

**REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. RELATING TO THE PROPOSAL FOR AMENDMENT OF ARTICLES 1, 6.2, 7, 14, 16.1, 17.4, 18.4, 31 BIS AND 36 OF THE BY-LAWS AND ADDITION OF A NEW PARAGRAPH 5 TO ARTICLE 16 AND OF A NEW ARTICLE 26 BIS TO THE BY-LAWS, WHICH REPORT SHALL BE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE 2011 ORDINARY GENERAL SHAREHOLDERS' MEETING (ITEM III OF THE AGENDA).**

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**1. PURPOSE OF THE REPORT**

The Agenda for the Ordinary General Shareholders' Meeting of Telefónica, S.A., called to be held on May 17/18, 2011, on first and second call, respectively, includes in item III a proposal relating to the amendment of Articles 1, 6.2, 7, 14, 16.1, 17.4, 18.4, 31 *bis* and 36 of the By-Laws and the addition of a new paragraph 5 to Article 16 and a new Article 26 *bis* to the By-Laws.

In this regard, Section 286 of the restated text of the Companies Act (*Ley de Sociedades de Capital*) requires preparation of a written report by the Directors, setting forth the rationale for the proposed amendments to the By-Laws, for which purpose the Board of Directors of Telefónica, S.A. issues this Report, which also includes the full text of such amendments.

**2. RATIONALE FOR THE PROPOSAL**

The purpose of the majority of the By-Law amendments proposed to the shareholders at the Ordinary General Shareholders' Meeting of Telefónica, S.A. is conforming the Company's By-Laws to the latest legislative developments relating to stock companies and listed corporations, in particular: (i) Law 12/2010, of June 30, which amends Law 19/1988, of July 12, on Financial Statements Auditing, Law 24/1988, of July 28, on the Securities Market, and the restated text of the Companies Act (*Ley de Sociedades Anónimas*) approved by

Royal Legislative Decree 1564/1989, of December 22, for conformance to European Community law (“**Law 12/2010**”); (ii) the restated text of the Companies Act (*Ley de Sociedades de Capital*) (the “**Companies Act**”) approved by Royal Legislative Decree 1/2010, of July 2; and (iii) Royal Decree-law 13/2010, of December 3, regarding tax, labor and liberalizing actions for the promotion of investment and job creation (“**RDL 13/2010**”).

This amendment of the By-Laws is also supplemented by the amendment of the Regulations for the General Shareholders’ Meeting of Telefónica, S.A., which is proposed under item IV of the Agenda.

Finally, two additional amendments to the By-Laws are proposed (addition of a new paragraph 5 to Article 16 and addition of a new Article 26 *bis*) which do not entail a mere adjustment to the law but the introduction of improvements into the By-Laws.

For the purpose of voting, and without prejudice to the provision of an individual rationale for each of the amendments proposed, such amendments have been grouped into three blocks: those amendments relating to mere adaptations to legislative developments, the addition of a new paragraph 5 to Article 16 and the addition of a new Article 26 *bis*.

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

***Proposal for amendment of Article 1 of the By-Laws:***

It is proposed to amend Article 1 of the By-Laws to replace the reference to the *Ley de Sociedades Anónimas* by a reference to the *Ley de Sociedades de Capital*.

Current text	New proposed text
<p><b>Article 1. Corporate name</b>  <i>The Company is named “Telefónica, S.A.” and shall be governed by these</i></p>	<p><b>Article 1. Corporate name</b>  <i>The Company is named “Telefónica, S.A.” and shall be governed by these</i></p>

<i>By-Laws and, as to matters not otherwise contemplated or provided for herein, by the Companies Act [Ley de Sociedades Anónimas] and other legal provisions applicable thereto.</i>	<i>By-Laws and, as to matters not otherwise contemplated or provided for herein, by the Companies Act [Ley de Sociedades <u>Anónimas de Capital</u>] and other legal provisions applicable thereto.</i>
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**Proposal for amendment of Article 6.2 of the By-Laws:**

It is proposed to amend paragraph 2 of Article 6 of the By-Laws to replace the reference to the *Ley de Sociedades Anónimas* by a reference to the *Ley de Sociedades de Capital*.

<b>Current text</b>	<b>New proposed text</b>
<i>2. Modifications to features of shares represented in book-entry form, once formalized in accordance with the provisions of the Companies Act and the Securities Market Act [Ley del Mercado de Valores], shall be published in the Official Bulletin of the Commercial Registry [Boletín Oficial del Registro Mercantil] and in one of the newspapers of wider circulation in Madrid.</i>	<i>2. Modifications to features of shares represented in book-entry form, once formalized in accordance with the provisions of the Companies Act [Ley de Sociedades <u>Anónimas de Capital</u>] and the Securities Market Act [Ley del Mercado de Valores], shall be published in the Official Bulletin of the Commercial Registry [Boletín Oficial del Registro Mercantil] and in one of the newspapers of wider circulation in Madrid.</i>

**Proposal for amendment of Article 7 of the By-Laws:**

It is proposed to amend Article 7 of the By-Laws to conform to the new terminology of the Companies Act, which substitutes the phrase “*dividendos pasivos*” (“capital calls”) with “*desembolsos pendientes*” (“pending disbursements”).

Current text	New proposed text
<p><b>Article 7. Capital Calls</b></p> <p>1. Capital calls shall be paid within the period that is established, within legal limits, by the Board of Directors.</p> <p>2. In the case of arrears in the payment of capital calls, the delinquent shareholder shall be subject to the effects provided for under Law. In the event of a transfer of shares that have not been fully paid up, the transferee of any such shares and all prior transferors shall be jointly and severally liable.</p>	<p><b>Article 7. <del>Capital—Calls</del><u>Pending disbursements</u></b></p> <p>1. <del>Capital—Calls</del><u>pending disbursements</u> shall be paid within the period that is established, within legal limits, by the Board of Directors.</p> <p>2. In the case of arrears in the payment of <del>capital—calls</del><u>pending disbursements</u>, the delinquent shareholder shall be subject to the effects provided for under Law. In the event of a transfer of shares that have not been fully paid up, the transferee of any such shares and all prior transferors shall be jointly and severally liable.</p>

**Proposal for amendment of Article 14 of the By-Laws:**

It is proposed to amend Article 14 of the By-Laws to adjust, to the extent possible, the enumeration of powers of the shareholders at the General Shareholders' Meeting to the text of Section 160 of the Companies Act.

Current text	New proposed text
<p><b>Article 14. Powers of the Shareholders Acting at a General Shareholders' Meeting</b></p> <p>The shareholders acting at a General Shareholders' Meeting shall decide on the matters assigned thereto by Law or these By-Laws and, in particular, regarding the following:</p> <p>1<sup>o</sup>) Appointment and removal of Directors.</p> <p>2<sup>o</sup>) Appointment of Auditors.</p> <p>3<sup>o</sup>) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal</p>	<p><b>Article 14. Powers of the Shareholders Acting at a General Shareholders' Meeting</b></p> <p>The shareholders acting at a General Shareholders' Meeting shall decide on the matters assigned thereto by Law or these By-Laws and, in particular, regarding the following:</p> <p>1) Appointment and removal of Directors.</p> <p>2) Appointment <u>and removal</u> of Auditors <u>and liquidators</u>.</p> <p>3) <u>Commencement of claims for liability against Directors, liquidators</u></p>

<p>year and decisions regarding the allocation of profits/losses.</p> <p>4<sup>o</sup>) Increase and reduction of share capital.</p> <p>5<sup>o</sup>) Issuance of Debentures.</p> <p>6<sup>o</sup>) Amendment of the By-Laws.</p> <p>7<sup>o</sup>) Dissolution, merger, split-off and transformation of the Company.</p> <p>8<sup>o</sup>) The transformation of the Company into a holding company, through “subsidiarization” or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.</p> <p>9<sup>o</sup>) The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.</p> <p>10<sup>o</sup>) Transactions the effect of which is tantamount to liquidating the Company.</p> <p>11<sup>o</sup>) Any other matter that the Board of Directors resolves to submit to the shareholders at a General Shareholders’ Meeting.</p>	<p><u>or Auditors.</u></p> <p><u>4</u>) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal year and decisions regarding the allocation of profits/losses.</p> <p><u>45</u>) Increase and reduction of share capital.</p> <p><u>56</u>) Issuance of <del>d</del>Debentures.</p> <p><u>67</u>) Amendment of the By-Laws.</p> <p><u>78</u>) Dissolution, merger, split-off, <u>overall assignment of assets and liabilities, relocation of the registered address abroad</u> and transformation of the Company.</p> <p><u>9</u>) <u>The elimination of or establishment of restrictions upon pre-emptive rights, without prejudice to the possible delegation of these powers to the Directors as provided by law.</u></p> <p><u>810</u>) The transformation of the Company into a holding company, through “subsidiarization” or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.</p> <p><u>911</u>) The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.</p> <p><u>1012</u>) Transactions the effect of which is tantamount to liquidating the Company <u>and, especially, the approval of the final balance sheet upon liquidation.</u></p> <p><u>1113</u>) Any other matter that the Board of Directors resolves to submit to the shareholders at a General Shareholders’ Meeting.</p>
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**Proposal for amendment of Article 16.1 of the By-Laws and for addition of a new paragraph 5 to Article 16 of the By-Laws:**

It is proposed to amend paragraph 1 of Article 16 of the By-Laws to adjust it to the text of Section 137 of the Companies Act as amended by paragraph 2 of Section 6 of RDL 13/2010.

Current text	New proposed text
<p>1. The General Shareholders' Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and in one of the newspapers of wider circulation in the province where the Company's registered office is located, as much in advance of the date set for the Meeting as is at a minimum required by Law.</p>	<p>1. The General Shareholders' Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and <del>in one of the newspapers of wider circulation in the province where the Company's registered office is located</del> <u>on the Company's website (<a href="http://www.telefonica.com">www.telefonica.com</a>)</u>, as much in advance of the date set for the Meeting as is at a minimum required by Law. <u>The notice published on the Company's website shall be accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate in order to give broader publicity to the call to meeting.</u></p>

Furthermore, it is proposed to include a new paragraph 5 in Article 16 of the By-Laws in order to allow for the possibility that the General Shareholders' Meeting is held outside of the city where the registered address is located (which may be any other location within Spain) if so determined by the Board of Directors, pursuant to Section 175 of the Companies Act.

Current text	New proposed text
	<p><u>5. The General Shareholders' Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the</u></p>

	<u>Company has its registered office, on the date and at the time also set forth in such notice. However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.</u>
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**Proposal for amendment of Article 17.4 of the By-Laws:**

It is proposed to amend paragraph 4 of Article 17 to replace the references to sections of the *Ley de Sociedades Anónimas* by the corresponding provisions of the *Ley de Sociedades de Capital*.

<b>Current text</b>	<b>New proposed text</b>
<p>4. Proxy representation must be granted in writing (in paper or electronic form) and specifically for each Meeting.</p> <p>A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice.</p> <p>Without prejudice to the provisions of Section 108 of the Companies Act, a proxy must be granted pursuant to the provisions of Section 106.2 of such Act.</p>	<p>4. Proxy representation must be granted in writing (in paper or electronic form) and specifically for each Meeting.</p> <p>A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice.</p> <p>Without prejudice to the provisions of Section <del>108</del><u>187</u> of the Companies Act, a proxy must be granted pursuant to the provisions of Section <del>106.2</del><u>184.2</u> of such Act.</p>

**Proposal for amendment of Article 18.4 of the By-Laws:**

It is proposed to amend paragraph 4 of Article 18 of the By-Laws to align it with the new text setting forth the powers of the shareholders at the General Shareholders' Meeting proposed for Article 14 of the By-Laws, which expressly includes among the powers of the shareholders at the General Shareholders' Meeting the overall assignment of assets and liabilities and the relocation of the registered address abroad.

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

**Proposal for addition of a new Article 26 bis to the By-Laws:**

It is proposed to add a new Article 26 *bis* to the By-Laws in order to include the rules governing specific and permanent conflicts of interest affecting Directors that are contained in Sections 229 and 230 of the Companies Act, while providing that the authorization of the shareholders at the General Shareholders' Meeting set forth in Section 230.1 of such Act shall only be required in the event of conduct of activities that entail effective competition with the Company. The purpose of such addition is to have the By-Laws reflect in this regard the logical and purpose-oriented interpretation of Sections 229.2 and 230.1 of the Companies Act which is widespread in practice. Thus, the purpose of these provisions –which is to avoid and control permanent conflicts of interests that might arise from situations where a Director may be deemed to be in competition with the company– shall be included at the highest level of the internal regulations of Telefónica, S.A.



Current text	New proposed text
	<p><b><u>Article 26 bis. Director conflict of interest</u></b></p> <p><u>1.- The Directors shall notify the Board of Directors of any situation of direct or indirect conflict with the interest of the Company that may affect them. The Director involved shall abstain from voting on resolutions or decisions relating to the transaction affected by the conflict.</u></p> <p><u>Directors shall also provide notice, both regarding themselves and persons related thereto, of (a) direct or indirect interests held by them, and (b) positions they hold or duties they perform at any company effectively in competition with the Company.</u></p> <p><u>The conflict of interest situations set forth in the preceding paragraphs shall be included in the annual report.</u></p> <p><u>2.- Directors may not carry out, on their own behalf or on behalf of others, activities that may entail effective competition with the Company, except with the express authorization of the Company by means of a resolution of the shareholders at a General Shareholders' Meeting, for which purpose they shall provide the notice set forth in paragraph 1 of this article.</u></p> <p><u>For the purposes of this paragraph and the previous one, the following shall not be deemed to be in a situation of effective competition with the Company, even if they have the same or a similar or complementary corporate purpose: (i) companies controlled by the Company (within the meaning of Article 42 of the Commercial Code) and (ii) companies with which Telefónica, S.A. maintains a strategic alliance. Neither shall proprietary Directors of competitor</u></p>

	<u>companies appointed at the request of the Company or as a result of the equity interest held by the Company in such competitor companies be deemed to be in breach of the prohibition on competition.</u>
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**Proposal for amendment of Article 31 bis of the By-Laws:**

It is proposed to amend Article 31 bis of the By-Laws to adjust the powers of the Audit and Control Committee pursuant to the new text of additional provision eighteen of the Securities Market Act, as amended by Law 12/2010.

<b>Current text</b>	<b>New proposed text</b>
<p><b>Article 31 bis. Audit and Control Committee</b></p> <p>1. An Audit and Control Committee shall be created within the Board of Directors, which shall be composed of a minimum of three Directors and a maximum of five, to be appointed by the Board of Directors. All of the members of such Committee shall be external Directors</p> <p>2. The Chairman of the Audit and Control Committee, which position shall be held by an independent Director in all cases, shall be appointed by the Committee itself from among its members and shall hold office for four years, and may be re-elected after the passage of one year from ceasing to act as such.</p> <p>3. The Audit and Control Committee shall have the following powers, at a minimum:</p> <p>(i) to report, through its Chairman, to the shareholders at the General Shareholders' Meeting regarding matters raised therein by the</p>	<p><b>Article 31 bis. Audit and Control Committee</b></p> <p>1. An Audit and Control Committee shall be created within the Board of Directors, which shall be composed of a minimum of three Directors and a maximum of five, to be appointed by the Board of Directors. All of the members of such Committee shall be external <u>or non-executive</u> Directors. <u>At least one of them shall be an independent Director, who shall be appointed taking into account his knowledge and experience in accounting, auditing or both.</u></p> <p>2. The Chairman of the Audit and Control Committee, which position shall be held by an independent Director in all cases, shall be appointed by the Committee itself from among its members and shall hold office for four years, and may be re-elected after the passage of one year from ceasing to act as such.</p> <p>3. The Audit and Control Committee shall have the following powers, at a</p>

<p>shareholders in connection with the matters for which the Committee is responsible;</p> <p>(ii) to propose to the Board of Directors, for subsequent submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor referred to in Section 204 of the Companies Act, as well as, if appropriate, the terms and conditions for hiring such Auditor, the scope of its professional duties and the revocation of its appointment or its re-appointment;</p> <p>(iii) to monitor the internal audit services;</p> <p>(iv) to know the process for gathering financial information and the internal control systems;</p> <p>(v) 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; and</p> <p>(vi) any other powers granted under the Regulations of the Board of Directors.</p>	<p>minimum:</p> <p>(i) <del>to report</del><u>To report</u>, through its Chairman, to the shareholders at the General Shareholders' Meeting regarding matters raised therein by the shareholders in connection with the matters for which the Committee is responsible;_</p> <p>(ii) <del>to propose</del><u>To propose</u> to the Board of Directors, for subsequent submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor referred to in Section <del>204</del><u>264</u> of the Companies Act [Ley de Sociedades <del>Anónimas</del><u>de Capital</u>], as well as, if appropriate, the terms and conditions for hiring such Auditor, the scope of its professional duties and the revocation of its appointment or its re-appointment;_</p> <p>(iii) <del>to monitor the internal audit services</del><u>;</u><u>To supervise the effectiveness of the Company's internal control system, the internal audit and the risk management systems as well as to discuss with the Auditor the significant weaknesses in the internal control system detected during the audit.</u></p> <p>(iv) <del>to monitor</del><u>To supervise</u> the process of preparation and submission of <u>regulated</u> financial information <del>and the internal control systems</del>;<u>_</u></p> <p>(v) <u>To establish and maintain appropriate</u> relations with the Auditor in order to receive, <u>for review by the Committee,</u> information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and <del>to receive information from and maintain the</del> <u>such other</u> communications as may be provided for in auditing legislation and in</p>
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	<p style="text-align: right;"><del>—nd.</del></p> <p><u>In any event, the Audit and Control Committee must receive annually written confirmation from the Auditor of its independence vis-à-vis the entity or entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the Auditor, or by the persons or entities related thereto, pursuant to Law 19/1988, of July 12, on Auditing of Financial Statements.</u></p> <p><u>(vi) To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion regarding the independence of the Auditor. This report must in all cases include an opinion on the provision of the additional services referred to in paragraph V above.</u></p> <p><u>(vii) <del>(vi) —any</del>Any other powers granted under the Regulations of the Board of Directors.</u></p>
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**Proposal for amendment of Article 36 of the By-Laws:**

It is proposed to amend Article 36 of the By-Laws to replace the reference to the *Ley de Sociedades Anónimas* by a reference to the *Ley de Sociedades de Capital*.

Current text	New proposed text
<p><b>Article 36. Grounds for Dissolution</b></p> <p><i>The Company shall be dissolved upon any of the grounds set forth in Section 260 of the Companies Act.</i></p>	<p><b>Article 36. Grounds for Dissolution</b></p> <p><i>The Company shall be dissolved upon any of the grounds set forth in <del>Section 260 of</del> the Companies Act [Ley de Sociedades <del>Anónimas</del><u>de Capital</u>].</i></p>

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

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

***III.1 Amendment of Articles 1, 6.2, 7, 14, 16.1, 17.4, 18.4, 31 bis and 36 of the By-Laws for their adjustment to new legislative developments.***

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

***New text of Article 1 of the By-Laws:***

*"Article 1. Corporate name*

*The Company is named "Telefónica, S.A." and shall be governed by these By-Laws and, as to matters not otherwise contemplated or provided for herein, by the Companies Act (Ley de Sociedades de Capital) and other legal provisions applicable thereto."*

***New text of paragraph 2 of Article 6 of the By-Laws:***

*"2. Modifications to features of shares represented in book-entry form, once formalized in accordance with the provisions of the Companies Act (Ley de Sociedades de Capital) and the Securities Market Act (Ley del Mercado de Valores), shall be published in the Official Bulletin of the Commercial Registry (Boletín Oficial del Registro Mercantil) and in one of the newspapers of wider circulation in Madrid."*

**New text of Article 7 of the By-Laws:**

*“Article 7. Pending disbursements*

*1. Pending disbursements shall be paid within the period that is established, within legal limits, by the Board of Directors.*

*2. In the case of arrears in the payment of pending disbursements, the delinquent shareholder shall be subject to the effects provided for under Law. In the event of a transfer of shares that have not been fully paid up, the transferee of any such shares and all prior transferors shall be jointly and severally liable.”*

**New text of Article 14 of the By-Laws:**

*“Article 14. Powers of the Shareholders Acting at a General Shareholders' Meeting*

*The shareholders acting at a General Shareholders' Meeting shall decide on the matters assigned thereto by Law or these By-Laws and, in particular, regarding the following:*

- 1) Appointment and removal of Directors.*
- 2) Appointment and removal of Auditors and liquidators.*
- 3) Commencement of claims for liability against Directors, liquidators or Auditors.*
- 4) Review of corporate management and approval, if appropriate, of the financial statements for the prior fiscal year and decisions regarding the allocation of profits/losses.*
- 5) Increase and reduction of share capital.*
- 6) Issuance of debentures.*

7) *Amendment of the By-Laws.*

8) *Dissolution, merger, split-off, overall assignment of assets and liabilities, relocation of the registered address abroad and transformation of the Company.*

9) *The elimination of or establishment of restrictions upon pre-emptive rights, without prejudice to the possible delegation of these powers to the Directors as provided by law.*

10) *The transformation of the Company into a holding company, through “subsidiarization” or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.*

11) *The acquisition or disposition of essential operating assets, when this entails an effective amendment of the corporate purpose.*

12) *Transactions the effect of which is tantamount to liquidating the Company and, especially, the approval of the final balance sheet upon liquidation.*

13) *Any other matter that the Board of Directors resolves to submit to the shareholders at a General Shareholders’ Meeting.”*

***New text of paragraph 1 of Article 16 of the By-Laws:***

*“1. The General Shareholders’ Meeting shall be called through a notice published in the Official Bulletin of the Commercial Registry and on the Company’s website (www.telefonica.com), as much in advance of the date set for the Meeting as is at a minimum required by Law. The notice published on the Company’s website shall be accessible at least until the date of the Meeting. Furthermore, the Board of Directors may publish notices in other media, if it deems it appropriate in order to give broader publicity to the call to meeting.”*

***New text of paragraph 4 of Article 17 of the By-Laws:***

*“4. Proxy representation must be granted in writing (in paper or electronic form) and specifically for each Meeting.*

*A proxy is always revocable. Attendance at the Meeting by the shareholder granting the proxy, whether in person or through distance voting, entails the revocation of any proxy, whatever the date thereof. A proxy shall likewise be rendered void as a result of the disposition of shares of which the Company has notice.*

*Without prejudice to the provisions of Section 187 of the Companies Act, a proxy must be granted pursuant to the provisions of Section 184.2 of such Act.”*

***New text of paragraph 4 of Article 18 of the By-Laws:***

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

***New text of Article 31 bis of the By-Laws:***

*“Article 31 bis. Audit and Control Committee*

*1. An Audit and Control Committee shall be created within the Board of Directors, which shall be composed of a minimum of three Directors and a maximum of five, to be appointed by the Board of Directors. All of the members of such Committee shall be external or non-executive Directors. At least one of them shall be an independent Director, who shall be appointed taking into account his knowledge and experience in accounting, auditing or both.*



*2. The Chairman of the Audit and Control Committee, which position shall be held by an independent Director in all cases, shall be appointed by the Committee itself from among its members and shall hold office for four years, and may be re-elected after the passage of one year from ceasing to act as such.*

*3. The Audit and Control Committee shall have the following powers, at a minimum:*

*(i) To report, through its Chairman, to the shareholders at the General Shareholders' Meeting regarding matters raised therein by the shareholders in connection with the matters for which the Committee is responsible.*

*(ii) To propose to the Board of Directors, for subsequent submission to the shareholders at the General Shareholders' Meeting, the appointment of the Auditor referred to in Section 264 of the Companies Act, as well as, if appropriate, the terms and conditions for hiring such Auditor, the scope of its professional duties and the revocation of its appointment or its re-appointment.*

*(iii) To supervise the effectiveness of the Company's internal control system, the internal audit and the risk management systems as well as to discuss with the Auditor the significant weaknesses in the internal control system detected during the audit.*

*(iv) To supervise the process of preparation and submission of regulated financial information.*

*(v) To establish and maintain appropriate relations with the Auditor in order to receive, for review by the Committee, information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and such other*

*communications as may be provided for in auditing legislation and in technical auditing regulations.*

*In any event, the Audit and Control Committee must receive annually written confirmation from the Auditor of its independence vis-à-vis the entity or entities directly or indirectly related thereto, as well as information regarding additional services of any kind provided to such entities by the Auditor, or by the persons or entities related thereto pursuant to Law 19/1988, of July 12, on Auditing of Financial Statements.*

*(vi) To issue on an annual basis, prior to the issuance of the audit report, a report stating an opinion regarding the independence of the Auditor. This report must in all cases include an opinion on the provision of the additional services referred to in paragraph V above.*

*(vii) Any other powers granted under the Regulations of the Board of Directors.”*

***New text of Article 36 of the By-Laws:***

*“Article 36. Grounds for dissolution*

*The Company shall be dissolved upon any of the grounds set forth in the Companies Act.”*

***III.2 Addition of a new paragraph 5 to Article 16 of the By-Laws.***

*It is resolved to add a new paragraph 5 to Article 16 of the By-Laws, with the following text:*

*“5. The General Shareholders’ Meeting shall be held at the place set forth in the notice of the call to meeting, within the area where the Company has its registered office, on the date and at the time also set forth in such notice. However, when the Board of Directors deems it appropriate in order to facilitate the conduct of the meeting, it may*

*resolve that the Meeting be held in any other place within Spain by so providing in the call to meeting.”*

### **III.3 Addition of a new Article 26 bis to the By-Laws.**

*It is resolved to add a new Article 26 bis to the By-Laws, with the following text:*

*“Article 26 bis. Director conflict of interest*

*1.- The Directors shall notify the Board of Directors of any situation of direct or indirect conflict with the interest of the Company that may affect them. The Director involved shall abstain from voting on resolutions or decisions relating to the transaction affected by the conflict.*

*Directors shall also provide notice, both regarding themselves and persons related thereto, of (a) direct or indirect interests held by them, and (b) positions they hold or duties they perform at any company effectively in competition with the Company.*

*The conflict of interest situations set forth in the preceding paragraphs shall be included in the annual report.*

*2.- Directors may not carry out, on their own behalf or on behalf of others, activities that may entail effective competition with the Company, except with the express authorization of the Company by means of a resolution of the shareholders at a General Shareholders' Meeting, for which purpose they shall provide the notice set forth in paragraph 1 of this article.*

*For the purposes of this paragraph and the previous one, the following shall not be deemed to be in a situation of effective competition with the Company, even if they have the same or a similar or complementary corporate purpose: (i) companies controlled by the Company (within the meaning of Article 42 of the Commercial Code) and (ii) companies with*

*which Telefónica, S.A. maintains a strategic alliance. Neither shall proprietary Directors of competitor companies appointed at the request of the Company or as a result of the equity interest held by the Company in such competitor companies be deemed to be in breach of the prohibition on competition.”*

\* \* \*

Madrid, April 8, 2011