% of the capital stock of Brasilcel, Telefónica still has to make the third and final payment in the amount of 2,000 million euros, due on October 31, 2011. Regarding the final payment, Portugal Telecom may request that it be made early, on July 29, 2011, in which case the acquisition cost (and, accordingly, the amount of the final payment) would be reduced by approximately 25 million euros (see Note 18).

In addition, within the scope of the same transaction, on October 26, 2010, Telefónica announced a tender offer for the voting shares of Vivo not held by Brasilcel and which represent approximately, 3.8% of Vivo's outstanding share capital, subject to regulatory approval. The maximum amount of the offer amounted to approximately 800 million euros, assuming a 100% acceptance of the offer. The tender offer was approved by the Brazilian market regulator on February 11, 2011 (see Note 22).

On December 27, 2010, Vivo Participaçoes and Telecomunicaçoes de Sao Paulo (Telesp) announced the start of a potential merger of the shares of Vivo into the share capital of Telesp through a share swap, to be carried out in 2011. The aim of the proposal is to simplify Vivo's and Telesp's shareholder and organizational structure, while bolstering the Telefónica Group's competitive position in the Brazilian market

Guarantee provided for Ipse 2000 S.p.A.

The Telefónica Group had provided guarantees for the Italian company Ipse 2000 S.p.A. (holder of a UMTS license in Italy and in which the Company has a stake through Solivella B.V.) to ensure the amounts payable to the Italian government in connection with the grant of the license. The last of the 10 monthly payments was made in November 2010, and as such, the guarantee expired on that day, pending is receipt of the release letter to be issued by the Italian government.

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 amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify 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 Director's 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 Directors in their capacity as members of the Board of Directors, the Executive Commission 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 executive Board members other than the Chairman 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, Executive Commission and Advisory or Control Committees (in euros).

Position	Board of Directors	Executive Commission	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's Directors for discharging their duties in 2010 amounted to 4,136,167 euros in fixed compensation and 321,250 euros in fees for attending the Board Advisory or Control Committees meetings. It should also be noted that the compensation paid to Company Directors sitting on the Boards of 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 1,780,898 euros. In addition, the Company Directors who are members of the regional advisory Committees, including the Telefónica Corporate University Advisory Council, received a total of 556,250 euros in 2010.

The following table presents the breakdown by item of the compensation and benefits paid to Telefónica's Directors for discharging their duties in 2010 (in euros):

Board Members	Advisory	Executive Commission	Other Board Committees		TOTAL
			Fixed	Attendance fees	
Chairman					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
Vice chairmen					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	26,250	332,250
Members:					
Mr. Julio Linares López	-	-	-	-	-
Mr. José María Abril Pérez	150,000	100,000	14,000	3,750	267,750
Mr. José Fernando de Almansa Moreno-Barreda	150,000	-	56,000	26,250	232,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-
Mr. David Arculus	150,000	-	28,000	11,250	189,250
Ms. Eva Castillo Sanz	150,000	-	42,000	23,750	215,750
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	23,750	329,750
Mr. Peter Erskine	150,000	100,000	56,000	36,250	342,250
Mr. Alfonso Ferrari Herrero	150,000	100,000	106,167	48,750	404,917
Mr. Luiz Fernando Furlán	150,000	-	14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	51,250	399,250
Mr. Pablo Isla Álvarez de Tejera	150,000	-	84,000	18,750	252.750
Mr. Antonio Massanell Lavilla	150,000	-	70,000	31,250	251,250
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	16,250	322,250
TOTAL	**2,600,000**	**800,000**	**736,167**	**321,250**	**4,457,417**

In addition, the breakdown of the total paid to executive Directors Mr. César Alierta Izuel, Mr. Julio Linares López and Mr. José María Álvarez-Pallete López for discharging their executive duties by item is as follows (amounts in euros):

ITEMS	2010
Salaries	6,356,975
Variable compensation	8,186,448
Compensation in kind (1)	117,290
Contributions to pension plans	25,444

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

In addition, with respect to the Pension Plan for Senior Executives (see Note 19.3), the total amount of contributions made by the Telefónica Group in 2010 in respect of executive Directors was 1,925,387 euros.

In relation to the "Performance Share Plan" approved at the General Shareholders' Meeting of June 21, 2006 (see Note 19.3), the maximum number of shares corresponding to the third, fourth and fifth - and final - phases of the Plan will be given (on July 1, 2011, July 1, 2012 and July 1, 2013) to each of Telefónica, S.A.'s executive Directors if all the terms established for such delivery are met, is as follows: Mr. César Alierta Izuel (148,818 shares in the third phase, 173,716 shares in the fourth phase, and 170,897 shares in the fifth phase); Mr. Julio Linares López (101,466 shares in the third phase, 130,287 shares in the fourth phase and 128,173 shares in the fifth phase); Mr. José María Álvarez-Pallete López (67,644 shares in the third phase, 78,962 shares in the fourth phase and 77,680 shares in the fifth phase). Similarly, with respect to the execution of the second phase of the Plan in July 2010, since the Total Shareholder Return ("TSR") of Telefónica was higher in this phase than the TSRs of companies representing 75% of the market cap of the comparison group, the beneficiaries received, in accordance with the general terms and conditions of the Plan, all the shares assigned to them as follows: Mr. César Alierta Izuel, 116,239 shares; Mr. Julio Linares López, 57,437 shares; Mr. José María Álvarez-Pallete López, 53,204 shares.

Furthermore, at the General Shareholders' Meeting of Telefónica, S.A. of June 23, 2009, its shareholders approved the introduction of a Telefónica, S.A. share incentive plan ("Global Employee Share Plan") for all employees of the Group worldwide, including executives and executive Directors of the Company (see details of the Plan in Note 19.3).

The three executive Directors decided to participate in this plan, contributing the maximum, i.e. 100 euros a month, over 12 months. Therefore, at the date of preparing these financial statements, the three executive Directors had acquired a total of 78 shares through this plan, whereby they are entitled to receive, free of charge, an equivalent number of shares providing that, among other conditions, they retain the acquired shares during the consolidation period (12 months from the end of the acquisition period).

It should be noted that the external Directors do not receive and did not receive in 2010 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 2010 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 in 2010 of 10,830,531 euros. In addition, the contributions by the Telefónica Group in 2010 with respect to the Pension Plan described in Note 19.3 for these senior executives amounted to 926,004 euros.

Furthermore, the maximum number of shares corresponding to the third, fourth and fifth phases of the "Performance Share Plan" assigned to the Company's senior executives for each of the periods is: 306,115 shares for the third phase, 394,779 shares for the fourth phase and 350,485 shares for the fifth phase. Similarly, as explained above, these senior executives received a total of 251,681 shares in the second phase of the Plan.

[1] In this context, senior executives are taken as being those individuals who, in fact or in law, perform senior management duties, reporting directly to their Board of Directors or executive Committees or the CEOs thereof, including in all cases the Manager of Internal Audit.

Finally, in relation to the Telefónica share purchase plan or “Global Employee Share Plan”, at the date of the accompanying financial statements, the Company's six senior executives had acquired a total of 152 shares through this plan.

e) Equity investments, positions held or duties performed in companies engaging in an activity that is identical, similar or complementary to that of the Company.

Pursuant to article 229 of the revised text of the Spanish Enterprise Law, introduced by Royal Legislative Decree 1/2010 of July 2, details are given below, both for members of the Board of Directors of Telefónica, S.A., and for persons related thereto as set out in Article 231 of the Spanish Corporation Law, of (i) the direct and indirect equity interests held and (ii) the positions or duties carried out, both of the foregoing in respect to companies whose activity is identical, similar or complementary to the corporate purpose of Telefónica, S.A.

Name	**Activity**	**Company**	**Position or functions**	**Interest %(*)**
Mr. Isidro Fainé	Telecommunications	Abertis Infraestructuras, S.A.	Vice Chairman	< 0.01%
Mr. David Arculus	Telecommunications	British Sky Broadcasting Group, Plc.	--	< 0.01%
	Telecommunications	BT Group, Plc.	--	< 0.01%

(*) 0.01% is shown if the holding is less than 0.01% of the< share capital.

Furthermore, for information purposes, details of the positions held or duties performed by the Directors of Telefónica, S.A. in those companies, of the Telefónica Group, or of any company in which Telefónica, S.A. or any of its Group companies holds a significant interest whereby it justifies their appointment as Directors of those companies whose activity is identical, similar or complementary to the corporate purpose of such company

Name	Company	Position or functions
Mr. César Alierta Izuel	Telecom Italia, S.p.A.	Director
	China Unicom (Hong Kong) Limited	Director
Mr. Julio Linares López	Telefónica de España, S.A.U.	Director
	Telefónica Europe, Plc.	Director
	Telefónica Móviles España, S.A.U.	Director
	Telecom Italia, S.p.A.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. David Arculus	Telefónica Europe, Plc.	Director
Mr. Francisco Javier de Paz Mancho	Atento Inversiones y Teleservicios, S.A.U.	Non-executive Chairman
	Telecomunicaçoes de Sao Paulo, S.A.	Director

Mr. Francisco Javier de Paz Mancho	Telefónica de Argentina, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles México, S.A. de C.V.	Director
José María Álvarez-Pallete López	Colombia Telecomunicaciones, S.A. ESP	Director
	Telecomunicaçoes de Sao Paulo, S.A.	Director/Vice Chairman
	Telefónica Chile, S.A.	Acting Director
	Telefónica DataCorp, S.A.U.	Director
	Telefónica de Argentina, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Executive Chairman
	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
	Telefónica Móviles Colombia, S.A.	Acting Director
	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman
Mr. Luiz Fernando Furlán	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Ms. María Eva Castillo Sanz	Telefónica Internacional, S.A.U.	Director
	Telefónica O2 Czech Republic, a.s.	First Vice Chairman of Supervisory Board
Mr. Peter Erskine	Telefónica Europe, Plc.	Director

f) 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 under market conditions, with approximately 323 million euros drawn down at December 31, 2010 (237 million euros in 2009).

- Derivative transactions contracted under market conditions, for a total nominal amount of approximately 11,062 million euros at December 31, 2010 (7,733 million euros at December 31, 2009).

- Time deposits on an arm's length basis for a total nominal amount of approximately 227 million euros at December 31, 2010 (679 million euros at December 31, 2009).

- Guarantees granted by BBVA for approximately 420 million euros at December 31, 2010 (0.2 million euros in 2009).

- Dividends and other benefits paid to BBVA in 2010 for 439 million euros (287 million euros in 2009).

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

- Financing transactions arranged under market conditions, with approximately 291 million euros drawn down at December 31, 2010 (616 million euros at December 31, 2009).

- Derivative transactions contracted under market conditions, for a total nominal amount of approximately 800 million euros at December 31, 2010 (800 million euros at December 31, 2009).

- Time deposits on an arm's length basis for a total nominal amount of approximately 118 million euros at December 31, 2010 (1,293 million euros at December 31, 2009).

- Dividends and other benefits paid to La Caixa in 2010 for 298 million euros (260 million euros in 2009).

Group companies

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

The balances and transactions between the Company and these subsidiaries at December 31, 2010 and 2009 are detailed in the notes to these Individual Financial Statements.

Directors and senior executives

In the financial year to which these accompanying annual financial statements refer, the directors and senior executives did not perform any transactions with Telefónica or any Telefónica Group company other than those in the Group's normal trading activity and business.

Compensation and other benefits paid to members of the Board of Directors and senior executives, as well as the detail of the equity interests and positions held and duties performed in companies engaging in an activity that is identical, similar or complementary to that of the Company are detailed in Note 20 d) and e) to these financial statements.

g) Auditors' fees

The fees paid in 2010 and 2009 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica, S.A. in 2010 and 2009) belongs, amounted to 3.71 million euros and 3.32 million euros, respectively, broken down as follows.

(Millions of euros)	**2010**	**2009**
Audit services	3.29	3.02
Audit-related services	0.42	0.3
TOTAL	**3.71**	**3.32**

h) Environmental matters

As head of the Telefónica Group, Telefónica, S.A. engages in environmental management activities and projects in line with its environmental strategy. In 2010 and 2009, expenditure and investment for insignificant amounts were recognized in the consolidated income statement and consolidated balance sheet, respectively.

The Group has launched various projects aimed at improving its current systems to reduce the environmental impact of its existing installations, with project costs being added to the cost of the installation to which the project relates.

In addition, in line with its commitment to the environment, the Group announced 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 contribute 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.

The Group has also rolled out internal control mechanisms sufficient to pre-empt any environmental liabilities that may arise in future, which are assessed at regular intervals either by Telefónica staff or renowned third-party institutions. No significant risks have been identified in these assessments.

i) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids and in the ordinary course of its business. No significant additional liabilities in the accompanying financial statements are expected to arise from guarantees and deposits issued (Note 16 b).

(21) CASH FLOW ANALYSIS

Profit before tax in 2010 amounted to 2,885 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 2010.

These adjustments mainly relate to:

- Impairments to investments in Group companies, associates and other investments of 1,985 million euros (reversal in 2009 of 1,087 million euros),
- Declared dividends as income in 2010 for 6,474 million euros (5,763 million euros in 2009), interest accrued on loans granted to subsidiaries of 378 million euros (662 million euros in 2009) and a net financial loss of 1,711 million euros (1,870 million euros in 2009), adjusted initially to include only movements related to cash inflows or outlooks during the year under "Other cash flows from operating activities."

"Other cash flows from operating activities" amounted to 6,753 million euros in 2010 (8,382 million euros in 2009). The main items included are:

a) Net interest paid: Payments of net interest and other financial expenses amounted to 1,061 million euros (974 million euros in 2009), including:

   - interest paid to external credit entities of 609 million euros (49 million euros in 2009), and
   - interest paid to Group companies of 452 million euros (925 million euros in 2009). The main interest payments in 2010 were to Telefónica Emisiones, S.A.U., for 1,201 million euros, and to Telefónica Europe, B.V., for 463 million euros, although these amounts are reduced by hedges contracted.

b) Dividends received:

   The main receipts relate to:

(Millions of euros)	2010	2009
Telefónica de España, S.A.U.	2,827	2,993

Telefónica Móviles España, S.A.U.	2,190	2,601
Telefónica O2 Europe, plc.	708	1,350
Telefónica O2 Czech Republic, a.s.	365	438
Other dividends received	531	402
Total	**6,621**	**7,784**

The figures disclosed are dividends recognized as revenue in 2010 (see Note 19.1) and collected in the same year.

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 2010 the amount recognized under this item mainly related to:

- Payments on account of 2010 corporate income tax made to the tax authorities for 729 million euros, less 2009 corporate income tax rebates of 133 million euros.
- Balancing net payments to tax authorities are the amounts passed on to the subsidiaries of the Tax Group, the most significant of which are:

  - Telefónica Móviles España, S.A.U.: 625 million euros, of which 309 million euros are for the payment of corporate income tax in 2009 and 316 million euros for payments on account of corporate income tax in 2010. In 2009, a receipt of 1,488 million euros was recognized, 999 million euros for 2008 corporate income tax and 489 million euros for payments on account of corporate income tax in 2009.

  - Telefónica de España, S.A.U.: 874 million euros, of which 314 million euros are for the payment of corporate income tax in 2009 and 560 million euros for payments on account of corporate income tax in 2010. In 2009, a receipt of 1,214 million euros was recognized, 709 million euros for 2008 corporate income tax and 505 million euros for payments on account of corporate income tax in 2009.

"Payments on investments" under "Cash flows used in investing activities included a total payment of 10,521 million euros (1,403 million euros in 2009). The main transactions to which these payments refer are as follows:

- Acquisition of 50% of Brasilcel, N.V. During 2010 the first two installments for this acquisition were made of 4,500 million euros (in September 2010) and 1,000 million euros (in December 2010).

- Several share capital increases totaling 3,410 million euros were made in Telfin Ireland, Ltd. to finance the acquisition of Hansenet, to purchase spectrum in this country, and to increase the share capital of O2 Europe, Ltd. by 35 million euros (see Note 8.1 a).

- Additional financing in the form of a 269 million euro loan granted to Telefónica Móviles México, S.A. de C.V. (see Note 8.5).

- Financing extended to Telco, S.p.A. amounting to 600 million euros, as described in Note 8.5.

In addition, "Proceeds from disposals" includes the repayment of loans granted by Telefónica, S.A. to subsidiaries, the most significant amounts of which in 2010 were received from Telefónica de España, S.A.U. (698 million euros), Telefónica Internacional, S.A.U. (795 million euros), Telefónica Móviles Argentina, S.A. (118 million euros), and Telefónica Móviles España, S.A.U. (352 million euros).

In 2009, the main proceeds recognized under this heading came from Telefónica de España, S.A.U. (1,095 million euros), Telefónica Internacional, S.A.U. (509 million euros), and Inversiones Móviles Chile (234 million euros).

"Cash flows from financing activities" includes the following:

i. Payments for equity instruments of 883 million euros (311 million in 2009), relating to the net amount of treasury shares acquired in 2010 (Note 11).

ii. Payments of financial liabilities

a) Debt issues: The main collections comprising this heading are as follows:

(Millions of euros)	**2010**	**2009**
€8bn syndicated loan (Note 14.2)	6,000	-
Telefónica Emisiones, S.A.U. loans	5,484	8,044
Telefónica Europe, B.V. commercial paper (Note 20 a)	1,062	-
Financing granted by Telfisa Global, B.V.	1,630	180
Equity swaps by Portugal Telecom (Note 14.4)	541	-
Other collections	131	114
Total	**14,848**	**8,338**

b) Repayment and redemption of debt: The main payments comprising this heading are as follows:

(Millions of euros)	**2010**	**2009**
Cesky syndicate loan (Note 14.2)	5,700	-
Telefónica Europe, B.V.	2,779	1,579
Telefónica Finanzas, S.A.U.	-	3,658
Telefónica Emisiones, S.A.U. (Note 15)	1,348	1,068
Cancellation of debentures and bonds (Note 13)	19	800
Promissory note program (Note 13)	217	504
Telefónica Móviles España, S.A.U. (Note 15)	300	-

Other payments	722	651
Total	**11,085**	**8,260**

In 2010, the cancellation of Telefónica Europe, B.V. debt mainly comprises the repayment of a loan and hedges contracted to cover this debt.

In 2009, the cancellation of Telefónica Europe, B.V. debt primarily comprises net payments in relation to commercial paper transactions of 287 million euros and net payments of the syndicated loan to fund the acquisition of O2, plc. amounting to 1,200 million euros (Note 15).

In 2009, the balance of payments with Telefónica Finanzas, S.A.U. consisted of the balances of current accounts the Company held with this subsidiary, which were used in 2010 to finance various transactions.

iii. Payments of dividends for 5,872 million euros (4,557 million euros in 2009) (see movements in Note 11.1 d).

(22) EVENTS AFTER THE REPORTING PERIOD

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

- Expanding on the existing strategic alliance agreement, on January 23, 2011, Telefónica and China Unicom (Hong Kong) Limited ("China Unicom") signed an extension to their Strategic Alliance Agreement, in which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas, and committed to investing the equivalent of 500 million US dollars in ordinary shares of the other party. Telefónica will acquire through its subsidiary Telefónica Internacional, S.A.U. a number of China Unicom shares amounting to 500 million US dollars from third parties, within nine months from the agreement date.

  Following the completion of the transaction, Telefónica will hold, through Telefónica Internacional, S.A.U., approximately 9.7% of China Unicom's voting share capital, based on the share price at the date of the aforementioned agreement as of January 23, 2011, while China Unicom will own approximately 1.37% of Telefónica's voting share capital. In recognition of China Unicom's stake in Telefónica, the latter commits to proposing the appointment of a board member named by China Unicom in the next General Shareholders' Meeting, in accordance with prevailing legislation and the Company's Bylaws.

  China Unicom completed the acquisition of Telefónica shares on January 28, 2011, giving it ownership of 1.37% of the Company's capital.

- On January 24, 2011, Telefónica, S.A. transferred 25% of the share capital of Telefónica Móviles Argentina Holding, S.A. amounting to 1,080 million euros to Telefónica Internacional, S.A.U. Subsequent to this transaction, Telefónica, S.A. retains 75% of this company's share capital.

- On February 7, 2011, Telefónica Emisiones, S.A.U. issued 1,200 million euros of bonds maturing on February 7, 2017 and guaranteed by Telefónica, S.A. as part of its European medium term notes program ("EMTN") registered with the Financial Services Authority (FSA) in London on June 23, 2010.
- On February 16, 2011, Telefónica Emisiones, S.A.U. issued 2,750 million US dollars worth of bonds under the issuance program registered with the United States Securities and Exchange Commission (SEC) on May 8, 2009. The bonds are guaranteed by Telefónica, S.A. This issue entails two tranches: the first for 1,250 US dollars maturing on February 16, 2016 and the second for 1,500 million US dollars maturing on February 16, 2021.
- On February 11, 2011, the Brazilian market regulator (C.V.M.) approved the tender offer made by Telefónica, S.A. to holders of voting shares of Vivo Participaçoes, S.A. (see Note 20 c).

(23) ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements were originally prepared in Spanish. In the event of discrepancy, the Spanish-language version prevails.

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.

APPENDIX I

Details of subsidiaries, associates and investees at December 31, 2010

Telefónica

DETAILS OF SUBSIDIARIES, ASSOCIATES AND INVESTEES AT DECEMBER 31, 2010 (millions of euros)								
Name and corporate purpose	**% Ownership**		**Capital**	**Reserves**	**Dividends received**	**Income (loss)**		**Gross carrying amount**
	Direct	**holding**				**From operations**	**For the year**	
Telefónica Europe plc (UNITED KINGDOM) *Wireless communications services operator* *Wellington Street, Slough, SL1 1YP*	100.00%	-	13	7,777	708	(1)	502	25,180
Telefónica Internacional, S.A. (SPAIN) *Investment in the telecommunications industry abroad* *Gran Vía, 28 - 28013 Madrid*	100.00%	-	2,839	6,140	-	(210)	1,782	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	499	2,190	2,514	1,980	5,775
Telfin Ireland Limited (IRELAND) *Intragroup financing* *28/29 Sir John Rogerson's Quay, Dublin 2*	100.00%	-	-	3,410	-	(1)	58	3,410
Telefónica de España, S.A.U. (SPAIN) *Telecommunications service provider in Spain* *Gran Vía, 28 - 28013 Madrid*	100.00%	-	1,024	1,920	2,827	3,622	2,432	3,034
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%	-	1,960	(1,589)	-	295	56	2,557
Telefónica de Contenidos, S.A.U. (SPAIN) *Organization and operation of multimedia service-related activities and businesses* *Don Ramón de la Cruz, 84 4ª Pta.- 28006 – Madrid*	100.00%	-	1,865	(1,663)	-	(12)	(12)	2,242
Latin American Cellular Holdings, B.V. (NETHERLANDS) (*) *Holding company* *Strawinskylaan 3105, Atium 7th, Amsterdam*	100.00%	-	-	2,708	65	-	586	1,685

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica Datacorp, S.A.U. (SPAIN) *Telecommunications service provider and operator* *Gran Via, 28 - 28013 Madrid*	100.00%	-	700	66	-	-	4	1,343
Telefónica Móviles Argentina Holding, S.A. (ARGENTINA) (1) *Holding company* *Ing Enrique Butty 240, piso 20-Capital Federal-Argentina*	100.00%	-	201	734	-	573	335	1,142
Inversiones Telefónica Móviles Holding, Ltd. (CHILE) *Holding company* *Miraflores, 130 - 12º - Santiago de Chile*	100.00%	-	752	561	-	-	339	741
Ecuador Cellular Holdings, B.V. (NETHERLANDS) (*) *Holding company* *Strawinskylaan 3105, Atium 7th, Amsterdam*	100.00%	-	-	106	-	-	31	581
PTelecom Brasil, S.A. (BRAZIL) *Holding company* *Rua Cubatao, 320, 4 andar, Sao Paulo, Sao Paulo*	100.00%	-	129	(5)	2	-	28	419
Atento Inversiones y Teleservicios, S.A. (SPAIN) *Telecommunications service provider* *C/ Santiago de Compostela, 94 - 28035 Madrid*	100.00%	-	24	139	-	(16)	31	372
O2 (Europe) Ltd. (UK) *Wireless communications services operator* *Wellington Street, Slough, SL1 1YP*	100.00%	-	1,239	6,498	-	-	(45)	8,779
Telefónica Centroamérica de Guatemala Holdings, S.A. (GUATEMALA) *Holding company* *Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 10 – Guatemala City*	100.00%	-	188	(19)	-	35	23	238

Telefónica

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Ecuador Cellular Holdings, B.V. (NETHERLANDS) (*) *Holding company* *Strawinskylaan 3105, Atium 7th, Amsterdam*	100.00%	-	-	44	12	-	21	238
Telefónica El Salvador Holding, S.A. de C.V. (EL SALVADOR) (1) *Holding company* *Alameda Roosvelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador*	100.00%	-	149	(66)	-	(2)	(2)	161
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) *Ownership of shareholdings in cellular operators in Puerto Rico* *Metro Office Park Calle Edificio #17, Suite 600 - 00968 Guaynabo*	100.00%	-	116	(116)	-	-	-	110
Telefónica Global Technology, S.A. (formerly Ateseco Comunicación, S.A.) (SPAIN) (2) *Management and global usage of IT systems* *Gran Vía, 28 - 28013 Madrid*	100.00%	-	6	18	-	3	-	80
Terra Networks Asociadas, S.L. (SPAIN) *Holding company* *Gran Via, 28 - 28013 Madrid*	100.00%	-	7	(26)	-	(1)	6	64
Guatemala Cellular Holdings, B.V. (NETHERLANDS) (*) *Holding company* *Strawinskylaan 3105, Atium 7th, Amsterdam*	100.00%	-	-	4	4	-	5	30
Taetel, S.L. (SPAIN) *Acquisition, ownership and disposal of shares and stakes in other companies* *Gran Via, 28 - 28013 Madrid*	100.00%	-	28	6	-	-	-	28
Telefónica Gestión de Servicios Compartidos España, S.A. (SPAIN) *Management and administrative services rendered* *Gran Via, 28 - 28013 Madrid*	100.00%	-	8	33	1	7	7	24

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Lycos Europe Holding Corporation (US) *Holding company* *Corporation Trust Center, 1209 Orange Street - Wilmington, Delaware 19801*	100.00%	-	N/D	N/D	N/D	N/D	N/D	19
Telefónica Capital, S.A. (SPAIN) *Finance company* *Gran Via, 28 - 28013 Madrid*	100.00%	-	7	76	-	(3)	(2)	18
Lotca Servicios Integrales, S.L. (SPAIN) *Holding and operation of aircraft and aircraft leases.* *Gran Via, 28 - 28013 Madrid*	100.00%	-	17	(1)	-	(4)	(4)	17
Comet, Compañía Española de Tecnología, S.A. (SPAIN) *Promotion of business initiatives and holding of real estate assets* *Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid*	100.00%	-	5	3	-	-	-	14
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) *Integrated cash management, consulting and financial support for Group companies* *Gran Vía, 30 - 4ª Plta. - 28013 Madrid*	100.00%	-	3	39	-	(1)	7	13
Telefónica Móviles Soluciones y Aplicaciones, S.A. (CHILE) *IT and communications services provider* *Avenida del Cóndor Nº 720, piso 4, comuna de Huechuraba, Santiago de Chile*	100.00%	-	10	1	-	(3)	(3)	11
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) *Design of communications products* *Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid*	100.00%	-	-	N/D	-	N/D	N/D	10
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) *Security services and systems* *Condesa de Venadito, 1 - 28027 Madrid*	100.00%	-	1	2	-	(1)	(1)	9

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN) *Telecommunications research activities and projects* *Emilio Vargas, 6 - 28043 Madrid*	100.00%	-	6	50	-	(2)	3	6
Venturini España, S.A. (SPAIN) *Printing, graphic arts and direct marketing* *Avda. de la Industria, 17 Tres Cantos - 28760 Madrid*	100.00%	-	3	(1)	-	1	1	4
Telfisa Global, B.V. (NETHERLANDS) *Integrated cash management, consulting and financial support for Group companies* *Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX - Amsterdam*	100.00%	-	-	2	1	(1)	2	2
Telefónica de Centroamérica, S.L. (SPAIN) (2) *Dormant company* *Gran Via, nº 28, 28013 Madrid*	100.00%	-	-	-	-	-	-	1
Fisatel Mexico, S.A. de C.V. (MEXICO) Integrated cash management, consulting and financial support for Group companies *Boulevard Manuel Avila Camacho, 24 - 16ª Plta. - Lomas de Chapultepec - 11000 Mexico D.F.*	100.00%	-	-	2	-	-	-	-
Telefónica Emisiones, S.A.U. (SPAIN) *Issuance of preferred securities and/or other financial debt instruments* *Gran Via, 28 - 28013 Madrid*	100.00%	-	-	1	-	(3)	1	-
Telefónica Europe, B.V. (NETHERLANDS) *Fund raising in capital markets* *Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX – Amsterdam*	100.00%	-	-	5	-	(1)	1	-
Telefónica Internacional USA Inc. (US) *Financial advisory services* *1221 Brickell Avenue suite 600 - 33131 Miami - Florida*	100.00%	-	-	1	-	-	-	-

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica International Wholesale Services II, S.L. (SPAIN) *Telecommunications service provider and operator* *Ronda de la Comunicación, s/n – 28050 Madrid*	100.00%	-	-	(1)	-	(18)	(10)	-
Casiopea Reaseguradora, S.A. (LUXEMBURG) *Reinsurance* *6D, route de Trèves, L-2633 Senningerberg, Luxemburg*	100%	-	4	232	-	3	16	3
Telefónica International Wholesale Services, S.L. (SPAIN) *International services provider* *Gran Via, 28 - 28013 Madrid*	92.51%	7.49%	230	23	-	17	9	213
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) *Life insurance, pensions and health insurance* *Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid*	89.99%	10.01%	51	50	-	5	10	59
Corporation Real Time Team, S.L. (SPAIN) *Internet design, advertising and consulting* *Claudio Coello, 32, 1º ext. – Madrid*	87.96%	12.04%	-	N/D	-	N/D	N/D	12
Portelcom Participaçoes, S.A. (BRAZIL) *Holding company* *Av Brigadeiro Faria Lima, 2277, 15ª andar, Conj1503, Jardin Paulistano, Sao Paulo*	84.78%	15.22%	807	(29)	13	-	163	131
Telefónica International Wholesale Services America, S.A. (URUGUAY) (1) *Provision of high bandwidth communications services* *Luis A. de Herrera, 1248 Piso 4 - Montevideo*	80.56%	19.44%	562	(222)	-	(53)	(54)	325
Telefónica Brasil Sul Celular Participaçoes, Ltda. (BRAZIL) *Holding company* *Avda. Martiniano de Carvalho, 851, 20 andar, parte Sao Paulo, Sao Paulo*	74.39%	25.55%	174	-	2	-	35	2,525

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica O2 Czech Republic, a.s. (CZECH REPUBLIC) (1) (3) *Telecommunications service provider* *Olsanska 55/5 - Prague 3, 130 34*	69.41%	-	1,073	1,359	331	455	357	3,526
Telefónica Móviles Panamá, S.A. (PANAMA) *Wireless telephony services* *Edificio Magna Corp. Calle 51 Este y Avda Manuel María Icaza, Ciudad de Panamá*	56.32%	43.69%	52	65	15	26	18	301
Aliança Atlântica Holding B.V. (NETHERLANDS) *Holding company* *Strawinskylaan 1725 – 1077 XX - Amsterdan*	50.00%	43.99%	40	8	2	8	11	21
Telefónica Móviles Colombia, S.A. (COLOMBIA) (1) *Wireless operator* *Calle 100, Nº 7-33, Piso 15, Bogotá,Colombia*	49.42%	50.58%	-	543	-	45	(20)	272
Vivo Participaçoes, S.A. (BRAZIL) (1) *Holding company* *Rua Silveria Martins, nº 1036. Cabula, Salvador - Bahía*	35.89%	23.53%	3,944	(203)	30	3,885	814	9,944
Telefónica Móviles del Uruguay, S.A. (URUGUAY) *Wireless communications and services operator* *Constituyente 1467 Piso 23, Montevideo 11200*	32.00%	68.00%	7	102	12	74	68	13
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. (SPAIN) *Distribution, promotion or preparation of insurance contracts, operating as a broker* *Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid*	16.67%	83.33%	-	2	1	3	4	-
Telefónica Móviles Argentina, S.A. (ARGENTINA) (1) *Wireless communications and services operator* *Ing Enrique Butty 240, piso 20-Capital Federal-Argentina*	15.40%	84.60%	N/D	N/D	39	N/D	N/D	139

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica Móviles Guatemala, S.A. (GUATEMALA) *Provision of wireless, wireline and radio paging communications services* *Bulevar Los Próceres 20-09 Zona 10. Edificio Iberoplaza. Guatemala City*	13.60%	86.38%	-	-	12	-	-	38
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) *Management and administrative services rendered* *Av. Ing. Huergo 723 PB - Buenos Aires*	4.99%	95.00%	-	1	-	1	-	-
Telefónica de Argentina, S.A. (1) *Telecommunications service provider* *Av. Ingeniero Huergo, 723, PB - Buenos Aires*	1.80%	98.20%	185	134	2	216	114	23
Telefónica del Perú, S.A.A. (PERU) (1) (3) *Operator of local, domestic and international long distance telephony services in Peru* *Avda. Arequipa, 1155 Santa Beatríz - Lima*	0.16%	98.18%	691	44	68	181	203	2
Telcel, C.A. (VENEZUELA) (1) *Wireless operator* *Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060*	0.08%	99.92%	357	269	1	927	451	125
Telefónica Factoring España, S.A. (SPAIN) *Factoring* *Pedro Teixeira, 8 - 28020 Madrid*	50.00%		5	2	2	5	6	3
Telco, S.p.A. (ITALY) *Holding company of a stake in Telecom Italia* *Galleria del Corso, 2 - Milan*	46.18%	-	3,287	(179)	-	(1)	89	2,314
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) *Factoring* *Mexico City*	40.50%	9.50%	2	-	-	-	-	1

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	holding				From operations	For the year	
Telefónica Factoring Perú, S.A.C. (PERU) *Factoring - Lima*	40.50%	9.50%	1	-	-	-	1	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) *Factoring - Bogota*	40.50%	9.50%	1	-	-	1	1	1
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) *Factoring - Avda. Paulista, 1106 – Sao Paulo*	40.00%	10.00%	1	-	4	(2)	8	1
Torre de Collçerola, S.A. (SPAIN) *Operation of a telecommunications mast and technical assistance and consulting services* *Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona*	30.40%	-	6	-	-	-	-	2
Amper, S.A. (SPAIN) (1) (3) (4) *Development, manufacture and repair of telecommunications systems and equipment and related components* *Torrelaguna, 75 - 28027 Madrid*	5.78%	-	29	50	-	2	(6)	5
ZON Multimedia - Serviços de Telecomunicaçoes e Multimédia, SGPS, S.A. (PORTUGAL) (3) *Multimedia business* *Avda. 5 de Outubro, 208 - Lisbon*	4.80%	0.66%	3	323	2	31	49	50
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (3) (4) *Banking* *San Nicolás, 4 - 48005 Bilbao (Vizcaya)*	0.98%	-	1,837	23,981	16	15,378	4,179	418
Other investments	-	-	-	-	149	-	-	340

Total Group companies and associates	86.824
Total non-current financial investments	473

(1) Consolidated data
(2) Company in liquidation
(3) Companies listed on international stock exchanges at December 31, 2010
(4) Data as of September 2010.
N/D No data available
(*) Data from provisional financial statements at December 31, 2009

2010 MANAGEMENT REPORT

TELEFÓNICA, S.A.

ECONOMIC RESULTS

In 2010, Telefónica reinforced its position in Latin America, specifically in the Brazilian wireless market following the acquisition in the year's third quarter (September 27) of an additional 50% of Brasilcel from Portugal Telecom. As a result, since October 2010 Vivo has been included in the Telefónica Group's consolidated financial statements using the full consolidation method rather than the proportionate consolidation previously used.

Due to the Group's strong position in Venezuela, it is important to highlight that during 2009 and the beginning of 2010, a number of factors arose in the Venezuelan economy that led the Telefónica Group to reconsider the treatment it follows with respect to the translation of the financial statements of investees in that country and as well as the recovery of its financial investments in that country. Key among these factors are the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, the restrictions to the official foreign exchange market, and, finally, the devaluation of the bolivar fuerte on January 8, 2010. Consequently, in accordance with IFRS, the Venezuelan economy must be considered as hyperinflationary for 2009 and 2010.

The Company remains committed to growing its customer base which, measured in terms of total accesses, continued to expand in 2010, by 8.7% to 287.6 million accesses at December 31, 2010 from 264.6 million accesses at December 31, 2009. This growth from 2009 to 2010 was primarily driven by an 8.9% increase in mobile accesses, a 27.0% increase in broadband accesses and a 12.0% increase in pay TV accesses.

By access type, **mobile accesses** increased by 8.9% to 220.2 million accesses at December 31, 2010 from 202.3 million accesses at December 31, 2009 (no longer including 9.0 million accesses of Medi Telecom, which was sold in December 2009). Principal contributions, by country to mobile net adds from 2009 to 2010 were Brazil (8.5 million additional mobile accesses), Mexico (2.3 additional mobile accesses), Germany (1.5 million additional mobile accesses), Chile (1.3 million additional mobile accesses), Colombia (1.0 million additional mobile accesses) and the United Kingdom (0.9 million additional mobile accesses), and with negative net adds of 1.0 million mobile accesses in Venezuela.

The **number of retail broadband accesses** rose 27.0% from 13.5 million accesses at December 31, 2009 to 17.1 million accesses at December 31, 2010. The growth in the number of broadband accesses from 2009 to 2010 was mainly due to the inclusion of accesses from HanseNet, as indicated above, and the increasing adoption of bundled voice, ADSL and pay TV services, which led to a significant contribution to the development of the broadband market and increasing loyalty of our customers. Brazil was once again the driving force behind the Group's growth in this type of accesses in 2010, after Telesp achieved a net add of 681 thousand accesses in the year, an all-time high for the Company. During the year, retail broadband accesses increased 4.5% in Spain to 5.7 million, 15.8% in Latin America to 7.4 million, and 149.5% in Europe to 4.0 million. At December 31, 2010, 89% of broadband accesses in Spain were included in Duo or trio bundles. In Latin America, the share of packaged products continued to grow in 2010, reaching 56% of broadband accesses at the year end. This growth in broadband accesses offset the continued decrease in narrowband accesses from 1.4 million at December 31, 2009 to 1.3 million at December 31, 2010.

Lastly, **pay TV accesses** increased 12.0% from 2.5 million accesses at December 31, 2009 to 2.8 million accesses at December 31, 2010. The continuous growth in pay TV accesses from 2009 to 2010 was the result of further market penetration in the areas in which this service is available, which as of December 31, 2010 included Spain, Germany, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela, and the success of bundling this service with others.

Results of Telefónica, S.A.

Telefónica, S.A. obtained net profit of 4,130 million euros in 2010. Highlights of the 2010 income statement include:

- Growth in revenue from operations because most of the contracts signed in 2008 for use of the Telefónica brand entailing royalties stipulated an increasing percentage for the years 2008 to 2011. The 2010 income statement included 518 million euros of revenue from royalties for use of the brand (369 million in 2008).

  Dividends received from Group companies and associates, the main amounts of which relate to Telefónica O2 Europe, plc. (708 million euros), Telefónica de España, S.A.U. (2,827 million euros) and Telefónica Móviles España, S.A.U. (2,190 million euros).

  Interest income on loans to Group companies and associates, the main amounts of which relate to interest from Telefónica Móviles México, S.A. de C.V. of 188 million euros (215 million euros in 2009) and Telefónica de España, S.A.U. of 130 million euros (187 million euros in 2009).

- Net financial expense totaled 1,711 million euros in 2010, compared to 1,870 million in 2009. This was mainly due to finance costs with Group companies and associates, of which the largest came from Telefónica Europe, B.V. (454 million euros, 518 million euros in 2009) and Telefónica Emisiones, S.A.U. (1,286 million euros, 981 million euros in 2009).

Investment activity

2010

On February 10, 2010 Irish company Telfin Ireland Ltd. was incorporated by means of a 919 million euro contribution by Telefonica, S.A. (its sole shareholder). On April 28, 2010, Telefonica, S.A. injected a further 243 million euros of equity into this company. Then on May 21, 2010, Telefonica, S.A. injected a further 1,379 million euros and on June 24, 2010 another 869 million euros. These funds were used by Telfin Ireland, Ltd. to finance other Group companies in transactions performed during 2010.

On July 28, 2010, Telefónica, S.A. and Portugal Telecom reached an agreement for the acquisition by Telefónica of 50% of the share capital of Brasilcel, N.V owned by Portugal Telecom. The agreed acquisition price was 7,500 million euros, of which 2,000 million euros will be paid on October 31, 2011, although Portugal Telecom is entitled to request payment of this last installment on July 29 2011. This agreement also establishes that Portugal Telecom waives the portion corresponding to the dividends approved by the subsidiaries of Brasilcel, N.V. amounting to 49 million euros, which were recognized as a reduction in the cost of this acquisition. Taking into account the conditions established, the discounted price at which this acquisition was recognized is 7,419 million euros.

On September 27, 2010 the corresponding boards of directors agreed to start the take-over of Brasilcel, N.V. by Telefónica, which was completed on December 21, 2010 after being subscribed in the Madrid Mercantile Registry. As a result of this transaction, Telefónica, S.A. acquired direct investments in Vivo Participaçoes (35.89%), Portelcom (84.78%), PTelecom

(100%), and increases its stake in TBS to 74.39%. The total direct and indirect stake in Vivo Participaçoes held by Telefónica, S.A. at December 31, 2010 amounted to approximately 60%.

In 2010, Telefónica, S.A. transferred the stake in Banco Bilbao Vizcaya Argentaria, S.A. of 191 million euros and in Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, S.G.P.S., S.A. of 52 million euros to net financial expense. These transfers were recognized in "Gain (loss) on available-for-sale financial assets recognized in the period".

2009

In 2009, Telefónica, S.A. did not carry out any significant capital increases in subsidiaries.

On June 11, 2009, Telefónica, S.A. recognized the capitalization of part of the loans granted in prior years and the accrued interest payable to Telefónica Móviles México, S.A. de C.V. for 1,381 million euros.

On 5 June 2009 and 2 November 2009, Telefónica, S.A. contributed to its subsidiary Latin American Cellular Holding, S.A. receivables in favor of Telcel, C.A. amounting to 19 million euros and 15 million euros, respectively, for this company to subsequently make payments on the loan granted to it by Telcel, C.A.

In December 2009, following approval by the Comisión Nacional de Valores de la República Argentina ("CNV"), the Argentine securities regulator, Telefónica, S.A. acquired shares representing 1.8% of the share capital of Telefónica de Argentina, S.A. held by minority shareholders. The total investment amounted to 23 million euros.

Investments classified as available for sale increased by 197 million euros in 2009 thanks to the recovery in the share prices of Banco Bilbao Vizcaya Argentaria, S.A. and Amper, S.A. The after-tax impact had a balancing entry in "Equity - Net unrealized gains (losses) reserve".

At June 30, 2009, Telefónica, S.A. transferred the 34 million euro shareholding in Zon Multimedia, S.G.P.S. to profit and loss. This transfer was recognized in the income statement under "Gain (loss) on available-for-sale financial assets recognized in the period".

SHARE PRICE PERFORMANCE

Uncertainty regarding economic instability in the European peripherals (Portugal, Ireland, Italy, Greece and Spain) triggered across-the-board declines by Europe's leading stock indices in 2010, with Ibex-35 shedding 17.4%, the FTSE-100 closing down 13.2%, and the EStoxx-50 and CAC-40 dropping 5.8% and 3.3%, respectively. German's DAX was the sole exception, bucking the trend with a 16.1% gain in the year.

The Ibex-35 underperformed its European peers amid ongoing fears of sovereign debt contagion after Greece and Ireland were bailed out. Against this backdrop, Telefónica's share price fell 13.1% (to 16.97 euros per share), though this was better than the benchmark index in Spain. The Company remains supported by its highly diversified geographical and business mixes, its proven track record in delivering amid ever-changing environments, its cash generative ability and its focus on shareholders. This focus on shareholders is clearly reflected in the operator's commitment to continue increasing shareholder returns via dividends. In 2010, Telefónica acquired the remaining 50% of Vivo in Brazil, thereby increasing its emerging market exposure. Looking at the telecommunications sector, versus its European peers, the return on investment in Telefónica was lower due to sovereign risk (DJ Telco: +3.0%; BT: +33.9%; Vodafone: +15.4%; Telecom Italia: -11.1%; France Telecom: -10.5%; KPN: -7.8%; Deutsche Telekom: -6.2%).

The total return for Telefónica shares in 2010 was -6.4% including the dividends paid in 2010 (0.65 euros per share on May 11 and 0.65 euros per share on November 8, 2010). Nonetheless, the total return for Telefónica shares in 2009 was 29.5%.

At the end of 2010, Telefónica was the world's fifth largest telecommunications company by market cap and one of the 50 largest companies in the world of any kind. Telefónica's market cap at year-end 2010 stood at 77,451 million euros.

RESEARCH, DEVELOPMENT AND INNOVATION

Telefónica remains firmly committed to technological innovation as a core means to generating sustainable competitive advantages, anticipating market trends and the differentiation of our products. We believe we cannot rely solely on acquired technology to differentiate our products from those of our competitors and to improve our market positioning. We also believe that it is important to encourage research and development initiatives in an effort to achieve the desired level of differentiation and to foster other innovation activities.

Our R&D policy is designed to:
• develop new products and services in order to win market share;• boost customer loyalty;
• drive revenue growth;
• enhance management;
• improve business practices; and
• increase the quality of our infrastructure services to improve customer service and reduce costs.

Telefónica is developing an open innovation model for the management of technological innovation to boost the dynamism and efficiency of our research and development activities and the development of commercial products and services.

Open innovation initiatives driving this model include the creation of a venture capital fund, collaborative agreements with technology partners, involvement in business collaboration forums, etc. The model also promotes the use of knowledge developed at technology centers, universities and start-ups, and encourages creating value from know-how acquired internally through the active commercialization, where appropriate, of the industrial and intellectual property created.

In 2010, the technological innovation projects undertaken focused on profitable innovation, process efficiency, creation of new revenue streams, customer satisfaction, consolidation of new markets and technological leadership.

Our technological innovation activities are a key part of Telefónica's strategy of creating value through the possibilities presented by new technologies: mobile broadband, fiber optics, etc.

In 2010, projects were undertaken to promote greater access to information technology, new services focused on new internet business models, advanced user interfaces, mobile television and other broadband services. These initiatives, among others, were built on the basis of rapid identification of emerging technologies that could have a relevant impact on our businesses, and the testing of these technologies in new services, applications and platform prototypes.

A significant part of our research and development is performed by Telefónica Investigación y Desarrollo S.A.U. (hereinafter Telefónica I+D), a solely-owned subsidiary, which is specifically dedicated to providing solutions to the various lines of business.

Telefónica's research and development activities in 2010 focused on certain areas:
• Natural P2P communication of the future, using the Internet, Web 2.0 and smart phones.

• Video and multimedia services (combining text, audio, images and video) offering a user experience in all connected devices.

• Advanced solutions in emerging ITC businesses such as remote healthcare monitoring, and remote patient support or monitoring.

• M2M service management associated with energy efficiency and mobility.

• Cloud computing that makes intensive use of resources available on the Web to publish, commercialize and distribute applications.

• Analysis of how users employ communications technologies to identify service and business model opportunities (marketing campaigns, target marketing and tailor-made contextual services, reduced churn, cross selling, etc.)

• Development of network and services in a new global infrastructure shared by all business lines to cut operations and maintenance costs, providing great capacity, explosion of mobile data, video content, and shift from an object-based Internet to a people-based Internet.

In 2010, 38.23% of Telefónica I+D's activity was performed on behalf of Telefónica in Spain, 27.04% for companies in Latin America, 21.1% for Telefónica, S.A. (primarily the Corporate Innovation Program, including medium to long-term projects between two or more business units), 10.52% for Telefónica O2 Europe and the remaining 3.11% for other customers of Telefónica I+D.

At December 31, 2010, Telefónica I + D had a workforce of 635 employees. During 2010, over 500 companies and 160 universities were involved in projects performed by Telefónica I+D as part of the aforementioned open innovation model. Many of these collaborative projects were partially financed by public programs designed to promote R&D implemented by various public bodies: European Union, Spanish government, regional governments, etc.

The Telefónica Group spent 693 million euros and 797 million euros on R&D in 2009 and 2010, respectively.

In 2010, Telefónica registered 74 patents, 43 with the Spanish Patent Office and 31 in the European Union, the US and several international patent offices.

FINANCING

The main financing transactions undertaken in the bonds market in 2010 are the following:

- Under Telefónica Emisiones, S.A.U.'s European Medium Term Note ("EMTN"), Telefónica, S.A. guaranteed the issues of debt instruments for a global amount equivalent to 2,865 million euros, with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
03/24/2010	03/24/2015	1,400,000,000	EUR	3.406%
09/19/2010	09/18/2017	1,000,000,000	EUR	3.661%
10/08/2010	10/08/2029	400,000,000	GBP	5.445%

- Under Telefónica Emisiones, S.A.U.'s debt issue program registered with the United States Securities Exchange Commission (SEC), Telefónica, S.A. guaranteed the issues of debt instruments for a global amount equivalent to 3,500 million US dollars (equivalent to approximately 2,620 million euros), with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
04/26/2010	04/26/2013	1,200,000,000	USD	2.582%
04/26/2010	04/27/2015	900,000,000	USD	3.729%
04/26/2010	04/27/2020	1,400,000,000	USD	5.134%

- Under Telefónica Finanzas México, S.A. de C.V.'s peso bond issue program registered with the Mexican National Banking and Securities Commission (CNBV), Telefónica, S.A. guaranteed the issues of peso bonds for a global amount of 6,000 million Mexican pesos (equivalent to approximately 364 million euros) with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
07/19/2010	07/06/2020	2,000,000,000	MXN	8.070%
07/19/2010	07/14/2014	4,000,000,000	MXN	TIIE28 + 55bps

The main financing transactions undertaken in the banking market in 2010 are the following:

- On February 12, 2010, Telefónica, S.A. signed a long-term line of credit of 472 million US dollars at a fixed rate and guaranteed by the Swedish Export Credits Guarantee Board (EKN) to acquire equipment and networks from a supplier in this country. This line of credit is structured into three tranches: a tranche of 232 million US dollars maturing on November 30, 2018, another of 164 million US dollars maturing on April 30, 2019, and a third of 76 million US dollars maturing on November 30, 2019. At December 31, 2010, none of this credit had been drawn down.

- On June 28, 2010, Telefónica, S.A. obtained a syndicated line of credit with a group of national and international participating banks up to a maximum of 8,000 million euros. The line of credit has two tranches: the first tranche is for a maximum of 5,000 million euros available for three years, and the second is for a maximum of 3,000 million euros on a revolving basis over five years. At December 31, 2010, the outstanding balance drawn down on this line of credit amounted to 6,000 million euros.

TRANSACTIONS WITH TREASURY SHARES

At December 31, 2010 and 2009, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/10	55,188,046	17.01	16.97	937	1.20920%

(1) Millions of euros

	Number of shares	Euros per share		Market value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.13868%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2009 and 2010 is as follows:

	Number of shares
Treasury shares at 12/31/08	**125,561,011**
Acquisitions	65,809,222
Disposals	(40,730,735)
Delivery PSP Phase I	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	**6,329,530**
Acquisitions	52,650,000
Disposals	(827,047)
Delivery PSP Phase I	(2,964,437)
Treasury shares at 12/31/10	**55,188,046**

In addition to the Company's treasury shares, at 2010 year end 16,896 Telefónica, S.A. shares were held by Telefónica Móviles Argentina, S.A.

The amount paid to acquire treasury shares in 2010 and 2009 was 897 million euros and 1,005 million euros, respectively.

On June 30, 2009, following the end of the first phase of the Performance Share Plan (PSP), a total of 7,200,000 treasury shares were added, corresponding to the derivative financial instrument arranged by the Company to meet its obligations to deliver treasury shares to managers and executives. The gross number of shares linked to the Plan amounted to 4,533,393 shares, with a net 3,309,968 shares finally delivered.

On June 30, 2010, subsequent to the maturing of the second phase of the Performance Share Plan (PSP), a total of 2,964,437 treasury shares have been delivered at a price of 16.93 euros per share (50.1 million euros).

On September 6, 2009, Telefónica and China Unicom entered into a wide strategic alliance which includes, among others, the areas of: the joint procurement of infrastructure and client equipment; common development of mobile service platforms; joint provision of services to multinational customers; roaming; research and development; co-operation and sharing of best practices and technical, operational and management know-how; joint development of strategic initiatives in the area of the network evolution and joint participation in international alliances; and exchange of senior management.

In addition, on the same date, Telefónica and China Unicom executed a mutual share exchange agreement, which was implemented on October 21, 2009 through which

Telefónica, through its wholly owned subsidiary Telefónica Internacional, S.A.U., subscribed for 693,912,264 newly issued shares of China Unicom, satisfied by the contribution in kind to China Unicom of 40,730,735 Telefónica shares.

Following the completion of the transaction, Telefónica Internacional, S.A.U. increased its share of China Unicom's voting share capital from 5.38% to 8.06% and obtained the right to appoint a member to its board of directors, while China Unicom became owner of approximately 0.87% of Telefónica's voting share capital at that date. Subsequently, after a capital reduction carried out by China Unicom, the Telefónica Group reached a shareholding equivalent to 8.37% of the company's voting share capital.

Treasury shares sold during 2010 and 2009 amounted to 14 million euros and 766 million euros, respectively.

At December 31, 2010, Telefónica, S.A. held firm call options on 160 million treasury shares (150 million treasury shares in 2009).

The Company also holds a derivative on 25.64 million Telefónica shares, settled by differences.

RISKS AND UNCERTAINTIES FACING THE COMPANY

The Telefónica Group's business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The factors described below are the most significant.

Group related risks

- *Country risk (investments in Latin America).* At December 31, 2010, approximately 50.6% of the Group's assets were located in Latin America. In addition, around 42.9% of its revenues from operations for 2010 were derived from its Latin American operations. The Group's operations and investments in Latin America (including the revenues generated by these operations, their market value, and the dividends and management fees expected to be received therefrom) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly and negatively affect Telefónica's interests in such countries;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation or currency depreciation may result in certain subsidiaries having negative equity which would require them to undertake a mandatory recapitalization or commence dissolution proceedings;
- governments may expropriate or nationalize assets or increase their participation in the economy and companies;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the economic conditions and business environment in which it operates; and
- economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations.

In addition, the Telefónica Group's operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewals could be directly affected by economic and political instability, altering the terms and conditions under which it operates.

- *Management of foreign currency and interest rate risk.* The Telefónica Group is exposed to various types of market risk in the normal course of its business, including the impact of changes in foreign currency exchange rates and the impact of changes in interest rates, as well as the impact of changes of credit risk in its treasury investments (in cash and cash equivalents) or in some financial transactions. The Telefónica Group employs risk management strategies to manage this exposure, in part through the use of financial derivatives, such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group's risk management purposes, or if it cannot enter into arrangements of the type and for the amounts necessary to limit the exposure to currency exchange-rate and interest-rate fluctuations, or if banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect the financial condition, results of operations and cash flow. Also, Telefónica's other risk management strategies may not be successful, which could adversely affect the financial condition, results of operations and cash flow. Finally, if the rating of counterparties in treasury investments or in structured financial transactions deteriorates significantly or if any of such counterparties were to fail in its obligations to the Company, the Telefónica Group may suffer a loss of value in its investments, incur unexpected losses and assume additional financial obligations under these transactions and such failure could adversely affect the Telefónica Group's business, financial condition, results of operations and cash flow.

Current global economic situation. The Telefónica Group's business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse global economic environment and uncertainty about an economic recovery may negatively affect the level of demand of existing and prospective customers, as Telefonica's services may not be deemed critical for these customers.. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other general macroeconomic factors. Specifically, in this respect, the continuation of the economic situation in Spain, according to the forecasts contained in the Spanish economic ministry's Stability Program for 2009-2013, could have an adverse affect on the Telefónica Group's results.

In addition, there could be other possible follow-on effects from the financial crisis on the Group's business, including insolvency of key suppliers or customers. A loss of customers or a reduction in purchases by current customers could have an material adverse effect on the Telefónica Group's business, financial condition, results of operations and cash flow and may therefore negatively affect the ability to meet growth targets.

- *Dependence on external sources of financing.* The development and distribution of the Telefónica Group's services as well as the operation, expansion and upgrading of the Group's networks, require substantial financing. Moreover, liquidity and capital resource requirements may increase if the Telefónica Group participates in other fixed line or mobile license award processes or make acquisitions. The Telefónica Group also has major capital resource requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If the ability to generate cash flow were to decrease, whether due to the current worldwide financial and economic crisis or otherwise, the Telefónica Group may need to incur additional debt or raise other forms of capital to support liquidity and capital resource requirements for the ongoing development and expansion of the business.

The evolution of financial markets in terms of liquidity, cost of credit, access and volatility, remains affected by the existing uncertainty regarding the pace of economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning public deficits of some governments, among other factors. Worsening conditions in the international credit markets due to any of these factors may make it more difficult and more expensive for the Telefónica Group to refinance its financial debt or to incur additonal debt.

In addition, the capacity to raise capital in the international capital markets would be impaired if Telefónica's credit ratings were downgraded, whether due to decreases in cash flow or otherwise. Further, current market conditions may make it more difficult to renew unused bilateral credit facilities.

The current financial situation may also make it more difficult and costly for the Company to launch a rights issue to its current shareholders or to raise additional equity capital if further funds were needed for pursuing its business plans.

Risks related to our industry

- *Highly competitive markets*. The Telefónica Group faces significant competition in all of the markets in which it operates, and therefore, it is subject to the effects of actions by competitors in these markets. These competitors could:

- offer lower prices, more attractive discount plans or better services and features;
- develop and deploy more rapidly new or improved technologies, services and products;
- launch bundle offerings of one type of service with others;
- in the case of the mobile industry, subsidize handset procurement; or
- expand and enhance their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors and changes in consumer preferences and in general economic, political and social conditions. If the Telefónica Group is unable to effectively compete, it could result in price reductions, lower revenues, under-utilization of the Group's services, reduced operating margins and loss of market share, any of which could have a material adverse affect on the Telefónica Group's business, financial condiition, results of operations and cash flow.

- *Highly regulated markets*. As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Union and national, state, regional and local authorities. Regulation may be especially strict in the markets of those countries in which the Company holds a significant market position. In this respect, regulatory authorities regularly intervene in the retail and wholesale offering and pricing of the Telefónica Group's products and services. Furthermore, such authorities may also adopt further regulations or take additional actions that could adversely affect the Telefónica Group, including revocation of or failure to renew any of its licenses, authorizations or concessions, implementation of changes to the spectrum allocation or the granting or new licenses, authorizations or concessions to competitors to offer services in the relevant markets. Furthermore, regulations could require reductions in roaming prices and termination rates in mobile and/or fixed line networks, force Telefónica to offer access to its network to other operators, and result in the imposition of fines if Telefónica fails to fulfill its service commitments. Such regulations and regulatory actions could place significant competitive and pricing pressure on the Group's operations, and could have a material adverse effect on the Telefónica Group's business, financial condition, results of operations and cash flow.

In addition, since the Telefónica Group holds a leading market share in many of the counties where it operates, it could face regulatory actions by antitrust or competition authorities designed to enhance competition in the relevant markets. These authorities could prohibit further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and harm to the Telefónica Group's financial performance and future growth.

The regulatory landscape in the European Union will change as a consequence of the recent passage of a new common regulatory framework that is to be implemented by Member States before May 2011. The regulatory principles established for Europe suggest that the new frameworks in each Member State may result in an increased focus on the development and maintenance of competitive markets. This regulatory framework proposes the adoption of measures, under rather exceptional circumstances and in specific situations, by national authorities to establish functional separation between the retail and wholesale operations of vertically integrated operators with significant market power, by requiring them to offer equal wholesale conditions to related and third party operators who buy wholesale products. The adoption of such regulatory framework in Spain and the other European Union Members States where the Telefónica Group operates could result in requirements to modify its internal organization in the relevant markets, which could result in additional costs. Additionally, the Company may face new regulatory initiatives regarding lowering mobile termination rates and the provision of data and audiovisual services.

In addition, the Telefónica Group may also face pressure from regulatory initiatives in some European countries in order to reallocate spectrum rights of use and to modify spectrum allocation policies that may result, among other matters, in new tender processes for spectrum allocation in the European Union.

Finally, the recommendation made by the European Commission on the implementation of European regulation of new generation broadband networks may reduce the incentives for operators to invest in broadband networks over the short and medium term because operators that invest in broadband networks could be required to provide access to such networks to third parties. This could affect competition and business performance and future growth in such services. The European Commission is also working on further recommendations about cost accounting and non-discrimination that could increase regulatory pressure on fixed operators.

- *Services are provided under licenses or concessions.* Most of Telefónica's operating companies require licenses, authorizations or concessions from the governmental authorities of the countries in which they operate. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of these licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Moreover, authorizations, licenses and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors.

The terms of these licenses, authorizations and concessions and conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, which is usually related to the fulfillment of the commitments that were assumed by the grantee. As licenses, authorizations and concessions approach the end of their terms, the Telefónica Group intends to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions and, under certain circumstances, the Group will operate under technically expired licenses, authorizations or concessions under preexisting terms during the renewal process. Failure to complete the renewal process successfully could adversely affect the Telefónica Group's business, financial condition, results of operations and cash flow.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group's operating companies require them to meet specified network build-out requirements and schedules. In particular, Telefónica's existing licenses, authorizations and concessions typically require to satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession for the relevant area. In addition, the need to meet scheduled deadlines may require the Telefónica Group's companies to expend more resources than otherwise budgeted for a particular network build-out.

- *Markets subject to constant technological development*. The Telefónica Group's future success depends, in part, on the ability to anticipate and adapt in a timely manner to technological changes. New products and technologies will emerge on a continuous basis and that existing products and technologies will further develop. These new products and technologies may reduce the prices for the Telefónica Group's existing services or may be superior to, and render obsolete, the products and services the Telefónica Group offers and the technologies it uses and may consequently reduce the revenues generated by these products and services and require investment in new technology. In addition, the Group may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for the Telefónica Group to upgrade its products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect the Telefónica Group's business, financial condition, results of operations and cash flow.

In particular, the Telefónica Group must continue to upgrade its existing mobile and fixed line telephony networks in a timely and satisfactory manner in order to retain and expand the customer base in each of its markets, to enhance its financial performance and to satisfy regulatory requirements. Among other things, the Telefónica Group could be required to upgrade the functionality of its networks to accommodate increased customization of services, to increase coverage in some of its markets, or to expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under the Telefónica Group's control and may be affected by applicable regulations. If the Telefónica Group fails to execute these tasks successfully, its services and products may be less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect the Telefónica Group's business, financial condition, results of operations and cash flow.

- *Limitations on spectrum capacity could curtail growth*. Telefónica's mobile operations in a number of countries may rely on spectrum availability. Failure to obtain sufficient or adequate spectrum coverage and, to a lesser extent, the costs related to obtaining this capacity could have a material adverse impact on the quality of its services and on Telefónica's ability to provide new services, adversely affecting the Telefónica Group' business, financial condition, results of operations and cash flow.

- *Supplier failures*. The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Furthermore, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, Telefónica's business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements.

- *Risks associated with unforeseen network interruptions*. Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group's service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs, penalties or other measures imposed by regulatory authorities, and could harm the Telefónica Group's reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt the Telefónica Group's technical infrastructure. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.

- *Electromagnetic radio emissions and social awareness***.** Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has increased significantly. In many cases, this has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization (WHO), have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999 on the limitation of exposure of the general public to electromagnetic fields. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

New researches and studies are underway. Specifically, the WHO has announced that in 2011 it will issue new recommendations in its Radio Frequency Environment Health Criteria. Regardless the conclusions that could arise from these studies, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group's mobile companies and consequently on its financial condition, results of operations and cash flow. While the Telefónica Group is not currently aware of any evidence confirming a link between radio frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

- *Risk of asset impairment***.** The Telefónica Group reviews on an annual basis or more frequently where the circumstances require, the value of each of its assets and subsidiaries to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected to be derived from such assets and subsidiaries, including in some cases synergies included in their acquisition costs. The current economic environment and changes in the short and medium term, as well as changes in the regulatory, business or political environment may result in the necessity of recognizing impairment charges on the Telefónica Group's goodwill, intangible assets or fixed assets.

Although the recognition of impairments of tangible, intangible and financial assets result in a non-cash charge on the income statement, such charge would adversely affect the Telefónica Group's results of operations and consequently, its ability to achieve its growth targets.

Other risks

▪ Litigation and other legal proceedings. The Telefónica Group is party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of its business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) may have a material adverse effect on the Telefónica Group's business, financial condition, results of operations and cash flow.

TREND EVOLUTION

We are an integrated diversified telecommunications group that offers a wide range of services, mainly in Spain, Europe, and Latin America. Our activity is based upon providing fixed and mobile services, Internet and data, pay TV and value added services, among others. Our operations in 25 countries, managed through a regional organization geared towards certain businesses in global units, enable us to leverage our strong local positioning, as well as the advantages afforded by our scale, two features that have been reinforced by the opportunities arising from our holdings in and strategic alliances with China Unicom and Telecom Italia.

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. We can expect the regulatory landscape to continue to change in Europe as a consequence of the revised regulations resulting from the implementation of the review of the common regulatory framework currently in place in the European Union. In addition, we may also face pressure from regulatory initiatives in some countries regarding tariffs, the reform of rights of spectrum use and allocation, issues related to the quality of service, and the regulatory treatment of new broadband infrastructure deployments.

We face intense competition in most of our markets, and we are therefore subject to the effects of actions taken by our competitors. The intensity of the competition may deepen, which could have an impact on tariff structures, consumption, market share and commercial activity and negatively affect the number of customers, revenues and profitability.

However, we are in a strong competitive position in most of the markets where we operate, enabling us to continue taking advantage of the growth opportunities that arise in these markets, such as by boosting both fixed and mobile broadband services and by furthering the development of services beyond connectivity, information technology services and related businesses. In this respect, we seek to lead the industry by anticipating trends in the new digital environment.

We will continue transforming our operating model to increase our operational efficiency and capture the synergies arising from our integrated approach to businesses, processes and technologies and will maintain a regional approach to tackle this transformation more efficiently. At the same time, we will remain strongly committed to technological innovation as a key tool for achieving sustainable competitive advantages, anticipating market trends and differentiating our products. We continually seek to become the benchmark for efficiency and customer orientation by introducing new technologies and developing new products and business processes.

In Spain, we will continue to intensify our commercial focus on offering higher quality services, by increasing the effectiveness of our sales channels and further improving our networks to increase customer satisfaction. We will seek to strengthen relations with our customers through targeted commercial offerings that ensure the best response to their communications needs. In this respect, we will continue to boost innovation to offer the best products and services, drive the mobile and fixed broadband growth and bundling services to provide the best integrated communications solution in the market. Efficiency will play a leading part in all aspects of the business, both commercial and operational, including systems, networks and processes. We will focus on our customers and their satisfaction, while continuing to remain committed to ensuring Telefónica Spain remains the best employer to work for.

In Latin America, our strategy is based on a regional model that captures growth and efficiency of scale without losing sight of the local management of the client. This position was further underpinned in the fourth quarter through the acquisition of the stake held by Portugal Telecom in Brasilcel. This has put us in a much stronger position in one of the main markets in the region: the Brazilian mobile market. The mobile business will continue to play a fundamental role as an engine of regional growth. That is why we continue to further improve the capacity and coverage of our networks, adapting our distribution network to enhance the quality of our offer both in voice and data in order to keep and attract high value customers. With regard to the fixed telephony business, we will encourage the increase of broadband speed and expand the supply of bundled services. We will further advance efficiency, in operational and commercial terms, and attempt to achieve further synergies by implementing global, regional and local projects.

In Europe, customers will remain at the center of our strategy and management priorities in the region in order to guarantee a high level of customer satisfaction with our services. With the objective of offering our customers the best value, we will boost the mobile and fixed broadband services, adding to the range of products and services we already offer. In such a competitive market such as presently prevails, we will dedicate our efforts on reinforcing our market positioning. We will roll out several local and regional initiatives to improve operating efficiency in forthcoming years.

In summary, in the context of intense competition and regulatory pressure on pricing, Telefónica will continue strengthening its business model to make it more efficient and capture the synergies arising from the integrated approach of businesses, processes and technologies, while focusing even more on the client.

Telefónica

EVENTS AFTER THE REPORTING PERIOD

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

- Expanding on the existing strategic partnership, on January 23, 2011, Telefónica, S.A. and China Unicom (Hong Kong) Limited ("China Unicom") signed an extension to their Strategic Partnership Agreement, in which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas, and committed to investing the equivalent of 500 million US dollars in ordinary shares of the other party. Telefónica will acquire through its subsidiary Telefónica Internacional, S.A.U. a number of China Unicom shares amounting to 500 million US dollars from third parties, within nine months from the agreement date.

  Following the completion of the transaction, Telefónica will hold, through its subsidiary Telefónica Internacional, S.A.U., approximately 9.7% of China Unicom's voting share capital, based on the share price, while China Unicom will own approximately 1.37% of Telefónica's voting share capital at the date of the aforementioned agreement as of January 23, 2011. In recognition of China Unicom's stake in Telefónica, the latter commits to proposing the appointment of a board member named by China Unicom in the next General Shareholders' Meeting, in accordance with prevailing legislation and the Company's Bylaws.

  China Unicom completed the acquisition of Telefónica shares on January 28, 2011, giving it ownership of 1.37% of the Company's capital.

- On January 24, 2011, Telefónica, S.A. transferred 25% of the share capital of Telefónica Móviles Argentina Holding, S.A. amounting to 1,080 million euros to Telefónica Internacional, S.A.U. Subsequent to this transaction, Telefónica, S.A. retains 75% of this company's share capital.

- On February 7, 2011, Telefónica Emisiones, S.A.U. issued 1,200 million euros of bonds maturing on February 7, 2017 and guaranteed by Telefónica, S.A. as part of its bond issuance program ("EMTN") registered with the Financial Services Authority (FSA) in London on June 23, 2010.

- On February 16, 2011, Telefónica Emisiones, S.A.U. issued 2,750 million US dollars worth of bonds under the issuance program registered with the United States Securities and Exchange Commission (SEC) on May 8, 2009. The bonds are guaranteed by Telefónica, S.A. This issue entails two tranches: the first for 1,250 US dollars maturing on February 16, 2016 and the second for 1,500 million US dollars maturing on February 16, 2021.

- On February 11, 2011, the Brazilian market regulator (C.V.M.) approved the tender offer made by Telefónica, S.A. to holders of voting shares of Vivo Participaçoes, S.A. (see Note 20 c).

DISCLOSURES REQUIRED UNDER ARTICLE 116 BIS OF THE SPANISH SECURITIES MARKET LAW

The information required under Article 116.bis of the Spanish Securities Market Law is detailed below:

a.- Capital structure.

At December 31, 2010, the share capital of Telefónica was 4,563,996,485 euros, represented by 4,563,996,485 fully paid ordinary shares of a single series, par value of 1 euro each, all recorded under the book-entry system.

At that date they were admitted to trading on the Spanish electronic trading system (the "Continuous Markets") where they form part of the Ibex 35 index, on the four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Tokyo, Buenos Aires, Sao Paulo and Lima stock exchanges.

All shares are ordinary, of a single series and confer the same rights and obligations on their shareholders.

At the time of writing, there were no securities in issue that are convertible into Telefónica shares.

b.- Restrictions on the transfer of securities.

Nothing in the Company Bylaws imposes any restriction or limitation on the free transfer of Telefónica shares.

c.- Significant shareholdings.

The table below lists shareholders who, at December 31, 2010, 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)	6.279	286,574,224	6.273	286,317,371	0.006	256,853
la Caixa (2)	5.050	230,469,182	0.024	1,117,990	5.025	229,351,192
Blackrock, Inc. (3)	3.884	177,257,649	-	-	3.884	177,257,649

(1) Based on the information contained in Banco Bilbao Vizcaya Argentaria, S.A.'s 2010 Annual Report on Corporate Governance at December 31, 2010.
(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, "la Caixa" as at December 31, 2010 for the 2010 Annual Report on Corporate Governance. The 5.025% indirect shareholding in Telefónica is owned by Criteria CaixaCorp, S.A.
(3) According to notification sent to the Spanish national securities commission, the CNMV, dated February 4, 2010.

d.- Restrictions on voting rights.

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

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

e.- Agreements between shareholders.

In accordance with the provisions of 112, section 2 of the Securities Market Act 24/1988, of July 28, (currently replaced by the section 2 of the article 518 of the revised text of the Spanish Corporation Law approved by Royal Legislative Decree 1/2010, of July 2) on October 22, 2009, the Company notified the Spanish national securities commission, the CNMV, in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per this article. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is in force, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertook not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). This undertaking is without effect, the aforementioned period of one year having expired.

At the same time, both parties also assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

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

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

Appointment, reappointment and ratification.

Telefónica's By-Laws 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 the revised text of the 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 revised text of 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 Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate Governance Committee, or in the case of independent Directors the proposal of this committee, shall include an assessment of the Director's past work and diligence in the discharge of their duties during their period in office.

Also, both the Board of Directors and the Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate 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 285 of the revised text of the Spanish Corporation Law and requires any change to be approved by shareholders at the Shareholders' Meeting with the majorities stated in Articles 194 and 201 of the same law. Article 14 of Telefónica's Bylaws upholds this principle.

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

Powers of Directors.

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

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

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

Powers to issue shares.

At the Ordinary Shareholders' Meeting of Telefónica on June 21, 2006, the Board of Directors was authorized under Article 297.1.b) of the revised text of the Spanish Corporation Law (previously Article 153.1.b) of the defunct 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 June 2, 2010, the Board of Directors was authorized to issue bonds exchangeable for or convertible into shares in the Company, this power being exercisable one or several times within a maximum of five years of that date. The Board of Directors has not exercised this power to date.

Powers to buy back shares.

At the General Shareholders' Meeting of Telefónica of June 2, 2010, the Board of Directors was authorized buy back its own shares either directly or via companies belonging to the Group. This authorization was granted for 5 years from that date and includes the specific limitation that at no point may the nominal value of treasury shares acquired, added to those already held by Telefónica and those held by any of the subsidiaries that it controls, exceed the maximum legal percentage at any time (currently 10% of Telefónica's share capital).

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 members of the Company's executives team 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 control in the Company. However, if the employment relationship is terminated for a breach attributable to the executive Director or executive, he/she will not be entitled to any compensation whatsoever. That notwithstanding, in certain cases the severance benefit to be received by the Executive Director or Executive, 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 the time when the contract was signed. The agreed economic compensation for the termination of the employment relationship, where applicable, consists of a maximum of three times 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 arithmetical mean of the sum 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, professional circumstances and when they signed their contracts, establish by contract, in some cases, their right to receive compensation in the same circumstances 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 annual variable payments received by contract.

ANNUAL REPORT ON CORPORATE GOVERNANCE

LISTED LIMITED COMPANIES

ISSUER'S PARTICULARS

FINANCIAL YEAR ENDED: 31-12-2010

TAX ID CODE: A-28015865

Company Name: TELEFÓNICA, S.A.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED LIMITED COMPANIES

For a better understanding of the model and its subsequent preparation, please read the instructions provided at the end before filling it out.

A OWNERSHIP STRUCTURE

A.1 Fill in the following table regarding the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
28-12-2009	4,563,996,485.00	4,563,996,485	4,563,996,485

Indicate whether different types of shares exist with different associated rights.

No

A.2 List the direct and indirect holders of significant ownership interests in your organization at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	286,317,371	256,853	6.279
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	1,117,990	229,351,192	5.050
Blackrock, Inc.	0	177,257,649	3.884

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Broker Correduria de Seguros y Reaseguros, S.A.	12,000	0.000
Banco Bilbao Vizcaya Argentaria, S.A.	BBVA Seguros, S.A. de Seguros y Reaseguros	244,800	0.005
Banco Bilbao Vizcaya Argentaria, S.A.	Continental Bolsa SAB (Peru)	53	0.000
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Criteria CaixaCorp, S.A.	229,351,192	5.025
Blackrock, Inc.	Blackrock Investment Management (UK)	177,257,649	3.884

Indicate the most significant movements in the shareholder structure during the year.

A.3 Fill in the following tables on company directors' holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr. César Alierta Izuel	4,082,445	78,000	0.091
Mr. Isidro Fainé Casas	437,211	0	0.010
Mr. Vitalino Manuel Nafría Aznar	11,300	0	0.000
Mr. Julio Linares López	308,851	1,840	0.007
Mr. Alfonso Ferrari Herrero	571,364	18,999	0.013
Mr. Antonio Massanell Lavilla	2,286	0	0.000
Mr. Carlos Colomer Casellas	564	63,190	0.001
Mr. David Arculus	10,500	0	0.000
Mr. Francisco Javier de Paz Mancho	41,702	0	0.001

Mr. Gonzalo Hinojosa Fernández de Angulo	85,476	436,000	0.011
Mr. José Fernando de Almansa Moreno-Barreda	19,349	0	0.000
Mr. José María Abril Pérez	65,050	84,449	0.003
Mr. José María Álvarez-Pallete López	251,098	0	0.006
Mr. Luiz Fernando Furlán	4,100	0	0.000
Ms. María Eva Castillo Sanz	81,980	0	0.002
Mr. Pablo Isla Álvarez de Tejera	8,601	0	0.000
Mr. Peter Erskine	69,259	0	0.002

% of total voting rights held by the Board of Directors	0.148

Complete the following tables on share options held by directors:

Name or corporate name of director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total voting rights
Mr. César Alierta Izuel	493,431	0	493,431	0.011
Mr. César Alierta Izuel 2	10,200,000	0	0	0.223
Mr. Julio Linares López	359,926	0	359,926	0.008
Mr. Carlos Colomer Casellas	49,053	0	0	0.001
Mr. José María Álvarez-Pallete López	224,286	0	224,286	0.005

Telefónica

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Type of relationship:

Corporate

brief description:

Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A.

Name or company name of related party
Banco Bilbao Vizcaya Argentaria, S.A.

A.6 Please indicate any shareholder's agreements reported to the company subject to article 112 of the Securities Market Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes

% of share capital affected:

0.87

Brief description of the agreement:

In accordance with the provisions of article 112, section 2 of the Securities Market Act 24/1988, of July 28 (currently replace by article 518 section 2 approved by Royal Legislative Decree 1/2010, of July 2, approving the revised text of the Spanish Corporation Law) on October 22, 2009, the Company notified the Spanish Securities Commission in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per article 518 of the Spanish Corporation Law. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is in force, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of

Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertook not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). This undertaking was deprived of effect as with the aforementioned period of one year having expired.
At the same time, both parties also assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.
This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

Members of the shareholders' agreement:

China Unicom (Hong Kong) Limited

Telefónica, S.A.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

As stated in the aforementioned shareholders' agreement, China Unicom (Hong Kong) Limited undertook, from the signing of the agreement (September 6, 2009), not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica's voting share capital (excluding intragroup transfers). This undertaking was deprived of effect, as with the aforementioned period of one year having expired.
The same applies with regard to the same undertaking on the part of Telefónica, S.A. with respect to the shares of China Unicom (Hong Kong) Limited.

A.7 Indicate whether any individuals or corporate bodies currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities' Market Act. If so, identify:

No

A.8 Complete the following tables on the company's treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
55,188,046	16,896	1.210

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Telefónica Móviles Argentina, S.A.	16,896

Total:	16,896

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
23/02/2010	45,799,900	0	1.005

Gain/(loss) on treasury shares sold during the year (thousands of euros)	141

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting authorizing the Board of Directors to purchase and/or transfer the treasury shares.

At the General Shareholders' Meeting of Telefónica of June 2, 2010, shareholders renewed the authorization granted by the General Shareholders' Meeting –of June 23, 2009–, for the derivative acquisition of treasury shares, either directly or through Group companies, in the terms literally transcribed below:

"To authorize, pursuant to the provisions of Section 75 et seq. of the Spanish Companies Act [Ley de Sociedades Anónimas, or LSA for its initials in Spanish], 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 shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.

“Such authorization is granted for a period of 5 years as from the date of this General Shareholders’ Meeting and is expressly subject to the limitation that the par value of the Company’s own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company’s own shares established by the regulatory Authorities of the markets 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.

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.

To deprive of effect, to the extent of the unused amount, the authorization granted under Item IV on the Agenda by the Ordinary General Shareholders Meeting of the Company on June 23, 2009.”

A.10 Indicate, as applicable, any restrictions imposed by Law or the company’s Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital.

Indicate whether there are any legal restrictions on exercising voting rights:

No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise	0

Indicate whether there are any restrictions included in the bylaws on exercising voting rights.

Yes

Maximum percentage of restrictions under the company's bylaws on voting rights a shareholder can exercise	10.000

Description of restrictions under law or the company's bylaws on exercising voting rights
In accordance with Article 21 of the Company Bylaws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy. The limitation established in the preceding paragraphs shall also apply to the maximum number of shares that may be cast (individually or collectively) by two or more shareholder or companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

No

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralization measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

B COMPANY MANAGEMENT STRUCTURE

B.1 Board of directors

B.1.1. List the maximum and minimum number of directors included in the Bylaws.

Maximum number of directors	20
Minimum number of directors	5

B.1.2 Complete the following chart with board members' details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr. César Alierta Izuel	-	Chairman	29-01-1997	10-05-2007	Vote at General Shareholders' Meeting
Mr. Isidro Fainé Casas	-	Vice Chairman	26-01-1994	21-06-2006	Vote at General Shareholders' Meeting
Mr. Vitalino Manuel Nafría Aznar	-	Vice Chairman	21-12-2005	21-06-2006	Vote at General Shareholders' Meeting
Mr. Julio Linares López	-	Chief Operating Officer	21-12-2005	21-06-2006	Vote at General Shareholders' Meeting
Mr. Alfonso Ferrari Herrero	-	Director	28-03-2001	21-06-2006	Vote at General Shareholders' Meeting
Mr. Antonio Massanell Lavilla	-	Director	21-04-1995	21-06-2006	Vote at General Shareholders' Meeting
Mr. Carlos Colomer Casellas	-	Director	28-03-2001	21-06-2006	Vote at General Shareholders' Meeting
Mr. David Arculus	-	Director	25-01-2006	21-06-2006	Vote at General Shareholders' Meeting

Mr. Francisco Javier de Paz Mancho	-	Director	19-12-2007	22-04-2008	Vote at General Shareholders' Meeting
Mr. Gonzalo Hinojosa Fernández de Angulo	-	Director	12-04-2002	10-05-2007	Vote at General Shareholders' Meeting
Mr. José Fernando de Almansa Moreno-Barreda	-	Director	26-02-2003	22-04-2008	Vote at General Shareholders' Meeting
Mr. José María Abril Pérez	-	Director	25-07-2007	22-04-2008	Vote at General Shareholders' Meeting
Mr. José María Álvarez-Pallete López	-	Director	26-07-2006	10-05-2007	Vote at General Shareholders' Meeting
Mr. Luiz Fernando Furlán	-	Director	23-01-2008	22-04-2008	Vote at General Shareholders' Meeting
Ms. María Eva Castillo Sanz		Director	23-01-2008	22-04-2008	Vote at General Shareholders' Meeting
Mr. Pablo Isla Álvarez de Tejera	-	Director	12-04-2002	10-05-2007	Vote at General Shareholders' Meeting
Mr. Peter Erskine	-	Director	25-01-2006	21-06-2006	Vote at General Shareholders' Meeting

Total number of directors	17

Indicate any Board members who left during this period.

B.1.3 Complete the following chart on Board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing appointment	Post held in the company
Mr. César Alierta Izuel	Nominating, Compensation and Corporate Governance Committee	Executive Chairman
Mr. Julio Linares López	Nominating, Compensation and Corporate Governance Committee	Chief Operating Officer (C.O.O.)
Mr. José María Álvarez-Pallete López	Nominating, Compensation and Corporate Governance Committee	Chairman Telefónica Latin America

Total number of executive directors	3
% of the board	17.647

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Mr. Isidro Fainé Casas	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, “la Caixa”
Mr. Vitalino Manuel Nafría Aznar	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Antonio Massanell Lavilla	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, “la Caixa”
Mr. José María Abril Pérez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.

Total number of proprietary directors	4
% of the board	23.529

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
Mr. Alfonso Ferrari Herrero	Industrial Engineer. Formerly Executive Chairman of Beta Capital, S.A. and senior manager at Banco Urquijo.
Mr. Carlos Colomer Casellas	Graduate in Economics. Chairman of the Colomer Group.
Mr. David Arculus	Graduate in Engineering and Economics. Director of Pearson, Plc., Chairman of Numis, Plc., and Aldemore Bank, Plc.
Mr. Francisco Javier de Paz Mancho	Graduate in Information and Advertising. Law Studies. IESE Business Management Program. Formerly Chairman of the State-owned company MERCASA.
Mr. Gonzalo Hinojosa Fernández de Angulo	Industrial Engineer. Formerly Chairman and CEO of Cortefiel Group.
Mr. Luiz Fernando Furlán	Degrees in chemical engineering and business administration, specializing in financial administration. From 2003 to 2007 he was Minister of Development, Industry and Foreign Trade of Brazil.
Ms. María Eva Castillo Sanz	Degrees in Business, Economics and Law. Previously Head of Merrill Lynch’s Private Banking operations in Europe, the Middle East, & Africa (EMEA).
Mr. Pablo Isla Álvarez de Tejera	Law Graduate. Member of the Body of State Lawyers (on sabbatical). First Vice Chairman and CEO of Inditex, S.A.

Total number of independent directors	8
% of the board	47.059

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee proposing appointment
Mr. José Fernando de Almansa Moreno-Barreda	Nominating, Compensation and Corporate Governance Committee
Mr. Peter Erskine	Nominating, Compensation and Corporate Governance Committee

Total number of other external directors	2
% of the board	11.765

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Peter Erskine	On December 31, 2007, Mr. Peter Erskine resigned as General Manager of Telefónica O2 Europe, and therefore went from being an Executive Director to being classified in the "Other external Directors" category.	Telefónica, S.A.
Mr. José Fernando de Almansa Moreno-Barreda	Mr. de Almansa was appointed a Member of the Board of Directors of Telefónica, S.A. with the qualification of independent Director, on February 26, 2003, following a favorable report from the Nominating, Compensation and Corporate Governance Committee. In accordance with the criteria established in the Unified Code on Good Governance with regard to the qualification of Directors and taking into account the concurrent circumstances in this specific case, the Company considers that Mr. Almansa belongs to the category of "other external Directors", for the following reasons: - He is an Acting Director (independent and non-proprietary) of BBVA Bancomer México, S.A. de C.V., and has never had an executive role. - He is the CEO of the Mexican company Servicios Externos de Apoyo Empresarial, S.A. de C.V., of Group BBVA.	BBVA Bancomer México, S.A. de C.V.

List any changes in the category of each director which have occurred during the year.

B.1.4 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

No

B.1.5 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

No

B.1.6 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

- **Mr. César Alierta Izuel – Executive Chairman (Chief Executive Officer):**

  The Chairman of the Company, as the Chief Executive Officer, has been expressly delegated all the powers of the Board of Directors, except those that cannot be delegated by Law, by the Company Bylaws, or by the Regulations of the Board of Directors which establishes, in Article 5.4, the competencies that the Board of Directors reserves itself, and may not delegate.

  Article 5.4 specifically stipulates that the Board of Directors reserves the power to approve: (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.

- **Mr. Julio Linares López – Chief Operating Officer:**

  The Chief Operating Officer has been delegated those powers of the Board of Directors related with the management of the business and the performance of the highest executive functions over all the Company's business areas, except those which cannot be delegated by Law, by the Company Bylaws or by the Regulations of the Board of Directors.

B.1.7 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Name or corporate name of director	Corporate name of the group company	Post
Mr. Julio Linares López	Telefónica de España, S.A.U.	Director
	Telefónica Europe, Plc.	Director
	Telefónica Móviles España, S.A.U.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Alternate Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. David Arculus	Telefónica Europe, Plc.	Director
Mr. Francisco Javier de Paz Mancho	Atento Inversiones y Teleservicios, S.A.U.	Non-executive Chairman
	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles México, S.A. de C.V.	Director

Mr. José María Álvarez-Pallete López	Colombia Telecomunicaciones, S.A. ESP	Director
	Telecomunicaçoes de Sao Paulo, S.A.	Director/Vice Chairman
	Telefónica Chile, S.A.	Alternate Director
	Telefónica DataCorp, S.A.U.	Director
	Telefónica de Argentina, S.A.	Alternate Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Executive Chairman
	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
	Telefónica Móviles Colombia, S.A.	Alternate Director
	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman
Mr. Luiz Fernando Furlán	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Ms. María Eva Castillo Sanz	Telefónica Internacional, S.A.U.	Director
	Telefónica O2 Czech Republic, a.s.	First Vice Chairman of Supervisory Board
Mr. Peter Erskine	Telefónica Europe, Plc.	Director

B.1.8 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Name or corporate name of director	Name of listed company	Post
Mr. César Alierta Izuel	International Consolidated Airlines Group, S.A. ("IAG")	Director
Mr. Isidro Fainé Casas	Criteria CaixaCorp, S.A.	Chairman
	Abertis Infraestructuras, S.A.	Vice Chairman
	Repsol YPF, S.A.	2nd vice chairman
Mr. Vitalino Manuel Nafría Aznar	Metrovacesa, S.A.	Chairman
Mr. Carlos Colomer Casellas	Ahorro Bursátil, S.A. SICAV	Chairman
	Inversiones Mobiliarias Urquiola S.A. SICAV	Chairman
Mr. Pablo Isla Alvarez de Tejera	Inditex, S.A.	Vice Chairman-CEO

B.1.9 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes

Explanation of rules
The Nominating, Compensation and Corporate Governance Committee establishes as one of the obligations of the Directors (Article 29.2 of the Regulations of the Board of Directors) that Directors must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors. In addition (Article 32.g of the Regulations of the Board of Directors), the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, may forbid Directors from holding significant positions within entities that are competitors of the Company or of any of the companies in its Group.

B.1.10 In relation with Recommendation 8 of the Unified Code, indicate the company’s general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Investment and financing policy	Yes
Design of the structure of the corporate group	Yes
Corporate governance policy	Yes
Corporate social responsibility policy	Yes
The strategic or business plans, management targets and annual budgets	Yes
Remuneration and evaluation of senior officers	Yes
Risk control and management, and the periodic monitoring of internal information and control systems	Yes
Dividend policy, as well as the policies and limits applying to treasury stock	Yes

B.1.11 Complete the following charts on the aggregate remuneration paid to directors during the year:

a) In the reporting company:

Concept	In thousand €
Fixed remuneration	9,150
Variable remuneration	7,027
Attendance fees	321
Bylaw stipulated remuneration	0
Shares options and/or other financial instruments	3,085
Other	2,129
TOTAL	21,712

Other benefits	In thousand €
Advances	0
Loans	0
Pension funds and plans: Contributions	18
Pension funds and plans: obligations	0
Life insurance premiums	97
Guarantees issued by the company in favor of directors	0

b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept	In thousand €
Fixed remuneration	3,444
Variable remuneration	1,160
Attendance fees	0
Bylaw stipulated remuneration	0
Shares options and/or other financial instruments	945
Other	358
TOTAL	5,907

Other benefits	In thousand €
Advances	0
Loans	0
Pension funds and plans: Contributions	8
Pension funds and plans: obligations	0
Life insurance premiums	14
Guarantees issued by the company in favor of directors	0

c) Total remuneration by type of directorship:

Type of director	By company	By group
Executive	17,099	3,854
External proprietary	1,221	0
External independent	2,804	1,521
Other external	588	532

Total	21,712	5,907

d) Remuneration as percentage of profit attributable to the parent company:

Total remuneration received by directors (in thousand €)	27,619
Total remuneration received by directors/profit attributable to parent company (%)	0.3

B.1.12 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Post
Mr. Matthew Key	Chairman Telefónica Europe
Mr. Santiago Fernández Valbuena	General Manager of Strategy, Finance and Corporate Development
Mr. Luis Abril Pérez	Technical General Secretary of the Chairman
Mr. Ramiro Sánchez de Lerín García-Ovies	General Legal Secretary and of the Board of Directors
Mr. Calixto Ríos Pérez	Internal Auditing Manager
Mr. Guillermo Ansaldo Lutz	Chairman Telefónica Spain

Total remuneration received by senior management (in thousand €)	14,641

B.1.13 Identify, in aggregate terms, any indemnity or "golden parachute" clauses that exist for members of the senior management (including executive directors) of the company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorized by the governing bodies of the company or its group:

Number of beneficiaries	**9**

	Board of Directors	General Shareholders' Meeting

Body authorizing clauses	Yes	No

Is the General Shareholders' Meeting informed of such clauses?	Yes

B.1.14 Describe the procedures for establishing remuneration for Board members and the relevant provisions in the Bylaws.

Process for establishing Board Members' remuneration and any relevant provisions in the Bylaws
Directors' compensation shall consist of a fixed and specific monthly remuneration for belonging to the Board of Directors, the Executive Commission and the Board Advisory or Control Committees, and fees for attending meetings of the Board of Directors and the advisory or control Committees thereof. The compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. To this effect, the General Shareholders' Meeting held on April 11, 2003 fixed the maximum gross annual sum for remuneration of the Board of Directors at 6 million euros. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In accordance with Article 35 of the Regulations of the Board of Directors, Directors shall be entitled to receive the compensation set by the Board of Directors in accordance with the Bylaws, within the limits approved by the General Shareholders Meeting, and following a report of the Nominating, Compensation and Corporate Governance Committee. In accordance with article 5 of the same regulations, the Board of Directors expressly reserves the powers to approve both the compensation policy for Directors and decisions on the compensation of Directors. The Nominating, Compensation and Corporate Governance Committee has the following powers and duties (article 22 of the Regulations of the Board of Directors): - To propose to the Board of Directors the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them. - To propose to the Board of Directors the extent and amount of the

compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.

- To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

Additionally, apart from such compensation as is provided for under the previous section, other remuneration systems may be established that may either be indexed to the market value of the shares, or consist of shares or of shares options for Directors. The application of such compensation systems must be authorized by the General Shareholders' Meeting, which shall fix the share value that is to be taken as the term of reference thereof, the number of shares to be given to each Director, the exercise price of the share options, the term of such compensation system and such other terms and conditions as deemed appropriate.

The remuneration systems set out in the preceding paragraphs, arising from membership of the Board of Directors, shall be deemed compatible with any and all other professional or work-based compensations to which the Directors may be entitled in consideration for whatever executive or advisory services they may provide for the Company other than such supervisory and decision-making duties as may pertain to their posts as Directors, which shall be subject to the applicable legal provisions.

Indicate whether the board has reserved for plenary approval the following decisions:

At the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.	**Yes**
Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive duties and other contract conditions.	**Yes**

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

Yes

The amount of the fixed components, itemized where necessary, of Board and Board Committee attendance fees, with an estimate of the fixed annual payment they give rise to.	**Yes**
Variable components	**Yes**
The main characteristics of pension systems, including an estimate of their amount or annual equivalent cost.	**Yes**
The conditions that the contracts of executive directors exercising executive functions shall respect	**Yes**

B.1.16 Indicate whether the Board submits a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the Board for forthcoming years, the most significant changes in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants:

No

Role of the Remunerations Committee
- To propose to the Board of Directors, within the framework established in the Bylaws, the compensation for the Directors. - To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy. The annual report regarding the Director compensation policy of Telefónica, S.A. deals with the following: - Objectives of the compensation policy - Detailed structure of compensation. - Scope of application and reference parameters for variable remuneration. - Relative importance of variable remuneration with regard to fixed remuneration. - Basic terms of the contracts of Executive Directors. - Trend of compensation. - Process for the preparation of the compensation policy.

Have external consultancy firms been used?	**Yes**
Identity of external consultants	**TOWERS WATSON**

B.1.17 List any Board members who are likewise members of the boards of directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

Name or corporate name of director	**Name or corporate name of significant shareholder**	**Post**
Mr. Isidro Fainé Casas	Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Chairman of Caja de Ahorros y Pensiones de Barcelona, “la Caixa” Chairman of Criteria CaixaCorp, S.A.
Mr. Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Bancomer, S.A.

Mr. Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Finance Group Bancomer, S.A. de C.V.
Mr. Antonio Massanell Lavilla	Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Director of Serveis Informátics de la Caixa, S.A. (SILK) Executive Deputy General Manager of Caja de Ahorros y Pensiones de Barcelona, "la Caixa" Director of Bousorama, S.A. Chairman of Port Aventura Entertainment, S.A. Director of Caixa Capital Risc, S.G.E.C.R., S.A. Director of e-la Caixa 1, S.A. Director of Mediterranea Beach & Golf Community, S.L.
Mr. José Fernando de Almansa Moreno-Barreda	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Finance Group Bancomer, S.A. de C.V.
Mr. José Fernando de Almansa Moreno-Barreda	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Bancomer, S.A.

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

Name or company name of director with relationship	Name or company name of significant shareholder with relationship	Description of relationship
Mr. Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Retired. Formerly Retail Banking

		Manager for Spain and Portugal.
Mr. José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Wholesale and Investment Banking Manager.

B.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

No

B.1.19 Indicate the procedures for appointing, re-electing, evaluation and removing directors. List the competent bodies and the processes and criteria to be followed for each procedure.

Appointment

Telefónica's Bylaws state that the Board of Directors shall be composed of a minimum of five members and a maximum of twenty, to be appointed at the General Shareholders' Meeting. The Board of Directors may, in accordance with the Spanish Corporation Law and the Company Bylaws, provisionally co-opt Directors to fill any vacancies.

The Board of Directors shall have the power to fill, on an interim basis, any vacancies that may occur therein, by appointing, in such manner as is legally allowed, the persons who are to fill such vacancies until the holding of the next General Shareholders' Meeting.

Also, in all cases, proposed appointments of Directors must follow the procedures set out in the Company's Bylaws and Regulations of the Board of Directors and be preceded by the appropriate favorable report by the Nominating, Compensation and Corporate 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 Nominating, Compensation and Corporate 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.

In line with the provisions of its Regulations, the Board of Directors, exercising the right to fill vacancies by interim appointment and to propose appointments to the shareholders at the General Shareholders' Meeting, shall ensure that, in the composition of the Board of Directors, external or non-executive Directors represent an ample majority over executive Directors. Similarly, the Board shall ensure that the total number of independent Directors represents at least one third of the total number of Board members.

The nature of each Director shall be explained by the Board of Directors to the shareholders at the General Shareholders' Meeting at which the appointment thereof must be made or ratified. Furthermore, such nature shall be reviewed annually by the Board after verification by the Nominating, Compensation and Corporate Governance Committee, and reported in the Annual Corporate Governance Report.

In any case, and in the event of re-election or ratification of Directors by the General Shareholders' Meeting, the report of the Nominating, Compensation and Corporate Governance Committee, or, in the case of independent Directors, the proposal of said Committee, will contain an assessment of the work and effective time devoted to the post during the last period in which it was held by the proposed Director.

Lastly, both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their competencies, that the election of whoever has been proposed for the post of Director corresponds to people of recognized solvency, competence and experience, who are willing to devote the time and effort necessary to carrying out their functions, it being essential to be rigorous in the election of those people called to cover the posts of independent Directors.

Re-election

Directors are appointed for a period of five years, and may be 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 Nominating, Compensation and Corporate Governance Committee, and in the case of independent Directors, by the corresponding proposal by the Committee.

Evaluation

In accordance with the Regulations of the Board of Directors, the latter reserves expressly the duty to approve on a regular basis its functioning and the functioning of its Committees, it being the duty of the Nominating, Compensation and Corporate Governance Committee to organize and coordinate, together with the Chairman of the Board of Directors, the regular assessment of said Body.

In accordance with the above, it should be noted that the Board of Directors and its Committees carry out a periodic evaluation of the operation of the Board of Directors and of the Committees thereof in order to determine the opinion of

Directors regarding the workings of these bodies and to establish any proposals for improvements to ensure the optimum working of the company's governing bodies.

Removal

Directors' shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders' Meeting in the exercise of the powers legally granted to them.

The Board of Directors shall not propose the removal of any independent Director prior to the end of the Bylaw-mandated period for which they have been appointed, unless there are due grounds therefore acknowledged by the Board alter a report from the Nominating, Compensation and Corporate Governance Committee. Specifically, due grounds shall be deemed to exist when the Director has failed to perform the duties inherent to his position.

The removal of independent Directors may also be proposed as a result of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company's capital.

B.1.20 Indicate the cases in which directors must resign.

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation in the following cases:

f) When they cease to hold the executive post by virtue of which their appointment as Director is linked or when the reasons for which they were appointed no longer apply.

g) When they are affected by any of the cases of incompatibility or prohibition established by law

h) When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for failure to fulfill any of their duties as Directors.

i) When 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 conditions listed above under Recommendation "Removal" must also be taken into consideration.

B.1.21 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

Yes

Measures for reducing risk
- Pursuant to the provisions of the Regulations of the Board of Directors, the actions of the Chairman must always be in accordance with the decisions and criteria established by the shareholders at the General Shareholders' Meeting and by the Board of Directors and its Committees. - Likewise, all agreements or decisions of particular significance for the Company must be previously submitted for the approval of the Board of Directors or the relevant Board Committee, as the case may be. - The Board of Directors reserves the power to approve: the general policies and strategies of the Company; the evaluation of the Board, its Committees and its Chairman; the appointment of senior executive officers, as well as the compensation policy for Directors and senior executive officers; and strategic investments. - In addition, reports and proposals from the different Board Committees are required for the adoption of certain resolutions. - It is important to note that the Chairman does not hold the casting vote within the Board of Directors. - The Board of Directors of the Company, at its meeting held on December 19, 2007, agreed to appoint Mr. Julio Linares López as the Chief Executive (Chief Operating Officer) of Telefónica, S.A., reporting directly to the Chairman and with responsibility over all of Telefónica Group's Business Units.

Indicate, and if necessary, explain whether rules have been established that enable any of the independent directors to convene Board Meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors.

No

B.1.22 Are qualified majorities, other than legal majorities, required for any type of decisions?

No

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Description of resolution:

All resolutions

Quorum	%
Personal or proxy attendance of one half plus one of all Directors.	50.01

Type of majority	%
Resolutions shall 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 and in particular for: (i) the appointment of Directors not holding a minimum of shares representing a nominal value of 3,000 euros, (Article 25 of the Company Bylaws) and (ii) for the appointment of Chairman, Vice Chairman, CEO or member of the Executive Committee, in accordance with the requirements explained in the following section.	50.01

B.1.23 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes

Description of requirements
In order for a Director to be appointed Chairman, said Director must have served on the Board for at least three years prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

B.1.24 Indicate whether the Chairman has the casting vote:

No

B.1.25 Indicate whether the Bylaws or the regulations of the Board of Directors establish an age limit for directors:

No

Age limit for Chairman	Age limit for CEO	Age limit for directors
0	0	0

B.1.26 Indicate whether the bylaws or the regulations of the Board of Directors set a limited term of office for independent directors:

No

Maximum number of years in office	0

B.1.27 If there are few or no female directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives
In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, Ms. María Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders' Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a period of five years. Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of

Telefónica. Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors. Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ("recognized caliber, qualifications and experience") and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of female directors, if, within the potential candidates, there are female candidates who meet the professional profile sought at each moment.

Indicate in particular whether the Appointments and Remunerations Committee has established procedures to ensure the selection processes are not subject to implicit bias that will make it difficult to select female directors, and make a conscious effort to search for female candidates who have the required profile:

Yes

Indicate the main procedures
In accordance with article 10.3 of the Board Regulations, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

B.1.28 Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

In accordance with Article 18 of the Regulations of the Board of Directors, Directors must attend meetings of the Board in person, and when unable to do so in exceptional cases, they shall endeavor to ensure that the proxy they grant to another member of the Board includes, as far as is practicable, appropriate instructions. Such proxies may be granted by letter or any other means that, in the Chairman's opinion, ensures the certainty and validity of the proxy granted.

B.1.29 Indicate the number of Board meetings held during the year and how many times the board has met without the Chairman's attendance:

Number of Board meetings	14
Number of Board meetings held in the absence of its chairman	0

Indicate how many meetings of the various Board Committees were held during the year.

Number of meetings of the Executive or Delegated Committee	16
Number of meetings of the Audit and Compliance Committee	10
Number of meetings of the Appointments and Remunerations Committee	8
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of Board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions:

Number of non-attendances by directors during the year	0
% of non-attendances of the total votes cast during the year	0.000

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the board are certified previously:

No

Indicate, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the board:

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being submitted to the General Shareholders' Meeting with a qualified Audit Report.

Through the Audit and Control Committee, the Board of Directors plays an essential role supervising the preparation of the Company financial information, controlling and coordinating the various players that participate in this process.

In this respect, to achieve this objective the Audit and Control Committee's work addresses the following basic issues:

1. To know the process for gathering financial information and the internal control systems. With respect thereto:

- **a)** To supervise the process of preparation and the integrity of the financial information related to the Company and the Group, reviewing compliance with the regulatory requirements, the proper determination of the scope of consolidation, and the correct application of the accounting standards, informing the Board of Directors thereof.
- **b)** To propose to the Board of Directors the risk management and control policy.

2. To ensure the independence of the External Auditor, supervising their work and acting as a channel of communication between the Board of Directors and the External Auditor, as well as between the External Auditor and the Company management team.

3. To supervise the internal audit services, in particular:

- **a)** To ensure the independence and efficiency of the internal audit function;
- **b)** To propose the selection, appointment and removal of the person responsible for the internal audit;
- **c)** To propose the budget for such service;
- **d)** To review the annual internal audit work plan and the annual activities report;
- **e)** To receive periodic information on its activities; and
- **f)** To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

The Audit and Control Committee verifies both the periodical financial information and the Annual Financial Statements, ensuring that all financial information is drawn up according to the same professional principles and practices. To this effect, the Audit and Control Committee meets whenever appropriate, holding ten (10) meetings in 2010.

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Furthermore, the External Auditor participates regularly in the Audit and Control Committee meetings, when called to do so by the Committee, to explain and clarify different aspects of the audit reports and other aspects of its work. Additionally, and on request from the Committee, other members of the management and the Company and its subsidiaries have also been called to Committee meetings to explain specific matters that are directly within their scope of competence. In particular, managers from the finance, planning and control areas, as well as those in charge of internal audit, have attended these meetings. The members of the Committee have held separate meetings with each of these when it was deemed necessary to closely monitor the preparation of the Company's financial information.

The above notwithstanding, Article 41 of the Regulations of the Board of Directors establishes that the Board of Directors shall endeavor to prepare the final financial statements in a manner that that will create no reason for qualifications from the Auditor. However, whenever the Board considers that it should maintain its standards, it shall publicly explain the contents and scope of the discrepancies.

B.1.33 Is the secretary of the Board also a director?

No

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating whether his/her appointment and removal have been notified by the Appointments Committee and approved by the board in plenary session.

Appointment and removal procedure
In accordance with article 15 of the Regulations of the Board of Directors, the Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, shall appoint a Secretary of the Board, and shall follow the same procedure for approving the removal thereof.

Does the Appointments Committee notify appointments?	Yes
Does the Appointments Committee advise on dismissals?	Yes
Do appointments have to be approved by the board in plenary	Yes

session?	
Do dismissals have to be approved by the board in plenary session?	Yes

Is the Secretary of the Board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes

Remarks
The Secretary of the Board shall, at all times, attend to the formal and substantive legality of the Board's actions, ensuring that said actions conform to the Bylaws and the Regulations for the General Shareholders' Meeting and of the Board, and are in line with corporate governance recommendations assumed by the Company and in effect at any given moment (article 15 of the Regulations of the Board).

B.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

With regards to the independence of the external Auditor of the Company, Article 41 of the Regulations of the Board of Directors establishes that the Board shall, through the Audit and Control Committee, establish a stable and professional relationship with the Company's Auditor, strictly respecting the independence thereof. One of the fundamental duties of the Audit and Control Committee is to "maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof."

In addition, in accordance with Article 21 of the Regulations of the Board of Directors, it is the Audit and Control Committee that proposes to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor as well as, if necessary, the appropriate terms for the hiring thereof, the scope of its professional engagement and revocation or non-renewal of its appointment.

Likewise, the External Auditor has direct access to the Audit and Control Committee and participates regularly in its meetings, in the absence of the Company management team when this is deemed necessary. To this effect, and in keeping with United States legislation on this matter, the external Auditors must inform the Audit and Control Committee at least once a year on the most significant generally accepted auditing policies and practices followed in the preparation of the Company's financial and accounting information affecting key elements in the financial statements which may have been discussed with the management team, and of all relevant communications between the Auditors and the Company management team.

In accordance with internal Company regulations and in line with the requirements imposed by US legislation, the engagement of any service from the Company's external Auditors must always have the prior approval of the Audit and Control Committee. Moreover, the engagement of non-audit services must be done in strict compliance with the Accounts Audit Law and the Sarbanes-Oxley Act published in the United States and subsequent regulations. For this purpose, and prior to the engagement of the Auditors, the Audit and Control Committee studies the content of the work to be done, evaluating the situations that may jeopardize independence of the Company's external Auditor and specifically supervises the percentage the fees paid for such services represent in the total revenue of the auditing firm. In this respect, the Company reports the fees paid to the external auditor, including those paid for non-audit services, in its Notes to the Financial Statements, in accordance with prevailing legislation.

B.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the new audit firm and the previous firm:

No

Outgoing auditor	Incoming auditor

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

B.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of other non-audit work (in thousand €)	1	34	35
Amount from non-audit work as a % of total amount bill by audit firm	0.013	0.142	0.110

B.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

B.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate how many years the current firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	6	6

	Company	Group
Number of years audited by current audit firm/Number of years the company accounts have been audited (%)	21.4	30.0

B.1.40 List any equity holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of director	Corporate name of the company in question	% ownership	Post or duties
Mr. Isidro Fainé Casas	Abertis Infraestructuras, S.A.	0.008	Vice Chairman
Mr. David Arculus	BT Group Plc.	0.000	---
	British Sky Broadcasting Group Plc.	0.000	---

B.1.41 Indicate and give details of any procedures through which directors may receive external advice:

Yes

Details of procedure
Article 28 of the Regulations of the Board of Directors stipulates that in order to receive assistance in the performance of their duties, the Directors or any of the Committees of the Board may request that legal, accounting, financial or other experts be retained at the Company's expense. The engagement must necessarily be related to specific problems of a certain significance and complexity that arise in the performance of their office. The decision to retain such services must be communicated to the Chairman of the Company and shall be implemented through the Secretary of the Board, unless the Board of Directors does not consider such engagement to be necessary or appropriate.

B.1.42 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes

Details of procedure
The Company adopts the measures necessary to ensure that the Directors receive the necessary information, specially drawn up and geared to

preparing the meetings of the Board and its Committees, sufficiently in advance. Under no circumstances shall such requirement not be fulfilled on the grounds of the importance or the confidential nature of the information, except in absolutely exceptional cases.

In this regard, at the beginning of each year the Board of Directors and its Committees shall set the calendar of ordinary meetings to be held during the year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable.

Also, and in accordance with Recommendation 19 of the Unified Good Governance Code, at the beginning of the year the Board and its Committees shall prepare an Action Plan detailing the actions to be carried out and their timing for each year, as per their assigned powers and duties.

Likewise, all the meetings of the Board and the Board Committees have a pre-established Agenda, which is communicated at least three days prior to the date scheduled for the meeting together with the call for the session. For the same purpose, the Directors are sent the documentation related to the Agenda of the meetings sufficiently in advance. Such information is subsequently supplemented with the written documentation and presentations handed out to the Directors at the meeting.

To provide all the information and clarifications necessary in relation to certain points deliberated, the Group's senior executive officers attend nearly all the Board and Committee meetings to explain the matters within their competencies.

Furthermore, and as a general rule, the Regulations of the Board of Directors expressly establish that Directors are granted the broadest powers to obtain information about all aspects of the Company, to examine its books, records, documents and other data regarding corporate transactions. The exercise of the right to receive information shall be channeled through the Chairman or Secretary of the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

B.1.43 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organization's name or reputation, tendering their resignation as the case may be:

Yes

Details of rules
In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation when their remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests. Likewise, article 32. h) of the Regulations establishes that Directors must report to the Board any circumstances related to them that might damage the credit or reputation of the Company as soon as possible.

B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences stated in article 124 of the Spanish Companies Act (LSA for its initials in Spanish):

Yes

Name of Director

Mr. César Alierta Izuel

Criminal proceedings

Summary Proceedings 7721/2002

Magistrate's Court number 32 of Madrid

Remarks

The Director has been absolved by final Ruling dated December 21, 2010, adopted unanimously by the Second Chamber of the Supreme Court, absolution statement that was also made, at the time, by the Section 17 of the Madrid Regional Court, by Ruling dated July 17, 2009.

The Ruling being final, no appeal is permitted, and therefore, the prosecution has been definitely shelved.

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office.

Yes

Decision	Explanation
May continue	There have been no circumstances that merit the adoption of any action or decision in this regard.

B.2. Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Position	Type
Mr. Alfonso Ferrari Herrero	Chairman	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

AUDIT AND CONTROL COMMITTEE

Name	Position	Type
Mr. Gonzalo Hinojosa Fernández de Angulo	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

HUMAN RESOURCES, AND CORPORATE REPUTATION AND RESPONSIBILITY COMMITTEE

Name	Position	Type
Mr. Francisco Javier de Paz Mancho	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

REGULATION COMMITTEE

Name	Position	Type
Mr. Pablo Isla Álvarez de Tejera	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

SERVICE QUALITY AND CUSTOMER SERVICE COMMITTEE

Name	Position	Type
Mr. Antonio Massanell Lavilla	Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent

INTERNATIONAL AFFAIRS COMMITTEE

Name	Position	Type
Mr. José Fernando de Almansa Moreno-Barreda	Chairman	Other external
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Luiz Fernando Furlán	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

EXECUTIVE COMMISSION

Name	Position	Type
Mr. César Alierta Izuel	Chairman	Executive
Mr. Isidro Fainé Casas	Vice Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Peter Erskine	Member	Other external

STRATEGY COMMITTEE

Name	Position	Type
Mr. Peter Erskine	Chairman	Other external
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent

INNOVATION COMMITTEE

Name	Position	Type
Mr. Carlos Colomer Casellas	Chairman	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

B.2.2 Indicate whether the Audit Committee is responsible for the following:

To supervise the preparation process and monitor the integrity of financial information on the Company and, if applicable, the Group, revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	Yes
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	Yes
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	Yes
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	Yes
To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	Yes
To receive regular information from the external auditor on the progress and findings of the audit program and check that senior management are acting on its recommendations.	Yes
To ensure the independence of the external auditor.	Yes

In the case of groups, to urge that the group auditor take on the auditing of all component companies.	Yes

B.2.3 Describe the organizational and operational rules and the responsibilities attributed to each of the board committees.

International Affairs Committee.

a) Composition.

The International Affairs Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the International Affairs Committee shall be appointed from among its members.

b) Duties.

Notwithstanding any other duties that the Board of Directors may assign thereto, the primary mission of the International Affairs Committee shall be to strengthen and bring relevant international issues to the attention of the Board of Directors for the proper development of the Telefónica Group. In that regard, it shall have the following duties, among others:

(i) To pay special attention to institutional relations in the countries in which the companies of the Telefónica Group operate.

(ii) To review those matters of importance that affect it in international bodies and forums, or those of economic integration.

(iii) To review regulatory and competition issues and alliances.

(iv) To evaluate the programs and activities of the Company's various Foundations and the resources used to promote its image and international social presence.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the International Affairs Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the International Affairs Committee.

Audit and Control Committee.

Pursuant to the provisions set out in Article 31 bis of the Company Bylaws of Telefónica, S.A., Article 21 of the Regulations of the Board of Directors regulates the Audit and Control Committee in the following terms:

a) Composition.

The Audit and Control Committee shall be comprised of a minimum of three and a maximum of five Directors appointed by the Board of Directors. All of the members of such Committee shall be external Directors. When appointing such members, the Board of Directors shall take into account the appointees' knowledge and experience in matters of accounting, auditing and risk management.

The Chairman of the Audit and Control Committee, who shall in all events be an independent Director, shall be appointed from among its members, and shall be replaced every four years; he/she may be re-elected after the passage of one year from the date when he/she ceased to hold office.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

1) To report, through its Chairman, to the General Shareholders' Meeting on matters raised thereat by the shareholders that are within the purview of the Committee;

2) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, the appointment of the external Auditor, as well as, where appropriate, the terms of the hiring thereof, the scope of its professional engagement and the revocation or non-renewal of such appointment.

3) To supervise the internal audit services and, in particular:

- **a)** To ensure the independence and efficiency of the internal audit function;
- **b)** To propose the selection, appointment and removal of the person responsible for the internal audit;
- **c)** To propose the budget for such service;

d) To review the annual internal audit work plan and the annual activities report;

e) To receive periodic information on its activities; and

f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

4) To know the process for gathering financial information and the internal control systems. With respect thereto:

a) To supervise the process of preparation and the integrity of the financial information related to the Company and the Group, reviewing compliance with the regulatory requirements, the proper determination of the scope of consolidation, and the correct application of the accounting standards, informing the Board of Directors thereof.

b) To propose to the Board of Directors the risk management and control policy.

5) To establish and supervise a mechanism that allows employees to confidentially and anonymously report potentially significant irregularities, particularly any financial and accounting irregularities detected within the Company.

6) To maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and to receive information from and maintain the communications with the Auditor provided for in auditing legislation and in technical auditing regulations.

In addition, the Audit and Control Committee, since the enforcement of the 12/2010 of 30th June Act, complies with the new responsibilities set out in the mentioned Regulations.

c) Operation.

The Audit and Control Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In the performance of its duties, the Audit and Control Committee may require that the Company's Auditor and the person responsible for internal audit, and any employee or senior executive officer of the Company, attend its meetings.

d) Action Plan and Report.

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Audit and Control Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Audit and Control Committee.

Service Quality and Customer Service Committee.

a) Composition.

The Service Quality and Customer Service Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Service Quality and Customer Service Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other duties that the Board of Directors may assign thereto, the Service Quality and Customer Service Committee shall have at least the following duties:

(i) To periodically examine, review and monitor the quality indices of the principal services provided by the companies of the Telefónica Group.

(ii) To evaluate levels of customer service provided by such companies.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Service Quality and Customer Service Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Service Quality and Customer Services Committee.

Strategy Committee.

a) Composition.

The Board of Directors shall determine the number of members of this Committee. The Chairman of the Strategy Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Strategy Committee shall be to support the Board of Directors in the analysis and follow up of the global strategy policy of the Telefónica Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Strategy Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Strategy Committee.

Innovation Committee.

a) Composition.

The Board of Directors shall determine the number of members of this Committee.

The Chairman of the Innovation Committee shall be appointed from among its members.

b) Duties.

The Innovation Committee is primarily responsible for advising and assisting in all matters regarding innovation. Its main object is to perform an examination, analysis and periodic monitoring of the Company’s innovation projects, to provide guidance and to help ensure its implementation and development across the Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Innovation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Innovation Committee.

Nominating, Compensation and Corporate Governance Committee.

a) Composition.

The Nominating, Compensation and Corporate Governance Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All members of the Committee must be external Directors and the majority thereof must be independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members.

b) Duties.

Notwithstanding other duties entrusted it by the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall have the following duties:

1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.

2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.

3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of these Regulations.

4) To inform on the periodic assessment of the performance of the Chairman of the Board of Directors.

5) To examine or organize the succession of the Chairman such that it is properly understood and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.

6) To propose to the Board of Directors, within the framework established in the Bylaws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of these Regulations.

7) To propose to the Board of Directors, within the framework established in the Bylaws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of the contractual implementation thereof.

8) To prepare and propose to the Board of Directors an annual report regarding the Directors compensation policy.

9) To supervise compliance with the Company's internal rules of conduct and the corporate governance rules thereof in effect from time to time.

10) To exercise such other powers and performs such other duties as are assigned to such Committee in these Regulations.

c) Operation.

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman thereof requests the issuance of a report or the approval of proposals within the scope of its powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.

d) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Nominating, Compensation and Corporate Governance Committee.

Human Resources and Corporate Reputation and Responsibility Committee.

a) Composition.

The Human Resources and Corporate Reputation and Responsibility Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three and the majority of its members shall be external Directors.

The Chairman of the Human Resources, Reputation and Corporate Responsibility Committee shall be appointed from among its members.

b) Duties.

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Human Resources and Corporate Reputation and Responsibility Committee shall have at least the following duties:

(i) To analyze, report on and propose to the Board of Directors the adoption of the appropriate resolutions on personnel policy matters.

(ii) To promote the development of the Telefónica Group's Corporate Reputation and Responsibility project and the implementation of the core values of such Group.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Human Resources, Corporate Reputation and Responsibility Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Human Resources, Corporate Reputation and Responsibility Committee.

Regulation Committee.

a) Composition.

The Regulation Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Regulation Committee shall be appointed from among its members.

b) Duties.

Notwithstanding other duties entrusted to it by the Board of Directors, the Regulation Committee shall have at least the following functions:

(i) To monitor on a permanent basis the principal regulatory matters and issues affecting the Telefónica Group at any time, through the study, review and discussion thereof.

(ii) To act as a communication and information channel between the Management Team and the Board of Directors in regulatory matters and, where appropriate, to advise the latter of those matters deemed important or significant to the Company or to any of the companies of its Group in respect of which it is necessary or appropriate to make a decision or adopt a particular strategy.

c) Action Plan and Report.

As with the Board and the rest of its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Regulation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year, detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

As per Article 19 b) 3. of the Regulations of the Board of Directors, in order that it may properly exercise its duties, the Board of Directors is kept fully informed of the issues dealt with by the Regulation Committee.

Executive Commission.

a) Composition.

The Executive Commission shall consist of the Chairman of the Board, once appointed as a member thereof, and not less than three nor more than ten Directors appointed by the Board of Directors.

In the qualitative composition of the Executive Commission, the Board of Directors shall seek to have external or non-executive Directors constitute a majority over the executive Directors.

In all cases, the affirmative vote of at least two-thirds of the members of the Board of Directors shall be required in order for the appointment or re-appointment of the members of the Executive Commission to be valid.

b) Duties

The Board of Directors, always subject to the legal provisions in force, has delegated all its powers to an Executive Commission, except those that cannot be delegated by Law, by the Company Bylaws, or by the Regulations of the Board of Directors.

The Executive Commission provides the Board of Directors with a greater efficiency and effectiveness in the executions of its tasks, since it meets more often.

c) Operation.

The Executive Commission shall meet whenever called by the Chairman, and shall normally meet every fifteen days.

The Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

A quorum of the Executive Commission shall be validly established with the attendance, in person or by proxy, of one-half plus one of its members.

Resolutions shall be adopted by a majority of the Directors attending the meeting (in person or by proxy), and in the case of a tie, the Chairman shall cast the deciding vote.

c) Relationship with the Board of Directors.

The Executive Commission shall report to the Board in a timely manner on the matters dealt with and the decisions adopted at the meetings thereof, with a copy of the minutes of such meetings made available to the members of the Board (article 20.C of the Regulations of the Board of Directors).

B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name	Brief description
International Affairs Committee	Consultative and control committee
Audit and Control Committee	Consultative and control committee

Service Quality and Customer Service Committee	Consultative and control committee
Strategy Committee	Consultative and control committee
Innovation Committee	Consultative and control committee
Nominating, Compensation and Corporate Governance Committee	Consultative and control committee
Human Resources and Corporate Reputation and Responsibility Committee	Consultative and control committee
Regulation Committee	Consultative and control committee
Executive Commission	Corporate Body with general decision-making powers and express delegation of all powers corresponding to the Board of Directors except for those that cannot be delegated by law, bylaws or regulations.

B.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

International Affairs Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Audit and Control Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. In addition, the Audit and Control Committee is specifically regulated in article 31 bis of the Bylaws. These documents are available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Service Quality and Customer Service Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Strategy Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Innovation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Nominating, Compensation and Corporate Governance Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Human Resources and Corporate Reputation and Responsibility Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Regulation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Executive Commission

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. The Executive Committee is also regulated by Article 31 of the Bylaws. These documents are available for consultation on the company website.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:

Yes

C RELATED PARTY TRANSACTIONS

C.1 Indicate whether the board plenary sessions have reserved the right to approve, based on a favorable report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with directors, significant shareholders or representatives on the board, or related parties:

Yes

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousand €)
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Rendering of services	193,380
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other income	10,607
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Repayment or cancellation of loans and finance leases (lessor)	2,761
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance revenue	4,576
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	10,785
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits received	46
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments undertaken	134,637
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Lease payments	972
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	2,011
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessor)	6,565
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits given	501,833
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance costs	26,706

Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other expenses	2,779
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	358,603
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Financing agreements: capital contributions and loans (lender)	33,500
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends and other benefits paid	439,413
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees and deposits given	420,150
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends received	16,118
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	323,491
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees and deposits received	46
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Receipt of services	4,902
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance revenue	5,390
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	226,586
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Commitments undertaken	11,062,000
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance costs	2,130
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Receipt of services	16,401

Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	36,653
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Management or Partnership agreements	63
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Other expenses	74
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Other income	9,210
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	14,727
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Repayment or cancellation of loans and finance leases (lessor)	427
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Commitments undertaken	407
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Guarantees and deposits received	774
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Commitments undertaken	28,989
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Lease payments	3,523
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Finance leases (lessor)	1,831
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Guarantees and deposits given	46,503
Caja de Ahorros y Pensiones de Barcelona, "la Caixa"	Rest of Telefónica Group	Contractual	Rendering of services	32,384

Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Rest of Telefónica Group	Contractual	Finance revenue	14
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Rest of Telefónica Group	Contractual	Finance costs	874
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	290,520
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	118,381
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Dividends and other benefits paid	298,126
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Guarantees and deposits given	371
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Finance costs	2,809
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Receipt of services	4,068
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Guarantees and deposits received	774
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Commitments undertaken	800,000
Caja de Ahorros y Pensiones de Barcelona, “la Caixa”	Telefónica, S.A.	Contractual	Finance revenue	8,262

C.3 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies, and the company’s managers or directors:

C.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:

C.5 Identify, where appropriate, any conflicts of interest affecting company directors pursuant to Article 127 of the LSA.

No

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Company policy has established the following principles governing possible conflicts of interest that may affect Directors, senior executive officers or significant shareholders:

• With respect to Directors, Article 32 of the Regulations of the Board of Directors establishes that Directors shall inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the deliberation to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors shall refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest.

Likewise, the aforementioned Regulations establish that Directors shall not directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of the Group, if such transactions are unrelated to the ordinary course of business of the Company or not performed on an arm's length basis, unless the Board of Directors is informed thereof in advance and, with the prior report of the Nominating, Compensation and Corporate Governance Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors present in person or by proxy.

• With regards to significant shareholders, Article 39 of the Regulations of the Board of Directors stipulates that the Board of Directors shall be aware of the transactions that the

Company enters into, either directly or indirectly, with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto.

The performance of such transactions shall require the authorization of the Board, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, unless they are transactions or operations that form part of the customary or ordinary activity of the parties involved that are performed on customary market terms and in insignificant amounts for the Company.

The transactions referred to in the preceding sub-section shall be assessed from the point of view of equal treatment of shareholders and the arm's-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic information of the Company upon the terms set forth in applicable laws and regulations.

- With respect to senior executive officers, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest. The aforementioned Code includes all the Company Management Personnel within the concept of affected persons.

In accordance with the provisions of this Code, senior executive officers are obliged to (a) act at all times with loyalty to the Telefónica Group and its shareholders, regardless of their own or other interests; (b) refrain from interfering in or influencing the making of decisions that may affect individuals or entities with whom there is a conflict; and (c) refrain from receiving information classified as confidential which may affect such conflict. Furthermore, these persons are obliged to inform the Company Regulatory Compliance Unit of all transactions that may potentially give rise to conflicts of interest.

C.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain:

D RISK CONTROL SYSTEMS

D.1 Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Telefónica Group's business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The risks described below are the most significant.

Group related risks

▪ *Country risk (investments in Latin America)*. At December 31, 2010, approximately 50,6% of the Group's assets were located in Latin America. In addition, around 42,9% of its revenues from operations for 2010 were derived from its Latin American operations. The Group's investments and operations in Latin America (including the revenues generated by the Group's operations in these countries, their market value, and the dividends and payments of management fees) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly and negatively affect the economic conditions or business environment in which it operates, and, therefore, our interests in such countries;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation and/or local currency devaluation may lead certain subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;
- governments may expropriate or nationalize assets or increase their participation in the economy and companies;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the economic conditions and business environment in which we operate; and
- economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations in such countries.

In addition, the Telefónica Group's operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which it operates.

▪ *Management of foreign currency and interest rate risk.* The Telefónica Group's business is exposed to various types of market risk, including the impact of changes in interest rates or foreign currency exchange rates, as well as the impact of changes of counterparty credit risk in treasury operations or in some structured financed transactions entered into. The Telefónica group employs risk management strategies to manage this risk, in part through the use of financial derivatives, such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group's risk management purposes, or if it cannot enter into arrangements of the type and for the amounts necessary to limit the exposure to currency exchange-rate and interest-rate fluctuations, or if banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect the financial position, operating results and cash flow. Also, Telefónica's other risk management strategies may not be successful, which could adversely affect the financial position, operating results and cash flow. Finally, if the rating of counterparties in treasury investments or in structured financed transactions deteriorates significantly or if these counterparties fail to meet their obligations to the Company, the Telefónica Group may suffer loss of value in its investments, incur in unexpected losses and/or assume additional financial obligations under these transactions. Such failure could adversely affect the Telefónica Group's financial position, operating results and cash flow.

Current global economic situation. The Telefónica Group's business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse global economic situation and uncertainty about the economic recovery may negatively affect the level of demand of existing and prospective customers, as customers may no longer deem critical the services offered by the Group. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other macroeconomic factors. Specifically, in this respect the continuation of recession in Spain, according to the forecasts contained in the Spanish Economic Ministry's Stability Program for 2009-2013, could have an adverse effect on the Telefónica Group's results in Spain.

In addition, there could be other possible follow-one effects from the economic crisis on the Group's business, including insolvency of key customers or suppliers. In general terms, a loss of customers or a decline in sales could have an adverse effect on the Telefónica Group's financial position, operation results and cash flow and may therefore negatively affect the ability to meet growth targets.

- *Dependence on external sources of financing.* The performance, expansion and improvement of networks, the development and distribution of the Telefónica Group's services and products require a substantial amount of financing. Moreover, the Telefónica Group's liquidity and capital resource requirements may increase if the Company participates in other fixed line or wireless license award processes or makes acquisitions. There are also other major capital recourse requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If the ability to generate cash flow were to decrease, whether due to the ongoing economic and financial crisis or otherwise, the Telefónica Group may need to incur additional debt or raise other forms of capital to support liquidity and recourses requirements for the sustained development and expansion of its business.

The performance of the financial markets in terms of liquidity, cost of credit, access and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the speed of the economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning deficits of some governments, etc. Worsening conditions in international financial markets due to any of these factors may make it more difficult and expensive for the Telefónica Group to refinance its debt or take on additional debt if necessary.

In addition, its capacity to raise capital in the international capital markets would be impaired if Telefónica's credit ratings were downgraded, whether due to decreases in its cash flow or otherwise. Further, current market conditions make it more challenging to renew unused bilateral credit facilities.

The current financial crisis could also make it more difficult and costly for the Company's current shareholders to launch rights issues or ask key investors for equity investments, even if further funds were needed for the Company to pursue its business plans.

Risks related to our industry

- *Highly competitive markets.* The Telefónica Group faces significant competition in all of the markets in which it operates. Therefore, it is subject to the effects of actions by competitors in these markets. These competitors could:

- offer lower prices, more attractive discount plans or better services or features;
- develop and deploy more rapidly new or improved technologies, services and products;
- launch bundle offerings of one type of service with others;

- in the case of the mobile industry, subsidize handset procurement; or
- expand and extend their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors, changes in consumer preferences and in general economic, political and social conditions. The Telefónica Group's inability to effectively compete could result in price reductions, lower revenues, under-utilization of the Group's services, reduced operating margins and loss of market share. Any of these circumstances could negatively affect the Telefónica Group's financial position, operating results and cash flow.

- *Highly regulated markets.* As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services and in which supranational (e.g. the European Union), national, state, regional local authorities intervene to varying degrees and as appropriate.

This regulation is particularly strict in some of the countries in which the Company holds a dominant position. In this respect, the regulatory authorities regularly intervene in both the wholesale and retail offering and pricing of the Telefónica Group's products and services.

Furthermore, the regulatory authorities could also adopt regulations or take other actions that could adversely affect the Telefónica Group, including revocation of or failure to renew any of its licenses, changes in the spectrum allocation or the grant of new licenses, authorizations or concessions to competitors to offer services in a particular market. They could also adopt, among others, measures or additional requirements to reduce roaming prices and fixed and/or mobile termination rates, force Telefónica to provide third-party access to its networks and impose economic fines for serious breaches. Such regulatory actions or measures could place significant competitive and pricing pressure on the Group's operations, and could have a material adverse effect on the Telefónica Group's financial position, operating results and cash flow.

In addition, since the Telefónica Group holds a leading market share in many of the countries where it operates, the Group could be affected by regulatory actions of antitrust or competition authorities. These authorities could prohibit certain actions, such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and/or in harm to future growth of certain businesses.

Specifically, the regulatory landscape in Europe will change as a consequence of the recent approval of the European Union's new common regulatory framework, which must be transposed into national law by Member States by May 2011. The regulatory principles established for Europe suggest that the new frameworks in each Member State could result in increased regulatory pressure on the local competitive environment.

This framework supports the adoption of measures by national regulators, in specific cases and under exceptional conditions, establishing the functional separation between the wholesale and retail businesses of operators with significant market power and vertically integrated operators, whereby they would be required to offer equal wholesale terms to third-part operators that acquire these products. The new framework is also likely to strengthen consumer protection, network integrity and data privacy measures. The Company may also face new regulatory initiatives in the area of mobile termination rates and the provision of audiovisual content and services.

In some European countries, the Telefónica Group may also face increased pressure from regulatory initiatives aimed at reallocating spectrum rights of use and changing the policies regarding spectrum allocation which could lead to new procedures for awarding spectrum in Europe.

Finally, the recommendation on the application of the European regulatory policy to next-generation broadband networks being drawn up by the European Commission could play a key role in the incentives for operators to invest in net fixed broadband networks in the short and medium term, thus affecting the outlook for the business and competition in this market segment. The European Commission is currently drafting a recommendation on cost accounting and non-discrimination which could apply more regulatory pressure to fixed operators.

- *Services are provided under licenses or concessions*. Most of Telefónica's operating companies require licenses, authorizations or concessions from the governmental authorities of the various countries. These licenses, authorizations and concessions specify the types of services Telefónica is permitted to offer under each circumstance.

The terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to possible interpretation, modification of termination by these authorities. Moreover, authorizations, licenses and concessions, as well as their renewal terms and conditions, may be directly affected by political and regulatory factors.

The terms of these licenses, authorization and concessions and the conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, which is usually related to the fulfillment of the commitments that were assumed by the grantee. As licenses, authorizations and concessions approach the end of their terms, the Telefónica Group intends to pursue their renewal to the extent provided by the contractual conditions of said licenses, authorizations or concessions, though the Group can not guarantee that it will always complete this process successfully.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group's operating companies require them to meet specified network build-out requirements and schedules. In particular, Telefónica's existing licenses, authorizations and concessions typically require it to satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession. In addition, the need to meet scheduled deadlines may require Telefónica Group operators to expend more resources than otherwise budgeted for a particular network build-out.

- *Markets subject to constant technological development.* The Telefónica Group's future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. New products and technologies are constantly emerging, while existing products and services continue to develop. This need for constant technological innovation can render obsolete the products and services the Telefónica Group offers and the technology it uses, and may consequently reduce the revenue margins obtained and require investment in the development of new products, technology and services. In addition, the Company may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for the Telefónica Group to develop the products and technology it needs in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect the Telefónica Group's financial position, operating results and cash flow.

The Telefónica Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand the customer base in each of its markets, to enhancing its financial performance and to satisfy regulatory requirements. Among other things, the Telefónica Group could be required to upgrade the functionality of its networks to achieve greater service customization, to increased coverage of some of its markets, or expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under the Telefónica Group's control and could be constrained by applicable regulation. If the Telefónica Group fails to execute these tasks efficiently, its services and products may become less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect the Telefónica Group's financial position, operating results and cash flow.

- *Limitations on spectrum capacity could curtail growth.* Telefónica's mobile operations in a number of countries may rely on the availability of spectrum. The Company's failure to obtain sufficient or appropriate capacity and spectrum coverage, as well as the related cost of obtaining this capacity, could have an adverse impact on the quality of our services and on the Company's ability to provide new services, adversely affecting its business, financial position, operating results and cash flow.

- *Supplier failures.* The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Further, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, this could have an adverse impact on the Telefónica Group's businesses and the results of its operations. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements.

- *Risks associated with unforeseen network interruptions*. Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, fines or other types of measures imposed by regulatory authorities and could harm the Telefónica Group's reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and it is not possible to foresee every incident or action that could damage or interrupt the Telefónica Group's networks. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.

- *Electromagnetic radio emissions and social awareness.*

Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization WHO, have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999 on the limitation of exposure of the general public to electromagnetic fields. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.
New studies and research are underway. Specifically, the WHO has announced that in 2011 it will issue new recommendations on this matter in its Environmental Health Criteria. Whether or not other research or studies conclude that radiofrequency emissions could have a negative impact on health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group's mobile companies and consequently on its financial position, operating results and cash flow.
While the Telefónica Group is not currently aware of any evidence confirming a link between radio-frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

- *Risk of asset impairment.* The Telefónica Group reviews on an annual basis, or more frequently where the circumstances require, the value of each of its assets and subsidiaries, to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected, including, in some cases synergies included in acquisition cost. The current economic environment and its development in the short and medium term, as well as changes in the regulatory, business or political environment may result in the need to introduce impairment charges in its goodwill, intangible assets or fixed assets. Though the recognition of impairments of items of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the Telefónica Group's operating results.

Other risks

- *Litigation and other legal proceedings*. The Telefónica Group is party to lawsuits and other legal proceedings in the ordinary course of its business, the financial outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs and may have a material adverse effect on the Telefónica Group's business, financial position, results of operations and cash flow.

D.2 Indicate whether the company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal, etc.) during the year:

Yes

If so, indicate the circumstances and whether the established control systems worked adequately.

Risks occurring in the year

Venezuelan economy

Circumstances responsible for this occurrence

Key among these factors are the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, the restrictions to the official foreign exchange market, and, finally, the devaluation of the bolivar on January 8, 2010.

Effectiveness of control systems

In accordance with the information appearing in Note 2 ("Basis of presentation of the consolidated financial statements" of the notes to the consolidated financial statements of Telefónica, S.A. for the year ended December 31, 2010,, throughout 2009 and in the early part of 2010, a number of factors arose in the Venezuelan economy that led the Telefónica Group to reconsider how it translates the financial statements of investees and the recovery of its financial investments there. These include the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and, finally, the devaluation of the bolivar on January 8, 2010.

As a result, in accordance with IFRS, Venezuela must be considered a hyperinflationary economy in 2009. The main implications of this are as follows:

- Adjustment of the historical cost of non-monetary assets and liabilities and the various items of equity of these companies from their date of acquisition or inclusion in the consolidated statement of financial position to the end of the year for the changes in purchasing power of the currency caused by inflation.

  The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for years prior to 2009 is shown in translation differences at the beginning of the 2009 financial year.

- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- Adjustments of the various components in the income statement and statement of cash flows for the general price index from the dates the components were contributed or arose, with a balancing entry in net financial results and an offsetting item in the statement of cash flows, respectively.
- All components of the financial statements of the Venezuelan companies have been translated at the closing exchange rate.

In addition, regarding the devaluation of the Venezuelan bolivar on January 8, 2010, the two main factors to consider with respect to the Telefónica Group's 2010 financial statements are:

- The decrease in the Telefónica Group's net assets in Venezuela as a result of the new exchange rate, with a balancing entry in equity of the Group.

- The translation of results and cash flows from Venezuela at the new devalued closing exchange rate.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

Yes

If so, please explain its duties.

Name of Committee or Body	Description of duties
Audit and Control Committee	The Board of Directors of Telefónica, S.A. has constituted an Audit and Control Committee whose powers and duties and rules of operation are set out in the Company Bylaws and in the Regulations of the Board of Directors. Such regulations comply with all legal requirements as well as with the recommendations for good corporate governance issued by both national and international bodies. Unless dealing with specific issues, the following shall be invited to attend Committee meetings: the External Auditor, representatives of the Legal General Secretariat and the Board, as well as representatives from the following departments: Strategic, Finance and Development, Internal Audit, Intervention and Inspection, Planning, Budgets and Control, Operations and Human Resources. Occasionally, as mentioned above, other managers from within the Group are invited to inform the Committee on specific areas of interest to it. The duties of the Committee are established in the Company Bylaws of Telefónica, S.A. (art. 31 bis), and in the Regulations of the Board of Directors (art. 21), as described in section B.2.3 of this Report. In addition, the Company has designed a system of information to which the Chairman and the members of the Audit and Control Committee have access, through which they can obtain, if they wish, information on the conclusions of internal auditing reports and on the fulfillment of recommendations subject to specific monitoring.

	Likewise, within the Group, Committees have been set up in those companies whose shares are listed on stock market in countries other than Spain, with similar duties to those described for the Audit and Control Committee of Telefónica, S.A.

D.4 Identify and describe the processes for compliance with the regulations applicable to the company and/or its group.

The vast majority of the companies comprising the Telefónica Group operate in the telecommunications sector, which is subject to regulation in nearly all the countries where the Group is present. Among the basic objectives of the internal control model described above is compliance with laws and regulations that affect the Telefónica Group's activities. In particular, the Group has units exercising specific control over this type of risk, especially through its legal services and in the areas of corporate regulation in the Group companies.

E GENERAL SHAREHOLDERS' MEETINGS

E.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the company's bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

No

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the LSA):

Yes

Describe how they differ from the rules established under the LSA.

Description of differences
Article 21 of the Company Bylaws establishes that the General Shareholders' Meeting shall adopt its resolutions with the majority of votes established by law, cast by the shareholders present in person or by proxy. Each share whose holder is present at the General Shareholders' Meeting in person or by proxy shall give the right to one vote, except in the case of non-voting shares, subject to the provisions of Law. Notwithstanding the provisions of the preceding paragraph, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy. The limitation established in the preceding paragraphs shall also apply to the maximum number of shares that may be cast (individually or collectively) by a single shareholder or by shareholders belonging to the same group, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder. For purposes of the provisions contained in the preceding paragraph, the provisions of Section 4 of the current Securities Market Act of July 28, 1998 (in the reference to article 42 of the Commercial Code) shall apply in order to decide whether or not a group of entities exists and to examine the situations of control indicated above. Without prejudice to the limitations upon the right to vote described above, all shares present at the Meeting shall be computed for purposes of determining the existence of a quorum in constituting the Meeting, provided, however, that the 10-percent limit on the number of votes established in this article shall apply to such shares at the time of voting. Notwithstanding the above, in accordance with the provisions of article 515 of the Spanish Corporations Law, from July 1 2011 any clauses in the bylaws of listed corporations that restrict the number of shares that may be cast by a single shareholder or by shareholders

belonging to the same group will be null and void.

E.3 List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the LSA.

Telefónica grants all shareholders the rights related to the General Shareholders' Meetings set out in the LSA.

Likewise, with a view to encouraging shareholders' participation in the GSM, pursuant to Article 11 of the Regulations for the General Shareholders' Meeting of Telefónica, S.A., shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Assistance Service [Oficina de la Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

E.4 Indicate the measures, if any, adopted to encourage participation by shareholders at General Shareholders' Meetings.

The primary goal of the Regulations of the General Shareholders' Meeting of Telefónica, S.A. is to offer the shareholder a framework that guarantees and facilitates the exercise of their rights in their relationship with the governing body of the Company. Particular emphasis is placed on the shareholders' right to receive information and to participate in the deliberations and voting, by ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions that are submitted to the shareholders at the General Shareholders' Meeting. In addition to the measures required by the applicable law in effect, the following are specific measures envisaged in the Regulation of the General Shareholders' Meeting with a view to facilitating shareholders' attendance and participation in the Meeting:
* WEBSITE

From the date of publication of the notice of the call to the General Shareholders' Meeting, and in order to facilitate shareholders' attendance and participation therein, the Company shall include in its website, to the extent available and in addition to the documents and information required by the Law, all materials that the Company deems advisable for such purposes and in particular, but not exclusively, the following:

a) The text of all the proposed resolutions that are to be submitted to the shareholders at the General Shareholders' Meeting and that have by then been approved by the Board of Directors, provided, however, that the Board of Directors may amend such proposals up to the date of the Meeting when so permitted by the Law.

b) Information regarding the place where the General Shareholders' Meeting is to be held, describing, when appropriate, the means of access to the meeting room.

c) The procedure to obtain attendance cards or certificates issued by the entities legally authorized to do so.

d) The means and procedures to grant a proxy for the General Shareholders' Meeting.

e) If established, the means and procedures to cast votes from a distance.

f) Any other matters of interest for purposes of following the proceedings at the Meeting, such as whether or not simultaneous interpretation services will be provided, the possibility that the General Shareholders' Meeting be followed by audio-visual means, or information in other languages.

The Company shareholders may obtain all the aforementioned information through the corporate website, or may request that it be sent or delivered to them without charge through the mechanisms established on the website for this purpose.

* SUGGESTIONS MADE BY THE SHAREHOLDERS

As indicated above, without prejudice to the shareholders' right, in such cases and under such terms as are provided in the Law, to have certain matters included in the Agenda for the Meeting that they request be called, the shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Assistance Service [Oficina del Accionista] regarding the organization and operation of the General Shareholders' Meeting and the powers of the shareholders thereat.

Likewise, through the Shareholder Assistance Service, shareholders may request all types of information, documentation and clarifications required in relation to the General Shareholders' Meeting, either through the Company website or by calling the toll-free line.

* PROXY GRANTING AND REPRESENTATION

The Chairman of the General Shareholders' Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders' Meeting, whether individually or by grouping shares with other shareholders, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been rectified.

E.5 Indicate whether the General Shareholders' Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders' Meeting.

Yes

Details of measures
The General Shareholders' Meeting of Telefónica, S.A. has established its principles of organization and operation in a set of Regulations, approved by the General Shareholders' Meeting, and the Chairman must always act in line with the principles, criteria and guidelines set out therein. In addition to establishing the principles of organization and operation of the General Shareholders' Meeting, gathering and organizing the different aspects of calling, organizing and holding the General Shareholders' Meeting in a single text, the document provides mechanisms to: - Facilitate shareholders' exercise of their relevant rights, with particular attention to the shareholders' right to information and to participate in the deliberations and voting. - Ensure the utmost transparency and efficiency in the establishment of the shareholders' will and in decision-making at the Meeting, ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions. Furthermore, in accordance with the Regulations of the Board of Directors, the conduct of the Chairman of the Board must always be in accordance with the decisions and criteria established by the shareholders at the General Shareholders' Meeting (in addition to the Board of Directors and the Board Committees).

E.6 Indicate the amendments, if any, made to the General Shareholders' Meeting regulations during the year.

In 2010, no amendments were made to the Regulations for the General Shareholders' Meeting of Telefónica, S.A.

E.7 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
02-06-2010	5.266	51.337	0.000	0.000	56.603

E.8 Briefly indicate the resolutions adopted at the General Shareholders' Meetings held during the year and the percentage of votes with which each resolution was adopted.

GENERAL SHAREHOLDERS' MEETING - JUNE 2, 2010

Items on agenda	Summary of proposal	Votes in favor	Votes against	Abstentions	Result of the vote
I	Approval of the Annual Accounts for Fiscal Year 2009.	2,438,373,743 (94.39%)	19,365,905 (0.75%)	125,643,914 (4.86%)	Approved
II	Distribution of a dividend to be charged to unrestricted reserves.	2,461,526,695 (95.28%)	1,525,207 (0.06%)	120,331,660 (4.66%)	Approved
III	Authorization for acquisition of the Company's own shares, directly or through companies of the Group.	2,422,022,950 (93.75%)	37,440,060 (1.45%)	123,920,552 (4.80%)	Approved
IV	Delegation in favor of the Board of the power of issuing securities.	2,104,289,830 (81.45%)	294,732,182 (11.41%)	184,361,550 (7.14%)	Approved
V	Re-election of the Auditor for Fiscal Year 2010.	2,461,187,811 (95.27%)	2,749,057 (0.11%)	119,446,694 (4.62%)	Approved
VI	Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders' Meeting.	2,445,794,459 (94.67%)	12,868,465 (0.50%)	124,720,638 (4.83)	Approved

E.9 Indicate whether the bylaws impose any minimum requirement on the number of shares needed to attend the General Shareholders' Meetings:

Yes

Number of shares required to attend the General Shareholders' Meetings	300

E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Shareholders' Meeting.

As indicated above, with a view to facilitating shareholders' attendance and participation in the General Shareholders' Meetings, the Company has established the following policies in keeping with the legislation in effect:

* Voting by proxy at the General Shareholders' Meeting:

- Every shareholder having the right to attend the General Shareholders' Meeting may be represented thereat by another person, even if not a shareholder. The proxy must be granted specifically for each Meeting, either by using the proxy-granting form printed on the attendance card or in any other manner permitted by the Law.

- Shareholders that do not hold the minimum number of shares required to attend the Meeting (300 shares) may at all times grant a proxy in respect thereof to a shareholder having the right to attend the Meeting, as well as group together with other shareholders in the same situation until reaching the required number of shares, following which a proxy must be granted to one of such shareholders.

* Voting instructions:

- The documents setting forth the proxies or powers of attorney for the General Shareholders' Meeting shall contain instructions regarding the direction of the vote. If no express instructions are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions put forward by the Board of Directors regarding the matters on the agenda and against those proposals which, albeit not included in the Agenda, may be submitted to a vote in said Meeting

* Proxies:

- If the document setting forth the proxy or power of attorney does not state the specific person or persons to whom the shareholder grants the proxy, such proxy shall be deemed granted in favor of any of the following: the Chairman of the Board of Directors of the Company, or the person that stands in for him as Chairman of the General Shareholders' Meeting, or such person as is appointed by the Board of Directors, with notice of such appointment being given in advance in the official notice of the call to meeting.

Finally, to facilitate the maximum participation by shareholders, the Chairman of the General Shareholders' Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders' Meeting, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been rectified.

E.11 Indicate whether the company is aware of the policy of institutional investors on whether or not to participate in the company's decision-making processes:

No

E.12 Indicate the address and mode of accessing corporate governance content on your company's website.

Telefónica complies with the applicable legislation and best practices in terms of the content of the website concerning Corporate Governance. In this respect, it fulfils both the technical requirements for access and for content for the Company website, through direct access from the homepage of Telefónica, S.A. (www.telefonica.es) in the section "Shareholders and Investors" (http://www.telefonica.es/investors/), which includes not only all of the information that is legally required, but also information that the Company considers to be of interest.

All the available information included on the Company website, except for certain specific documents, is available in three languages: Spanish, Portuguese and English.

F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of them, explain the recommendations, standards, practices or criteria the company applies.

1. **The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**
See sections: A.9, B.1.22, B.1.23 and E.1, E.2.

Explain

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 limitation established in the preceding paragraph shall also apply to the maximum number of shares that may be cast (individually or collectively) by a single shareholder or by shareholders belonging to the same group, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

In addition, Article 25 of the Bylaws stipulates that no person may be appointed as Director unless they have held, for more than three years prior to their appointment, a number of shares of the Company representing a nominal value of at least 3,000 euros, which shares the Director may not transfer while in office. These requirements shall not apply to those persons who, at the time of their appointment, are related to the Company under an employment or professional relationship, or when the Board of Directors resolves to waive such requirements with the favorable vote of at least 85 percent of its members.

Article 26 of the Bylaws establishes that, in order for a Director to be appointed Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission, it shall be necessary for such Director to have served on the Board for at least the three years immediately prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

The Company Bylaws (article 21) restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group in order to achieve a suitable balance and protect the position of minority shareholders, thus avoiding a potential concentration of votes among a reduced number of shareholders, which could impact on the guiding principle that the General Shareholders' Meeting must act in the interest of all the shareholders. Telefónica believes that this measure does not entail a device designed to block public tender offers, but rather guarantees that any takeover shall require, in the interest of all shareholders, an offer for one hundred percent of the capital, because, naturally, and as taught by experience, potential offerors may make their offer conditional upon the removal of the defense mechanism.

Notwithstanding the above, in accordance with the provisions of article 515 of the Spanish Corporations Law, from July 1 2011 any clauses in the bylaws of listed corporations that restrict the number of shares that may be cast by a single shareholder or by shareholders belonging to the same group will be null and void.

In addition, the special requirements for appointment as Director (Article 25 of the Bylaws) or as Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission (Article 26 of the Bylaws) are justified by the desire that access to the management decision-making body and to the most significant positions thereon is reserved to persons who have demonstrated their commitment to the Company and who, in addition, have adequate experience as members of the Board, such that continuity of the management model adopted by the Telefónica Group may be assured in the interest of all of its shareholders and stakeholders. In any event, these special requirements may be waived by broad consensus among the members of the Board of Directors, namely, with the favorable vote of at least 85 percent of its members, as provided by the aforementioned articles of the Bylaws.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) **The type of activity they engage in, and any business dealings between them as well as between the listed subsidiary and the other group companies;**

b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: C.4 and C.7

Not applicable

3. **Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:**

   a) **The transformation of listed companies into holding companies through the process of subsidiarization, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**

   b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**

   c) **Operations that effectively add up to the company's liquidation;**

Complies

4. **Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.**

Complies

5. **Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:**

   a) **The appointment or ratification of directors, with separate voting on each candidate;**

   b) **Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.**

See section: E.8

Complies

6. **Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

See section: E.4

Complies

7. **The Board of Directors should perform its duties with unity of purpose and independent judgment, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximize its value over time.**

   It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. **The board should see the core components of its mission as to approve the company's strategy and authorize the organizational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:**

   a) **The company's general policies and strategies, and in particular:**

      i) **The strategic or business plan, management targets and annual budgets;**

      ii) **Investment and financing policy;**

      iii) **Design of the structure of the corporate group;**

      iv) **Corporate governance policy;**

      v) **Corporate social responsibility policy;**

      vi) **Remuneration and evaluation of senior officers;**

      vii) **Risk control and management, and the periodic monitoring of internal information and control systems;**

      viii) **Dividend policy, as well as the policies and limits applying to treasury stock.**

   See sections: B.1.10, B.1.13, B.1.14 and D.3

   b) **The following decisions:**

      i) **On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.**

See section: B.1.14.

ii) Directors' remuneration, and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See section: B.1.14.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorization need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2. They go through at market prices, generally set by the person supplying the goods or services;

3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favorable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Complies

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer then five and no more than fifteen members.

See section: B.1.1

Explain

The complexity of the Telefónica Group organizational structure, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justify the fact that the number of members of the Board is adequate to achieve an efficient and operative operation.

In addition, it is important to bear in mind the Company's large number of Board committees, which ensures the active participation of all its Directors.

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies

11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.

See section: B.1.3

Complies

12. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, but where there are shareholders with high absolute value shareholdings.**
2. **In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: B.1.3, A.2 and A.3

Explain

The aforementioned recommendation number 12 refers to the composition of the group of external Directors. As stated in section B.1.3 of this Annual Corporate Governance Report, at 31 December 2010, the group of external Directors of Telefónica, S.A. was composed of 14 members (of a total of 17 Members), of whom four are proprietary Directors, eight are independent and two fall under the "other external Directors" category.

Of the four proprietary directors, two act in representation of Caja de Ahorros y Pensiones de Barcelona ("la Caixa"), which holds 5.050% of the capital stock of Telefónica, S.A., and two act in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), which holds 6.279% of the capital stock.

Applying the proportional criteria established in article 243 of the Spanish Corporations Law (and formerly in article 137 of the LSA, to which Recommendation 12 of the Unified Code refers to), regarding the total number of directors, the stakes held by "la Caixa" and BBVA are sufficient to entitle each entity to appoint a director.

Moreover, it must be taken into account that Recommendation 12 stipulates that this strict proportionality criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

In this regard, Telefónica is the listed company on Spanish stock exchanges with the highest stock market capitalization, reaching the figure of 77,451 million euros at 31 December 2010, which means a very high absolute value of the stakes of "la Caixa" and BBVA in Telefónica (that of "la Caixa" is 3,911 million euros, and that of BBVA is 4,863 million euros), which justifies the overrepresentation of these entities on the Board of Directors, rising from one member of the board each (to which they would strictly have the right in accordance with Article 243 of the Spanish Corporations Law) to two members, i.e. permitting the appointment of just one more proprietary director over the strictly legal proportion.

13. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

Complies

14. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from

shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1.4

Complies

15. **When women directors are few or non existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:**

    a) **The process of filling board vacancies has no implicit bias against women candidates;**

    b) **The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: B.1.2, B.1.27 and B.2.3.

Explain

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, Ms. María Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders' Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a term of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. María Luz Medrano Aranguren as the Deputy Secretary General and Secretary of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates ("recognized caliber, qualifications and experience") and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of women directors, if, within the potential candidates, there are women candidates who meet the professional profile sought at each moment.

16. **The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organize and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.**

    See section: B.1.42

    Complies

17. **When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.**

    See section: B.1.21

    Partially complies

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

- In addition, in accordance with article 13.3 of said Regulations, the Chairman of the Nominating, Compensation and Corporate Governance Committee –a post that shall always be given to an independent Director (article 22 of the Regulations)– and the Chairman of the Board of Directors shall be responsible for organizing and coordinating a periodic assessment of the Board.

18. **The Secretary should take care to ensure that the board's actions:**

    a) **Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**

    b) **Comply with the company bylaws and the regulations of the General Shareholders' Meeting , the Board of Directors and others;**

    c) **Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

    In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by

the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: B.1.34

Complies

19. **The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.**

See section: B.1.29

Complies

20. **Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: B.1.28 and B.1.30

Complies

21. **When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.**

Complies

22. **The board in full should evaluate the following points on a yearly basis:**

    a) **The quality and efficiency of the board's operation;**

    b) **Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;**

    c) **The performance of its committees on the basis of the reports furnished by the same.**

See section: B.1.19

Complies

23. **All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the**

bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Complies

24. **All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.**

See section: B.1.41

Complies

25. **Companies should organize induction programs for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programs when circumstances so advise.**

Complies

26. **Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

    a) **Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;**

    b) **Companies should lay down rules about the number of directorships their board members can hold.**

See sections: B.1.8, B.1.9 and B.1.17

Complies

27. **The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:**

    a) **On the proposal of the Nomination Committee, in the case of independent directors.**

    b) **Subject to a report from the Nomination Committee in all other cases.**

See section: B.1.2

Complies

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;

b) Directorships held in other companies, listed or otherwise;

c) An indication of the director's classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a company director; and;

e) Shares held in the company and any options on the same.

Complies

29. Independent directors should not stay on as such for a continued period of more than 12 years.

See section: B.1.2

Complies

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

Complies

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. **Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organization's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

    The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

    See sections: B.1.43, B.1.44

    Complies

33. **All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.**

    When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

    The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

    Complies

34. **Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.**

    See section: B.1.5

    Not applicable

35. **The company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:**

a) **The amount of the fixed components, itemized, where necessary, of board and board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to;**

b) **Variable components, in particular:**

   i) **The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.**

   ii) **Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;**

   iii) **The main parameters and grounds for any system of annual bonuses or other non cash benefits; and**

   iv) **An estimate of the sum total of variable payments rising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.**

c) **The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.**

d) **The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:**

   i) **Duration;**

   ii) **Notice periods; and**

   iii) **Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.**

See section: B.1.15

Complies

36. **Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.**

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See sections: A.3, B.1.3

Complies

37. **External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Complies

38. **In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Not applicable

39. **In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.**

Complies

40. **The Board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.**

The report will focus on the remuneration policy the board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Partially complies

At the Company's Ordinary General Shareholders' Meeting, the annual report regarding the Board of Directors compensation policy is given to shareholders for information purposes, containing the information stipulated in recommendation 40 of the Unified Good Governance Code and made available to shareholders from the date of publication of the call for the General Shareholders' Meeting.

Telefónica provides extensive information at its Annual General Shareholders' Meetings, through the presentations made thereat by the General Secretary and Secretary of the Board of Directors of the Company, regarding the contents and highlights of such Report on the Compensation Policy for the Board of Directors.

As regards submitting such report to a consultative vote at the General Shareholders' Meeting, as a separate item on the agenda, Telefónica has not deemed it advisable because it believes that this matter falls outside the purview of the shareholders at a General Meeting and, in addition, because it is a highly strategic issue and a vote thereon might therefore lead to open debate at each Meeting, thus generating instability and uncertainty.

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

a) a breakdown of the compensation obtained by each company director, to include where appropriate:

i) Participation and attendance fees and other fixed director payments;

ii) Additional compensation for acting as chairman or member of a board committee;

iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;

iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;

v) Any severance packages agreed or paid;

vi) Any compensation they receive as directors of other companies in the group;

vii) The remuneration executive directors receive in respect of their senior management posts;

viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemized by:

i) Number of shares or options awarded in the year, and the terms set for their execution;

ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;

iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;

iv) Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Partially complies

In accordance with article 28.4 of the Company Bylaws, the Notes to the Financial Statements shall set forth the compensation corresponding to each position or office on the Board and the Committees thereof (Chairman, Vice Chairman, Member). The compensation payable to executive Directors shall be reflected as an aggregate figure, but shall include a breakdown of the different compensation items.

In addition, the complexity of the organizational structure of the Telefónica Group, the variety and nature of the sectors in which it carries out its activity, its multinational nature and its economic and business relevance, justify the fact that said information is included in the mentioned manner, given that its publication in any other way could damage corporate interests.

42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See sections: B.2.1 and B.2.6

Complies

43. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Complies

44. In addition to the Audit Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;

b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.

c) Committees should be chaired by an independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Meeting proceedings should be minuted and a copy sent to all board members.

See sections: B.2.1 and B.2.3

Complies

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Complies

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The head of internal audit should present an annual work programmed to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies

49. Control and risk management policy should specify at least:

a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, with the inclusion under

financial or economic risks of contingent liabilities and other off-balance sheet risks;

b) **The determination of the risk level the company sees as acceptable;**

c) **Measures in place to mitigate the impact of risk events should they occur;**

d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See section: D

Complies

50. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) **To supervise the preparation process and monitor the integrity of financial information on the Company and, if applicable, the Group, revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.**

b) **Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.**

c) **Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**

d) **Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.**

2. With respect to the external auditor:

a) **Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.**

b) **Receive regular information from the external auditor on the progress and findings of the audit programmed, and check that senior management are acting on its recommendations.**

c) Monitor the independence of the external auditor, to which end:

i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;

iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.

b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

53. **The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: B.1.38

Complies

54. **The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.**

See section: B.2.1

Complies

55. **The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:**

  a) **Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**

  b) **Examine or organize, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.**

  c) **Report on the senior officer appointments and removals which the chief executive proposes to the board.**

  d) **Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: B.2.3

Complies

56. **The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.**

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the Board of Directors regarding:

i) The remuneration policy for directors and senior officers;

ii) The individual remuneration and other contractual conditions of executive directors.

iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.

See sections: B.1.14, B.2.3

Complies

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

G OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

GENERAL CLARIFICATION: It is hereby stated that the details contained in this report refer to the Financial Year ended on 31 December 2010, except in those issues in which a different date of reference is specifically mentioned.

- Note 1 to Section A.3.]

It should be noted that the Company has an Internal Code of Conduct for Securities Markets Issues setting out, among other issues, the general operating principles for Directors and senior executive officers when carrying out personal trades involving securities issued by Telefónica and financial instruments and contracts whose underlying securities or instruments are issued by the Company.

The general operating principles of this Internal Code of Conduct include transactions subject to notification, action limitations as well as the minimum holding period when acquiring securities in the Company, during which time these may not be transferred, except in the event of extraordinary situations that justify their transfer, subject to authorization by the Regulatory Compliance Committee.

- Note 2 to Section A.3.]

On 24 January 2011, Mr. César Alierta Izuel notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

On 24 January 2011, Mr. Julio Linares López notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

On 24 January 2011, Mr. José María Álvarez-Pallete López notified the CNMV of the direct acquisition of 5 shares of Telefónica, S.A.

- Note 3 to Section A.3.]

On March 5, 2007, the Executive Chairman of the Company, Mr. César Alierta Izuel, notified the CNMV of the purchase of 8,200,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 22 euros. In addition, on April 16, 2008, Mr. Alierta notified the National Securities Exchange Commission (CNMV) of the purchase of 2,000,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 30 euros.

On November 22, 2010, Mr. Carlos Colomer Casellas notified the CNMV of the sale of various put options on shares of Telefónica, S.A., to be settled by offset, with maturity on June 30, 2011. Mr. Colomer holds 49,053 put options on Telefónica shares, with an exercise price of 16.50 euros on 30.303 and 16 euros on the remaining 18.750.

The amounts appearing in Section A.3. of this report under "Number of direct options" (i.e. Mr. César Alierta Izuel, 493,431; Mr. Julio Linares López, 359,926; and Mr. José María Álvarez-Pallete López, 224,286) related to the maximum number of shares corresponding to the third, fourth and fifth phases of the "Performance Share Plan" to be delivered (from July 1, 2011, July 1, 2012 and July 1, 2013) if all the terms established for such delivery are met.

- Note 4 to Section A.6

Expanding on the existing strategic alliance agreement, on January 23, 2011, Telefónica and China Unicom (Hong Kong) Limited ("China Unicom") signed an extension to their Strategic Alliance Agreement, in which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas, and committed to investing the equivalent of 500 million US dollars in ordinary shares of the other party. Telefónica will acquire through its subsidiary Telefónica Internacional, S.A.U. a number of China Unicom shares amounting to 500 million US dollars from third parties, within nine months from the agreement date.

Following the completion of the transaction, Telefónica will hold, through its subsidiary Telefónica Internacional, S.A.U., approximately 9.7% of China Unicom's voting share capital, based on the current share price, while China Unicom will own approximately 1.37% of Telefónica's voting share capital. In recognition of China Unicom's stake in Telefónica, the latter commits to proposing the appointment of a board member named by China Unicom in the next General Shareholders' Meeting, in accordance with prevailing legislation and the Company's Bylaws.

China Unicom completed the acquisition of Telefónica shares on January 28, 2011, giving it ownership of 1.37% of the Company's capital.

- Note 5 to Section B.1.8.]

Shares in the company International Consolidated Airlines Group, S.A. (IAG) began trading on the London and Spanish stock exchanges on January 24, 2011.

- Note 6 to Section B.1.10.]

Although the investment and financing policy is not included literally in article 5.4. of the Regulations of the Board of Directors, in practice said policy is the exclusive competency of the Board of Directors of the Company.

Note 7 to Section B.1.11.]

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2010, below we provide the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2010.

The compensation of Telefónica, S.A.'s Directors is governed by Article 28 of the Bylaws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify 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 Director's 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 Directors in their capacity as members of the Board of Directors, the Executive Commission 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 executive Board members other than the Chairman 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 the Telefónica Board of Directors, Executive Commission and the advisory or control Committees:

Position	Board of Directors	Executive Commission	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

(Euros)

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

Total compensation paid to Telefónica's Directors for discharging their duties in 2010 amounted to 4,136,167 euros in fixed compensation and 321,250 euros in fees for attending the Board's Advisory or Control Committees meetings. It should also be noted that the compensation paid to Company Directors sitting on the Boards of other Telefónica Group companies amounted to 1,780,898 euros. In addition, the Company Directors who are members of the regional advisory Committees, including the Telefónica Corporate University Advisory Council, received a total of 556,250 euros in 2010.

The following table presents the breakdown by item of the compensation and benefits paid to Telefónica's Directors for discharging their duties in 2010:

Board Members	Advisory	Executive Commission	Other Board Committees		TOTAL
			Fixed	Attendance fees	
Chairman					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
Vice chairmen					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	26,250	332,250
Members:					
Mr. Julio Linares López	-	-	-	-	-
Mr. José María Abril Pérez	150,000	100,000	14,000	3,750	267,750
Mr. José Fernando de Almansa Moreno-Barreda	150,000	-	56,000	26,250	232,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-
Mr. David Arculus	150,000	-	28,000	11,250	189,250
Ms. Eva Castillo Sanz	150,000	-	42,000	23,750	215,750
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	23,750	329,750
Mr. Peter Erskine	150,000	100,000	56,000	36,250	342,250
Mr. Alfonso Ferrari Herrero	150,000	100,000	106,167	48,750	404,917
Mr. Luiz Fernando Furlán	150,000	-	14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	51,250	399,250
Mr. Pablo Isla Álvarez de Tejera	150,000	-	84,000	18,750	252,750
Mr. Antonio Massanell Lavilla	150,000	-	70,000	31,250	251,250
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	16,250	322,250
TOTAL	2,600,000	800,000	736,167	321,250	4,457,417

(Euros)

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

ITEMS	2010 (euros)
Salaries	6,356,975
Variable compensation	8,186,448
Compensation in kind (1)	117,290
Contributions to pension plans	25,444

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

In addition, with respect to the Pension Plan for Senior Executives, the total amount of contributions made by the Telefónica Group in 2010 in respect of executive directors was 1,925,387 euros.

In relation to the "Performance Share Plan" approved at the General Shareholders' Meeting of June 21, 2006, the maximum number of shares corresponding to the third, fourth and fifth - and final - phases of the Plan will be given (on July 1, 2011, July 1, 2012 and July 1, 2013) to each of Telefónica, S.A.'s executive Directors if all the terms established for such delivery are met, is as follows: Mr. César Alierta Izuel (148,818 shares in the third phase, 173,716 shares in the fourth phase, and 170,897 shares in the fifth phase); Mr. Julio Linares López (101,466 shares in the third phase, 130,287 shares in the fourth phase and 128,173 shares in the fifth phase); Mr. José María Álvarez-Pallete López (67,644 shares in the third phase, 78,962 shares in the fourth phase and 77,680 shares in the fifth phase). Similarly, with respect to the execution of the second phase of the Plan in July 2010, since the Total Shareholder Return *("TSR")* of Telefónica was higher in this phase than the TSRs of companies representing 75% of the market cap of the comparison group, the beneficiaries received, in accordance with the general terms and conditions of the Plan, all the shares assigned to them as follows: Mr. César Alierta Izuel, 116,239 shares; Mr. Julio Linares López, 57,437 shares; Mr. José María Álvarez-Pallete López, 53,204 shares.

Furthermore, at the General Shareholders' Meeting of Telefónica, S.A. on June 23, 2009, its shareholders approved the "Global Employee Share Plan", a Telefónica, S.A. share incentive plan for Group employees worldwide, including executives and executive Directors of the Company,.

The three executive Directors decided to participate in this plan, contributing the maximum, i.e. 100 euros a month, over 12 months. Therefore, at the date of preparing these financial statements, the three executive Directors had acquired a total of 78 shares through this plan, whereby they are entitled to receive, free of charge, an equivalent number of shares providing that, among other conditions, they retain the acquired shares during the consolidation period (12 months from the end of the acquisition period).

It should be noted that the external Directors do not receive and did not receive in 2010 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 2010 any advances, loans or credits to the Directors, or to its top executives, thus complying with the requirements of the U.S.A. Sarbanes-Oxley Act, which is applicable to Telefónica, S.A. as a listed company in that market.

- Note 8 to Section B.1.11.]

Subsection b). The “Fixed Payment” includes both the amounts of the salaries received from other Telefónica Group companies by the members of the Board of Directors in their capacity as executives, and the amount received by the members of the Board of Directors as fixed allowance for belonging to the Board of Directors of any of the companies of the Group or of its respective Committees.

- Note 9 to Section B.1.11.]

It is noted that the total amount of the contributions made by the Telefónica Group during 2010 to the Pension Plan for Senior Executives was 1,925,387 euros on behalf of executive Directors is recorded under the category "Other" in the compensation tables included under points a) and b) of section B.1.11 of the 2010 Annual Corporate Governance Report, as it was done in the Annual Corporate Governance Reports for 2008 and 2009.

This is because said Plan is an employee benefit that differs to the general pension plan by which Telefónica remunerates its employees (including executive Directors) which is recorded under the sections on "Pension Funds and Plans" in the aforementioned section B.1.11 of the Annual Corporate Governance Report.

- Note 10 to Section B.1.12.]

“Total remuneration received by senior management” includes the economic valuation of the compensation received under the “Performance Share Plan”, as well as contributions made by the Telefónica Group in 2010 to the Pension Plan.

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2010, below we provide the remuneration and benefits received by the Senior Executives of Telefónica, S.A. in the year.

The six senior executives of the Company, excluding those that are Directors, received a total for all items in 2010 of 10,830,531 euros. In addition, the contributions made by the Telefónica Group in 2010 with respect to the Pension Plan for these senior executive officers amounted to 926,004 euros.

Furthermore, the maximum number of shares corresponding to the third, fourth and five-an last-phases of the “Performance Share Plan” assigned to the Company’s senior executives for each of the periods is: 306,115 shares for the third phase, 394,779 shares for the fourth phase and 350,485 shares for the fifth phase. Similarly, as explained above, these senior executives received a total of 251,681 shares in the second phase of the Plan.

Finally, with regards to the “Global Employee Share Plan”, at the date of preparing these Financial Statements, the abovementioned six senior executives had acquired, under this plan, a total of 152 shares.

- Note 11 to Section B.1.21.]

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

- In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

- Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee – who shall in all events be an independent Director (Article 22 of the Regulations) – shall be responsible for organizing and coordinating a periodic assessment of the Board.

- Note 12 to Section B.1.29.]

In 2010, the other Board Committees held the following meetings:

- Human Resources and Corporate Reputation and Responsibility Committee: 5
- Regulation Committee: 5
- Service Quality and Customer Service Committee: 4
- International Affairs Committee: 4
- Innovation Committee: 11
- Strategy Committee: 11

- Note 13 to Section B.1.31.]

In accordance with the US securities market regulations, the information contained in the Annual Report on form 20-F (which includes the consolidated Annual Financial Statements of the Telefónica Group), filed with the Securities and Exchange Commission, is certified by the Executive Chairman of the Company, Mr. César Alierta Izuel, and by the General Manager of Strategy, Finance and Development, Mr. Santiago Fernández Valbuena. This certification is made after the Financial Statements have been prepared by the Board of Directors of the Company.

- Note 14 to Section B.1.39.]

Financial year 1983 was the first audited by an external auditor. Prior to that, the financial statement were revised by chartered accountants ('censores de cuentas'). Therefore, 1983 is the base year taken for calculating the percentage in the case of audits of the Individual Annual Accounts of Telefónica, S.A. and 1991 is the date taken for the calculation of the percentage in the case of the Consolidated Annual Accounts, as 1991 was the first year in which the Telefónica Group prepared Consolidated Annual Accounts.

- Note 15 to Section C.2.]

The transactions included under "Commitments Undertaken" in amounts of 11,062,000, 134,637, 800,000 and 407 euros, the first two of which are with Banco Bilbao Vizcaya Argentaria, S.A. and the last two with Caja de Ahorros y Pensiones de Barcelona, "la Caixa", entail transactions with derivatives.

- Note 16 to Section F. Recommendation 34]

Notwithstanding the information provided in this section, it is hereby noted that in 2010 no Director of the Company gave up their office before their tenure expired.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

Binding definition of independent director:

List any independent directors who maintain, or have maintained in the past, a relationship with the company, its significant shareholders or managers, when the significance or importance thereof would dictate that the directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code.

No

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on 23 February 2011.

Indicate whether any directors voted against or abstained from voting on the approval of this report.

No

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