TELEFONICA S A
Form 6-K
March 14, 2008

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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of March, 2008
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Gran Vía, 28
28013 Madrid, Spain
3491-459-3050
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F þ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes o No þ

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

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

SIGNIFICANT EVENT

Further to the notice sent on February 27th, 2008 and because of the official calling of the Annual General Shareholders Meeting of the Company to be held on April 21st and 22nd, 2008, at first and second call respectively, the full text of the official announcement of the calling of the Annual General Shareholders Meeting, together with the proposals to be submitted for approval at the Meeting, are enclosed to this report.

The aforesaid proposals together with the additional information, are available to shareholders, for examination, at the Company s registered office. Additionally, these documents will be accessible on line via de Company s website: (www.telefonica.es)

We hereby highlight that the time for the Annual General Shareholders Meeting to be held, has been changed to 13.00 p.m.

Madrid, March 14th, 2008

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TELEFONICA, S.A.

Annual General Shareholders Meeting

By decision of the Board of Directors of TELEFÓNICA, S.A., the shareholders are hereby called to the Annual General Shareholders Meeting, **to be held in Madrid, at the premises of Casa de Campo, Pabellón de Cristal, Avenida de Portugal, s/n,** at 13 p.m. on April 22nd 2008 on second call, if the legally required quorum is not reached and therefore the Meeting cannot be held on first call on April 21st 2008 at the same place and time, according to the following

AGENDA

I. Examination and approval, if appropriate, of the Individual Annual Accounts, of the Consolidated Financial Statements (Consolidated Annual Accounts) and of the Management Report of Telefónica, S.A. and its Consolidated Group of Companies, as well as of the proposed allocation of profits/losses of Telefónica, S.A. and of the management of its Board of Directors, all with respect to the Fiscal Year 2007.

II. Re-election, ratification, and appointment, if appropriate, of Directors:

II.1 Re-election of Mr. José Fernando de Almansa Moreno-Barreda.

II.2 Ratification of the interim appointment of Mr. José María Abril Pérez.

II.3 Ratification of the interim appointment of Mr. Francisco Javier de Paz Mancho.

II.4 Ratification of the interim appointment of Ms. María Eva Castillo Sanz.

II.5 Ratification of the interim appointment of Mr. Luiz Fernando Furlán.

III. Authorization to acquire the Company s own shares, either directly or through Group Companies.

IV. Reduction of the share capital through the cancellation of shares of treasury stock, excluding creditors right to object, and amendment of the article of the By-Laws relating to the share capital.

V. Appointment of the Auditors of the Company for the Fiscal Year 2008.

VI. Delegation of powers to formalize, interpret, cure and carry out the resolutions adopted by the shareholders at the General Shareholders Meeting.

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After the presentation of the items included in the Agenda, the General Shareholders ´ Meeting will be informed about the amendment to the Board Regulations pursuant to Section 115 of the Securities Market Act. A Report will be presented explaining the subjects included in the Management Report pursuant to Section 116.bis, of the Securities Market Act.

SUPPLEMENT TO THE CALL TO GENERAL SHAREHOLDERS MEETING

Pursuant to the provisions of Section 97.3 of the Companies Act, shareholders representing at least five percent of the share capital may request the publication of a supplement of this call to the General Shareholders Meeting, including one or more items in the Agenda. This right must be exercised by means of verifiable notice (which will include the corresponding documents evidencing shareholder status) that must be received at the Company s registered office (Gran Vía, número 28, planta 12ª, Madrid, código postal 28013, to the attention of the General Secretary and Secretary of the Board of Directors) within five days of the publication of this call to Meeting.

PARTICIPATION OF A PUBLIC NOTARY IN THE ANNUAL GENERAL SHAREHOLDERS MEETING

The Board of Directors has resolved to request the presence of a Public Notary to draw up the minutes of the Meeting, pursuant to Section 114 of the Companies Act in connection with Sections 101 and 103 of the Regulations of the Commercial Registry.

RIGHT TO RECEIVE INFORMATION

In connection with Items I and IV on the Agenda, and pursuant to the legal terms, it is stated for the record that shareholders have the right to examine and obtain at the Company s registered office, or to request the Company to send them, immediately and free of charge, a copy of the following documents:

Individual Annual Accounts, Consolidated Financial Statements (Consolidated Annual Accounts) and Management Report of Telefónica, S.A. and its Consolidated Group of Companies, the corresponding audit reports and the proposed allocation of profits/ losses of Telefónica, S.A.

Proposed reduction in share capital as set forth in Item IV on the Agenda, together with the mandatory Directors Report.

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Furthermore, the following documents are made available to the shareholders at the Company s registered office:

The text of the proposed resolutions relating to all other items on the Agenda.

Brief description of the professional profile for each of the Directors included in the proposed resolution under Item II on the Agenda.

Full text of the Regulations of the Board of Directors.

Report referred to Section 116. bis of the Securities Market Act.

Report on the Director s Remuneration Policy for the Fiscal Year 2007.

Annual Report on Corporate Governance for the Fiscal Year 2007.

All of the documents set forth above will be available electronically on the Company s website (www.telefonica.es).

Pursuant to Section 112.1 of the Companies Act, the shareholders may, until the seventh day prior to the date on which the General Shareholders Meeting is scheduled to be held by completing the form posted on the Company s website for such purpose, or by postal correspondence sent to the Company s registered office (Gran Vía, número 28, planta 11ª, Madrid, código postal 28013, to the attention of the *Oficina del Accionista* [Shareholder Office]), request such information or clarifications as they deem necessary, or ask such questions as they deem appropriate, regarding the matters included on the Agenda or about the information available to the public that has been provided by Telefónica, S.A. to the National Securities Market Commission since May 10, 2007, i.e., the date on which the last General Shareholders Meeting was held.

RIGHT TO ATTEND THE MEETING IN PERSON OR BY PROXY

The right to attend the General Shareholders Meeting hereby called applies to shareholders that hold at least 300 shares registered in their name in the corresponding book-entry registry five days in advance of the date on which the Meeting is to be held and who provide evidence thereof by means of the appropriate attendance card or by producing a certificate issued by any of the depositaries participating in the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores* [Securities Registration, Clearing and Liquidation Systems Management Company] (IBERCLEAR) or by any other means allowed under applicable Law.

Any shareholder having the right to attend the General Shareholders Meeting may be represented thereat by another person, who need not be a shareholder. A proxy may be granted by using the proxy-granting form printed on the attendance card or by any other means allowed by Law. The documents containing proxies for the General Shareholders Meeting must set forth the instructions regarding the manner of voting, provided that, where no express instructions are given, the representative will vote in favor of the proposed resolutions submitted by the Board of Directors regarding the matters on the Agenda, and will vote against of those resolutions that are not included in the Agenda that might be put to the vote at the Meeting.

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If the proxy-granting form does not set forth a specific person to whom the shareholder grants the proxy, such proxy will be deemed granted in favor of the Chairman of the Board of Directors of the Company or of such other person as may replace him as Chairman of the General Shareholders Meeting. In the event that, in accordance with the foregoing, the representative is involved in a conflict of interest upon voting on any of the proposals, whether or not included in the Agenda, which are put to the vote at the General Shareholders Meeting, the proxy will be deemed granted to the Secretary of the General Shareholders Meeting in his capacity as a shareholder having the right to attend.

Shareholders who do not hold the minimum number of shares required to attend may grant a written proxy in respect thereof in favor of another shareholder having the right to attend, or come together with other shareholders that are in the same situation such that they reach the required number of shares and grant a written proxy to one of such shareholders.

DATA PROTECTION

The personal data that shareholders send to the Company in order to attend, grant proxy or vote at the Shareholders Meeting, or the data provided by the entities where those shareholders have deposited their shares, via de legal entity that registers the book entries, Iberclear, shall be used only by Telefónica, S.A. to draw up, complete and monitor the existing shareholder list. Likewise, those data shall be included into a computer file owned by Telefónica, S.A. whose purpose is sending to shareholders any information related to their investment and any other advantage in the sectors of telecommunications, IT, tourism, culture, insurance, financial and home assistance that may derive from their status of shareholders. Each shareholder will have a period of 30 days within the General Shareholders Meeting holding date to oppose to the data processing (by calling toll free at 900 111 004). The shareholder s approval will be deemed granted for this purpose once this period is over. The right of access, rectification, cancellation and opposition to the data processing may be exercised by postal correspondence by attaching a copy of the Identity Card addressed to the attention of the Telefónica, S.A. Shareholder Office located in Distrito C, Ronda de la Comunicación, Edificio Oeste 2, Planta baja 28050 Madrid.

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HOLDING OF THE MEETING ON SECOND CALL

Shareholders are advised that, based on experience from previous years, the General Shareholders Meeting is expected to be held on second call, at 13 p.m. on April 22nd 2008, at the place indicated above.

ENTRANCE AT THE RECINTO FERIAL DE LA CASA DE CAMPO PABELLÓN DE CRISTAL

Entrance at the Paseo de Extremadura: Puerta del Ángel or Main Entrance

Metro Station Lago , lines 6 and 10

FOR ANY ADDITIONAL INFORMATION, SHAREHOLDERS MAY CONTACT TELEFÓNICA S SHAREHOLDER OFFICE BY CALLING TOLL-FREE AT 900 111 004, FROM 9:00 A.M. TO 7:00 P.M., MONDAY THROUGH FRIDAY.

Madrid, 14th March 2008

General Secretary and Secretary of the Board

Telefónica, S.A.

ANNUAL GENERAL SHAREHOLDERS MEETING
OF TELEFÓNICA, S.A. YEAR 2008 -
PROPOSED RESOLUTIONS SUBMITTED BY THE BOARD OF DIRECTORS TO THE GENERAL SHAREHOLDERS MEETING

21 / 22 April 2008

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Telefónica, S.A.

Proposal regarding Item I on the Agenda: Examination and approval, if appropriate, of the Individual Annual Accounts, of the Consolidated Financial Statements (Consolidated Annual Accounts) and of the Management Report of Telefónica, S.A. and its Consolidated Group of Companies, as well as of the proposed allocation of profits/losses of Telefónica, S.A. and of the management of its Board of Directors, all with respect to Fiscal Year 2007.

A) To approve the Individual Annual Accounts (Balance Sheet, Profit and Loss Statement and Notes), the Consolidated Financial Statements -Consolidated Annual Accounts- (Balance Sheet, Income Statement, Cash Flow Statement, Statement of Recognized Income and Expense, and Notes), and the Management Reports of Telefónica, S.A. and its Consolidated Group of Companies for the Fiscal Year 2007 (ended December 31 of such year), as drawn up by the Board of Directors of the Company at its meeting on February 27, 2008, as well the management performed by the Board of Directors of Telefónica, S.A. during such Fiscal Year.

In the Individual Annual Accounts, the Balance Sheet as of December 31, 2007 reflects assets and liabilities in the amount of 83.159 million Euros each, and the Profit and Loss Account as of the end of the fiscal year reflects positive results of 6.620 million Euros.

In the Consolidated Financial Statements (Consolidated Annual Accounts), the Balance Sheets as of December 31, 2007 reflect assets, and equity and liabilities in the amount of 105.956 million Euros each, and the Income Statement as of the close of the Fiscal Year reflects positive results of 8.908 million Euros.

B) To approve the following Distribution of Telefónica, S.A s Profit from Financial Year 2007:

To use the profit obtained by Telefónica, S.A. in Financial Year 2007, adding up to 6,619,861,136.05 as follows:

- 1,651,746,290.95 to pay an interim dividend (fixed sum of 0.35 gross per share for the total of 4,773,496,485 shares comprising the Company s share capital, with the right to receive it. The said dividend was fully paid out on November 14th 2007).

A maximum of 1,909,398,594.00 to pay a final dividend (maximum amount to be distributed equal to 0.40 gross per share for the total of 4,773,496,485 shares comprising the Company s share capital).

The remaining profit (a minimum of 3,058,716,251.10) to the Voluntary Reserve.

The payment of the final dividend shall be made on May 13th, 2008 through the Entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (IBERCLEAR), the Spanish securities registrar, clearing and Settlement Company.

The gross amounts paid shall be subject, where appropriate, to the withholdings required by the applicable legislation from time to time.

Telefónica, S.A.

Proposal regarding Item II on the Agenda: Re-election, ratification and appointment, if appropriate, of Directors:

II.1 To re-elect as an external Director Mr. Fernando de Almansa Moreno-Barreda, appointing him for a new period of five years.

II.2 To ratify the interim appointment as a Director of the Company, as previously approved by the Board of Directors, of Mr. José María Abril Pérez, appointing him as a proprietary Director for a period of five years, pursuant to the provisions of Law and the By-Laws.

Mr. José María Abril Pérez was appointed as a Director on an interim basis by resolution of the Board of Directors on July 25th, 2007 to fill the vacancy produced by the resignation of Mr. Gregorio Villalabeitia Galarraga.

II.3 To ratify the interim appointment as a Director of the Company, as previously approved by the Board of Directors, of Mr. Francisco Javier de Paz Mancho, appointing him as an independent Director for a period of five years, pursuant to the provisions of Law and the By-Laws.

Mr. Francisco Javier de Paz Mancho was appointed as a Director on an interim basis by resolution of the Board of Directors on December 19th, 2007 to fill the vacancy produced by the resignation of Mr. Enrique Used Aznar.

II.4 To ratify the interim appointment as a Director of the Company, as previously approved by the Board of Directors, of Ms. María Eva Castillo Sanz, appointing her as an independent Director for a period of five years, pursuant to the provisions of Law and the By-Laws.

Ms. María Eva Castillo Sanz was appointed as a Director on an interim basis by resolution of the Board of Directors on January 23rd, 2008 to fill the vacancy produced by the resignation of Mr. Antonio Viana-Baptista.

II.5 To ratify the interim appointment as a Director of the Company, as previously approved by the Board of Directors, of Mr. Luiz Fernando Furlán, appointing him as an independent Director for a period of five years, pursuant to the provisions of Law and the By-Laws.

Mr. Luiz Fernando Furlán was appointed as a Director on an interim basis by resolution of the Board of Directors on January 23rd, 2008 to fill the vacancy produced by the resignation of Mr. Maximino Carpio García, previously filled by Mr. Manuel Pizarro Moreno, whom resigned on January 23rd 2008.

Furthermore, the ratification of any interim appointments of Directors that may have been approved by the Board of Directors since the call to the General Shareholders Meeting and the meeting event will be proposed, if applicable.

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Telefónica, S.A.

Proposal regarding Item III on the Agenda: Authorization to acquire the Company s own shares, either directly or through Group Companies.

A) To authorize, pursuant to the provisions of Sections 75 et. seq. and the first additional provision, paragraph 2, of the current Spanish Companies Act [*Ley de Sociedades Anónimas*], the derivative acquisition, at any time and as many times as deemed appropriate, of Telefónica, S.A. s own fully paid-in shares -either directly or through any subsidiaries it controls- by purchase or by any other legal means of consideration.

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

Such authorization is granted for a period of 18 months from the date of this Meeting and is made expressly subject to the limitation that at no time may the nominal value of the Company s shares acquired through the use of this authorization, added to those already possessed by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5 percent of the share capital thereof at the time of acquisition, and the limitations established by the regulatory authorities in the markets where shares of Telefónica, S.A. are admitted for listing must also be respected.

It is expressly stated for the record that the authorization to acquire the Company s own shares may be used in whole or in part for the acquisition of shares of Telefónica, S.A. that it must deliver or transfer to administrators or employees of the Company or companies within its Group, either directly or as a result of the exercise by them of options, all within the framework of duly approved compensation systems linked to the listing price of the Company s shares.

B) To authorize the Board of Directors, upon the broadest terms possible, to exercise the authorization covered by this resolution and to carry out the other provisions hereof, and 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 that the Board of Directors expressly authorizes for such purpose.

C) To rescind the unutilized portion of the authorization granted under item III of the Agenda of the Company s General Shareholders Meeting of May 10th, 2007.

Telefónica, S.A.

Proposal regarding Item IV on the Agenda: Reduction of the share capital through the cancellation of shares of treasury stock, excluding creditors right to object, and amendment of the article of the By-Laws relating to the share capital.

A) To reduce the share capital of the Company by the amount of 68,500,000 euros, by means of the cancellation of 68,500,000 shares of the Company s treasury stock, which were previously acquired in reliance on the authorization previously granted by the shareholders at the General Shareholders Meeting, within the limits established in Sections 75 et seq. and in additional provision 1, paragraph 2, of the Spanish Companies Act. Accordingly, Article 5 of the By-Laws regarding the amount of the share capital is hereby amended and shall henceforth read as follows:

Article 5.- Share capital

1. *The share capital is 4,704,996,485 euros, divided into 4,704,996,485 common shares of a single series, with a par value of one euro each, fully paid in.*
2. *The shareholders at the General Shareholders Meeting may, complying with the requirements and within the limits legally established for such purpose, delegate to the Board of Directors the power to increase the share capital.*

The reduction of the share capital is made with a charge to discretionary reserves, cancelling the corresponding amount of the restricted reserve mentioned in Section 79.3 of the Spanish Companies Act, and funding a reserve due to capital reduction in the amount of 68,500,000 euros (an amount equal to the par value of the cancelled shares) which may only be used complying with the same requirements as those established for the reduction of the share capital, pursuant to the provisions of item 3 of Section 167 of the Spanish Companies Act. Accordingly, as provided therein, the creditors of the Company shall not have the right to object mentioned in Section 166 of the Spanish Companies Act in connection with the capital reduction resolved to be made.

The reduction does not involve a return of contributions, since the Company itself is the owner of the cancelled shares. The purpose of the reduction will thus be to cancel the shares of treasury stock.

It is stated for the record, in order to comply with the provisions of Section 289.1 of the Spanish Companies Act, that the consent of the Bondholders Syndicates *[Sindicatos de Obligacionistas]* for the outstanding issues of debentures and bonds is not required since the capital reduction resolved to be made does not reduce the original ratio between the sum of capital plus reserves and the amount of the debentures pending repayment.

B) To authorize the Board of Directors, within one year from the date of adoption of this resolution, to determine the other matters that have not been expressly established in this resolution or that are a result hereof, and to adopt the resolutions, take the actions and execute the public or private documents that may be necessary or appropriate for the full implementation of this resolution including, without limitation, the publication of the legally required notices, the making of the appropriate applications and the giving of the appropriate notices required to delist the cancelled shares; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer, or to any other person expressly authorized by the Board of Directors for such purpose.

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Telefónica, S.A.

Proposal regarding Item V on the Agenda: Appointment of the Auditors of the Company for the Fiscal Year 2008.

According to the proposal made by the Audit and Control Committee, the Board of Directors submits the following resolution to the approval of the General Shareholders Meeting

Appoint Ernst & Young, S.L. as Auditor for the accounts of Telefónica, S.A. and its Consolidated Group of Companies for the Fiscal Year 2008. Ernst & Young, S.L. is registered in Madrid, at Plaza Pablo Ruiz Picasso, 1, and its tax code is B-8970506.

Telefónica, S.A.

Proposal regarding Item VI on the Agenda: Delegation of powers to formalize, interpret, cure and carry out the resolutions adopted by the Shareholders at the General Shareholders Meeting.

To jointly and severally authorize the Executive Chairman, the Chief Operating Officer, the Secretary and the Deputy Secretary of the Board of Directors, such that, without prejudice to any other delegations included in this foregoing resolutions and any powers-of-attorney to convert existing resolutions into public instruments, any of them may formalize and execute the foregoing resolutions, with the power for such purpose to execute the public or private documents that are necessary or appropriate (including those of interpretation, clarification, correction of errors and the curing of defects) for the most correct performance thereof and for the registration thereof, to the extent required, with the Commercial Registry [*Registro Mercantil*] or any other Public Registry.

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Telefónica, S.A

REPORT OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. REGARDING THE PROPOSED REDUCTION OF THE SHARE CAPITAL THROUGH THE CANCELLATION OF SHARES OF TREASURY STOCK, EXCLUDING CREDITORS RIGHT TO OBJECT, AND AMENDMENT OF THE ARTICLE OF THE BY-LAWS RELATING TO THE SHARE CAPITAL, WHICH IS TO BE SUBMITTED TO THE SHAREHOLDERS FOR APPROVAL AT THE ORDINARY GENERAL SHAREHOLDERS MEETING (ITEM IV ON THE AGENDA).

1. PURPOSE OF THE REPORT

Item IV of the Agenda for the Ordinary General Shareholders Meeting of Telefónica, S.A., called for April 21 and 22, 2008, includes a proposal which is submitted to the shareholders for approval at the General Shareholders Meeting regarding a reduction of the share capital by an amount equal to the par value of certain shares of the Company treasury stock that are to be cancelled, and the amendment of the article of the By-Laws relating to the share capital.

In order for the Board to be able to submit the above-mentioned proposal for the reduction in share capital and the amendment of the By-Laws for approval at the General Shareholders Meeting, it is mandatory, pursuant to the provisions of Section 164.1 and Section 144.1.a) of the applicable Spanish Companies Act *[Ley de Sociedades Anónimas]*, that the Board of Directors prepare a report providing the rationale for the proposal, inasmuch as the approval of such proposal and the implementation thereof necessarily entail an amendment of Article 5 of the By-Laws regarding the amount of share capital and the number of shares into which it is divided.

2. RATIONALE FOR THE PROPOSAL

Within the framework of the shareholder compensation policy established by the Company, the Board of Directors believes it advisable to reduce the share capital by an amount equal to the par value of certain shares held as treasury stock, through the cancellation of such shares, in order to increase earnings per share, which will thus benefit the shareholders.

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Telefónica, S.A

If the resolution providing for the reduction of the share capital contemplated in this report is adopted, Article 5 of the By-Laws of the Company would be amended to set forth the new amount of the share capital and the new number of outstanding shares into which such amount is divided (after deducting the shares of treasury stock acquired by the Company and whose cancellation is proposed).

In order to expedite the implementation of this resolution, it is further proposed that the shareholders at the General Shareholders Meeting authorize the Board of Directors to implement such resolution (with the power to delegate, in turn, to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or to any other person expressly authorized by the Board of Directors for such purpose) within a time limit of one year from the date of adoption of such resolution, without needing to first consult with the shareholders at a General Shareholders Meeting

In addition, it is deemed appropriate, in order to provide for greater ease of implementation and as permitted by Section 167.3 of the Consolidated Text of the Spanish Companies Act, not to apply the right of creditors to object provided for in Section 166 of such Consolidated Text, and to allocate the amount of the par value of the cancelled shares to a reserve for repurchases of share capital, which may only be used complying with the same requirements as those established for a reduction in the share capital.

Based on these premises, it is proposed to the shareholders at the General Shareholders Meeting to reduce the share capital by the amount of 68,500,000 euros by cancelling 68,500,000 shares of the Company s treasury stock (representing approximately 1.435% of the current share capital of the Company) and to authorize the Board of Directors to implement such resolution within a period of one year.

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Telefónica, S.A

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

The resolutions that the Board of Directors proposes to the shareholders for approval at the Ordinary General Shareholders Meeting in connection with this matter are the following:

A) To reduce the share capital of the Company by the amount of 68,500,000 euros, by means of the cancellation of 68,500,000 shares of the Company s treasury stock, which were previously acquired in reliance on the authorization previously granted by the shareholders at the General Shareholders Meeting, within the limits established in Sections 75 et. seq. and in additional provision 1, paragraph 2, of the Spanish Companies Act. Accordingly, Article 5 of the By-Laws regarding the amount of the share capital is hereby amended and shall henceforth read as follows:

Article 5.- Share capital

1. *The share capital is 4,704,996,485 euros, divided into 4,704,996,485 common shares of a single series, with a par value of one euro each, fully paid in.*
2. *The shareholders at the General Shareholders Meeting may, complying with the requirements and within the limits legally established for such purpose, delegate to the Board of Directors the power to increase the share capital.*

The reduction of the share capital is made with a charge to discretionary reserves, cancelling the corresponding amount of the restricted reserve mentioned in Section 79.3 of the Spanish Companies Act, and funding a reserve due to capital reduction in the amount of 68,500,000 euros (an amount equal to the par value of the cancelled shares) which may only be used complying with the same requirements as those established for the reduction of the share capital, pursuant to the provisions of item 3 of Section 167 of the Spanish Companies Act. Accordingly, as provided therein, the creditors of the Company shall not have the right to object mentioned in Section 166 of the Spanish Companies Act in connection with the capital reduction resolved to be made.

Telefónica, S.A

The reduction does not involve a return of contributions, since the Company itself is the owner of the cancelled shares. The purpose of the reduction will thus be to cancel the shares of treasury stock.

It is stated for the record, in order to comply with the provisions of Section 289.1 of the Spanish Companies Act, that the consent of the Bondholders Syndicates [Sindicatos de Obligacionistas] for the outstanding issues of debentures and bonds is not required since the capital reduction resolved to be made does not reduce the original ratio between the sum of capital plus reserves and the amount of the debentures pending repayment.

B) To authorize the Board of Directors, within one year from the date of adoption of this resolution, to determine the other matters that have not been expressly established in this resolution or that are a result hereof, and to adopt the resolutions, take the actions and execute the public or private documents that may be necessary or appropriate for the full implementation of this resolution including, without limitation, the publication of the legally required notices, the making of the appropriate applications and the giving of the appropriate notices required to delist the cancelled shares; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or to any other person expressly authorized by the Board of Directors for such purpose.

Madrid, February 27, 2008

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AUDIT REPORT

* * * *

TELEFÓNICA, S.A.

Financial Statements and Management Report
for the year ended
December 31, 2007

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Translation of a report and financial statements originally issued in Spanish. In the event of a discrepancy the Spanish-language version prevails (See Note 20)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

1. We have audited the financial statements of Telefónica, S.A., which consist of the balance sheet as of December 31, 2007, the profit and loss account and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company s Directors. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with generally accepted auditing standards in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. In compliance with Spanish mercantile law, for comparative purposes, the Company s Directors have included for each of the captions presented in the balance sheet, the profit and loss account and the statement of source and application of funds, in addition to the figures of 2007, those of 2006. Our opinion refers only to the financial statements for 2007. On March 1, 2007 we issued our audit report on the 2006 financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying 2007 financial statements give a true and fair view, in all material respects, of the net equity and financial position of Telefónica, S.A. at December 31, 2007 and of the results of its operations and of the source and application of funds for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with generally accepted accounting principles and criteria in Spain, applied on a basis consistent with those of the preceding year.

4. The accompanying management report for the year ended December 31, 2007 contains such explanations as the Directors consider appropriate concerning the situation of Telefónica, S.A., the evolution of its business and other matters, and is not an integral part of the financial statements. We have checked that the accounting information included in the report mentioned above agrees with the financial statements for the year ended December 31, 2007. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company s accounting records.

ERNST & YOUNG, S.L.
/s/ José Luis Perelli Alonso
José Luis Perelli Alonso
February 28, 2008

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TELEFÓNICA, S.A.
ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR 2007

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TELEFÓNICA, S.A.
BALANCE SHEET AT DECEMBER 31

ASSETS (millions of euros)	2007	2006
A) NON-CURRENT ASSETS	**71,348**	**74,333**
I. Intangible assets (Note 5)	**97**	**76**
Computer software	188	177
Intellectual property	28	26
Other intangible assets	103	64
Accumulated amortization and provisions	(222)	(191)
II. Property, plant and equipment (Note 6)	**765**	**742**
Land and buildings	595	520
Plant and machinery	200	126
Furniture, tools and other items	36	22
Other items of property, plant and equipment	58	42
Property, plant and equipment under construction	22	144
Accumulated depreciation and provisions	(146)	(112)
III. Long-term investments (Note 7)	**70,486**	**73,515**
Investments in Group companies	69,274	61,375
Investments in associated companies	3,025	870
Other investments	752	614
Loans to Group and associated companies	10,281	12,501
Other loans	49	178
Long-term deposits and guarantees given	365	349
Tax receivables (Note 14.2)	2,116	3,166
Provisions	(15,376)	(5,538)
B) DEFERRED CHARGES (Note 8)	**288**	**367**
C) CURRENT ASSETS	**11,514**	**7,748**
I. Accounts receivable	**584**	**314**
Trade receivables	22	19
Receivable from Group companies	212	222
Receivable from associated companies	14	7
Other accounts receivable	31	12
Employee receivables		1
Tax receivables (Note 14.2)	327	63
Provision for bad debts	(22)	(10)
II. Short-term investments	8,758	**6,154**
Loans to Group and associated companies (Note 7.6)	8,216	5,915
Short-term investment securities (Note 7.9)	542	239
III. Short-term treasury stock (Note 9)	**232**	**261**
IV. Cash	**1,913**	**981**
V. Prepayments and accrued income	**27**	**38**
TOTAL ASSETS	**83,150**	**82,448**

The accompanying Notes 1 to 20 and Appendix I are an integral part of the balance sheet.

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TELEFÓNICA, S.A.
BALANCE SHEET AT DECEMBER 31

LIABILITIES (millions of euros)	2007	2006
A) SHAREHOLDERS EQUITY (Note 9)	**18,253**	**16,956**
I. Share capital	**4,773**	**4,921**
II. Share premium	**521**	**2,589**
III. Revaluation reserves	**191**	**1,369**
IV. Reserves	**7,800**	**1,251**
Legal reserve	984	**984**
Reserve for treasury stock	232	**261**
Other reserves	6,584	**6**
V. Profit for the year	**6,620**	**8,284**
VI. Interim dividend paid in the year	**(1,652)**	**(1,458)**
B) PROVISIONS FOR LIABILITIES AND CHARGES (Notes 7 and 16)	**1,969**	**1,568**
C) LONG-TERM LIABILITIES	**42,276**	**49,264**
I. Debentures, bonds and other marketable debt securities (Note 10)	**1,097**	**1,827**
Non-convertible debentures and bonds	916	1,332
Other marketable debt securities	181	495
II. Payable to credit institutions (Note 11)	**8,435**	**10,755**
III. Payable to Group and associated companies (Note 12)	**32,372**	**36,318**
IV. Other payables	**8**	**7**
V. Taxes payable (Note 14.2)	**364**	**212**
VI. Unpaid portion of investments in Group and associated companies (Note 7.1.b)		**145**
D) CURRENT LIABILITIES	**20,652**	**14,660**
I. Debentures, bonds and other marketable debt securities (Note 10)	**1,691**	**2,098**
Non-convertible debentures and bonds	421	500
Other marketable debt securities	1,237	1,541
Interest on debentures and other securities	33	57
II. Payable to credit institutions	**671**	**329**
Loans and other accounts payable (Note 11)	607	245
Accrued interest payable	64	84
III. Payable to Group and associated companies (Note 12)	**18,008**	**11,916**
IV. Trade accounts payable	**95**	**132**
V. Other non-trade payables	**187**	**185**
Taxes payable (Note 14.2)	27	27
Other non-trade payables (Note 15)	160	158
TOTAL LIABILITIES	**83,150**	**82,448**

The accompanying Notes 1 to 20 and Appendix I are an integral part of the balance sheet.

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

DEBIT (millions of euros)	2007	2006
A) EXPENSES		
Personnel expenses (Note 16.2)	**156**	**197**
Depreciation and amortization expense	**65**	**51**
Property, plant and equipment (Note 6)	34	21
Intangible assets (Note 5)	31	30
Other operating expenses	**366**	**385**
External services provided by Group companies (Note 16.8)	69	80
External services	275	291
Taxes other than income tax	17	14
Other operating expenses	5	
I. OPERATING PROFIT		
Financial and similar expenses		
From liabilities with Group companies (Notes 16.4 and 16.8)	2,585	2,149
From other liabilities and similar expenses (Note 16.4)	541	574
Change in provisions for writedown of short-term investments		(11)
Amortization of deferred charges	69	63
Exchange losses (Note 16.5)	1,193	1,031
II. FINANCIAL PROFIT	**14,083**	**5,195**
III. INCOME FROM ORDINARY ACTIVITIES	**13,724**	**4,706**
Changes in provisions for securities investments (Note 7.3)	9,875	(231)
Extraordinary expenses and losses (Note 16.7)	480	8
IV. EXTRAORDINARY INCOME		**2,295**
V. PROFIT BEFORE TAXES	**5,178**	**7,001**
Corporate income tax in Spain (Note 14)	(1,475)	(1,293)
Foreign taxes (Note 14)	33	10
VI. PROFIT FOR THE YEAR	**6,620**	**8,284**

The accompanying Notes 1 to 20 and Appendix I are an integral part of the income statement.

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

CREDIT (millions of euros)		2007	2006
B) REVENUES			
Net sales to Group companies (Note 16.1)		**90**	**28**
Other operating revenues		**138**	**116**
Non-core and other current operating revenues	Group companies (Note 16.1)	118	**98**
Non-core and other current operating revenues	Non-Group companies	20	**18**
I. OPERATING LOSS		**359**	**489**
Revenue from equity investments		**15,335**	**6,835**
Group companies (Note 16.8)		15,099	6,678
Associated companies		211	50
Non-Group companies		25	107
Revenues from other securities and loans (Note 16.4)		**1,165**	**1,131**
Group companies (Note 16.8)		1,002	1,033
Other companies		163	98
Exchange gains (Note 16.5)		**1,971**	**1,035**
II. FINANCIAL LOSS			
III. LOSSES ON ORDINARY ACTIVITIES			
Gains on disposal of fixed assets (Note 16.6)		1,785	1,872
Extraordinary revenues (Note 16.6)		24	200
IV. EXTRAORDINARY LOSS		**8,546**	
V. LOSSES BEFORE TAXES			
VI. LOSS FOR THE YEAR			

The accompanying Notes 1 to 20 and Appendix I are an integral part of the income statement.

TELEFÓNICA, S.A.
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. (Telefónica or the Company) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company s registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica s basic corporate purpose, pursuant to Article 4 of its bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or supplementary 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.

Merger of Telefónica, S.A. and Telefónica Móviles, S.A.

At their respective meetings held on March 29, 2006, the Boards of Directors of Telefónica, S.A. and Telefónica Móviles, S.A. approved a merger agreement, whereby Telefónica, S.A. would take over Telefónica Móviles, S.A., resulting in the dissolution without liquidation of Telefónica Móviles, S.A. and the block transfer of all its equity.

The merger agreement was approved at the General Shareholders Meetings of Telefónica Móviles S.A. and Telefónica, S.A. held on June 20 and June 21, 2006, respectively.

Pursuant to the agreement, Telefónica transferred shares from treasury stock to Telefónica Móviles shareholders at the exchange ratio established in the merger agreement of 4 Telefónica shares, par value of 1 euro, for every 5 Telefónica Móviles shares, par value of 0.50 euros. No additional cash payment was involved and no new shares were issued. Prior to the exchange, Telefónica Móviles, S.A. paid a dividend of 0.435 euros per share. This, coupled with the 0.205 euros per share dividend charged to 2005 profit, led to a total dividend of 0.64 euros per share, which was paid on July 21, 2006.

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July 28, 2006 was the last trading day for Telefónica Móviles, S.A. shares, which were cancelled as a result of the merger. The merger was registered in the Madrid Mercantile Register on July 29, 2006, effective for accounting purposes from January 1, 2006.

The economic effects of the merger are dated from January 1, 2006. The main effects of this transaction are detailed in the accompanying notes to the annual financial statements. In addition, the main financial statements also include the amounts of the merger transaction in different columns.

(2) BASIS OF PRESENTATION

True and fair view

The accompanying annual financial statements were prepared from Telefónica, S.A. s accounting records by the Company s directors in accordance with the accounting principles and standards contained in the Commercial Code, as implemented by the Spanish Chart of Accounts in force at that date of these financial statements, and accordingly, give a true and fair view of the Company s equity, financial situation, results of operations and of the funds obtained and applied in 2007.

These annual financial statements will be submitted for approval by shares in the General Meeting, and it is expected that they will be approved with any changes. The annual financial statements for 2006 were approved at the General Shareholders Meeting held on May 10, 2006.

Comparative information

There were no changes in the structure of the balance sheet or income statement with respect to the previous year. In addition, no material changes were made to accounting criteria with respect to 2006.

No additional significant events have taken place that prevent comparison of the figures for 2007 with those of 2006.

The figures in these annual financial statements and management report are expressed in millions of euros unless otherwise indicated.

New General Chart of Accounts

On November 20, 2007, Royal Decree 1514/2007 was published approving the new General Chart of Accounts (GCA). The new GCA went into effect on January 1, 2008 and its application is mandatory as of that date.

The Company is preparing a transition plan for adapting to the new accounting regulations, which includes, among other matters, analyzing the various differences in accounting criteria and principles, determining the date of the opening balance sheet, selecting the principles and criteria to be applied during the transition, and evaluating the necessary changes in procedures and information systems. The final accounting effects will be disclosed in the 2008 annual accounts.

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(3) PROPOSED APPROPRIATION OF PROFIT

Telefónica, S.A. obtained 6,620 million euros of profit in 2007.

At its meeting of September 26, 2007, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2007 profit of 0.35 euros per outstanding share carrying dividend rights. This dividend was paid on November 14, 2007, and the total amount paid was 1,652 million euros.

In addition, at its meeting of February 27, 2008, the Company s Board of Directors agreed to submit for approval at the Shareholders Meeting the distribution of a final dividend charged to 2007 profit of a fixed amount of 0.40 euros per outstanding share carrying dividend rights, up to a maximum total amount of 1,909 million euros.

Accordingly, the Company s Board of Directors will submit the following proposed appropriation of 2007 profit for approval at the General Shareholders Meeting:

		Millions of euros
Total distributable profit		6,620
Interim dividend (paid in November 2007)		1,652
Final dividend (maximum distributable amount of 0.40 euros per share for all shares into which the Company s share capital is divided: 4,773,496,485 shares)		1,909
Voluntary reserves	(minimum)	3,059
Total		**6,620**

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(4) VALUATION CRITERIA

The main valuation criteria used in preparing the 2007 annual accounts were as follows:

a) *Intangible assets*

This heading includes mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over 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 a period of three to 10 years, depending on the estimated useful life of the patent or trademark.

3. The goodwill arising from the 2005 merger of Telefónica, S.A. and Terra Networks, S.A. This goodwill is amortized on a straight-line basis. It is estimated to have a useful life of 10 years and is included in Other intangible assets.

b) *Property, plant and equipment*

Property, plant and equipment are stated at cost.

Expenses incurred for expansion, remodeling or improvements which increase the productivity, capacity, or prolong the useful life of the asset are capitalized as an increase in the cost of the assets.

The interest and other financial expenses incurred during the construction of property, plant and equipment are also capitalized.

Repairs and maintenance expenses are charged to the income statement of the year incurred.

Property, plant and equipment are depreciated by the straight-line method at annual rates based on the following estimated useful lives:

	Years of estimated useful life
Buildings	40
Plant and machinery	3-25
Furniture, tools and other items	10
Other items of property, plant and equipment	4-10

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c) Long-term investments

Investments in marketable securities are recorded as follows:

1. Listed securities (excluding shares in Group or associated companies).

   At the lower of cost or market value. Market value is taken to be the lower of the average official listing for the fourth quarter or the listed value at year end.

2. Investments in Group and associated companies.

   At the lower of acquisition cost or underlying book value of the holdings, adjusted by existing capital gains upon acquisition which prevail at a subsequent valuation date.

3. Other unlisted securities.

   At cost, net of the writedown provisions required to reduce them to their underlying book value, adjusted for the amount of the existing capital gains upon acquisition which prevail at the subsequent valuation date.

Unrealized losses (i.e. where cost is higher than market value) are recorded under Provisions (see Note 7.3). However, an additional provision is recorded with a debit (or credit in the case of reversal) to Extraordinary income (or Extraordinary losses) to cover possible third-party liabilities arising from the negative net equity of investees. This provision is included in Provisions for liabilities and charges (see Notes 16.6 and 16.7).

Dividends are recorded as income as soon as their distribution is approved, and gains or losses on the disposal of holdings are recorded as income or expenses in the year in which they are realized.

As required under prevailing legislation, the Company has prepared separate consolidated annual accounts, drawn up in accordance with International Financial Reporting Standards (IFRS). The balances of the main headings of the Telefónica Group consolidated financial statements for 2007 are as follows:

Heading	**Millions of euros**
Total assets	105,873
Equity	
Attributable to equity holders of the parent	20,125
Attributable to minority interests	2,730
Revenue	56,441
Profit (loss) for the year	
Attributable to equity holders of the parent	8,906
Attributable to minority interests	213

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d) Deferred charges

This heading basically includes the following items:

1. Interest on long-term promissory notes.

   This relates to the difference between the face value and the effective value of the promissory notes issued maturing over more than one year. This interest is charged to profit or loss based on financial criteria.

2. Debt issuance expenses.

   These relate to long-term debt issuance expenses and premiums on debentures and bonds, which are amortized by the interest method on the basis of the principal amounts outstanding.

3. Prepayments.

   These relate to payments made on the purchase of services not yet received at the balance sheet date.

e) Treasury stock

Treasury stock is valued at the lower of average cost, comprising the total amount paid for the shares, or market value. When these shares are acquired without any prior resolution having been adopted at the Shareholders Meeting to use them to reduce share capital, it is considered that they can be used for subsequent sale or, alternatively, for a capital reduction. Accordingly, the market value is taken to be the lower of the average official market price or the related underlying book value. The allocated provision is recorded against the income statement for the difference between acquisition cost and the lower of the year-end market price or the average market price in the last quarter, and against reserves for the difference between this amount and the related underlying book value.

f) Foreign currency transactions

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the prevailing exchange rates at the transaction date, and are adjusted to the year-end exchange rates.

Exchange differences are classified by currency and due date, and for this purpose all currencies that, although different, are officially convertible are grouped together.

Any positive net differences in each group of currencies are recorded under Deferred income on the liability side of the balance sheet, unless exchange losses for the Group have been charged to profit and loss in prior years, in which case the positive net differences are credited to income up to the limit of the negative net differences charged to income in prior years.

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Deferred exchange gains are taken to income of the year in which they materialize, the corresponding credit/debit balances are cancelled in advance or as equal or higher exchange losses for each standard currency group are recognized.

g) Pensions and other commitments to employees

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 income as incurred.

h) Accounts payables

Accounts payable are recorded at repayment value, except in the case of zero-coupon debenture and bond issues, which are recorded in the balance sheet at issuance value plus the related accrued interest (see Note 10.3).

i) Derivatives

Transactions made to eliminate or significantly reduce exchange rate, interest and market risks on asset and liability positions or other transactions are considered hedges. The gains or losses arising during the life of these derivatives are taken to income using the same timing of recognition method as that used to recognize the gains or losses on the underlying hedged item or transaction.

Transactions that are not assigned to cover specific risks are not treated as hedging transactions. In transactions of this kind, which can arise because of hedges of risks at other Group companies and are not originally designated as hedges, the differences in market price are recorded when the transactions are cancelled or finally settled. However, if potential losses are anticipated at year end, the related provision is recorded, with a charge to the income statement.

j) Corporate income tax

The corporate income tax expense for each year is calculated on the basis of book profit before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income. Allowances and deductions from gross tax payable, net of withholdings and prepayments on account, are deducted from the corporate income tax charge in the year in which they are taken. The difference between the accrued expense and the tax paid is due to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities (see Note 14).

k) Recognition of revenues and expenses

Revenues and expenses are recorded according to the accruals principle, that is, at the moment the goods or services represented by them take place, regardless of when actual payment or collection occurs.

In keeping with the principle of prudence, realized income is only recorded at the balance sheet date, while foreseeable risks and potential losses are recorded when known (see Note 16).

l) Provision for liabilities and charges

The Company records provisions for contingencies and expenses based on its best estimate in order to cover quantifiable probable or certain third-party liabilities arising from litigation in progress, indemnity payments and obligations or from expenses of undetermined amount, and collateral and other similar guarantees provided by the Company.

(5) INTANGIBLE ASSETS

The breakdown and movement in intangible asset accounts and the related accumulated amortization in 2007 and 2006 is as follows:

	Millions of euros				
	Balance at 12/31/06	**Additions**	**Disposals**	**Transfers**	**Balance at 12/31/07**
Cost:					
Computer software	177	6	(8)	13	188
Intellectual property	26	1		1	28
Other intangible assets	64	13		26	103
Intangible assets, gross	**267**	**20**	**(8)**	40	**319**
Accumulated amortization:					
Computer software	152	16			168
Intellectual property	23	1			24
Other intangible assets	14	14			28
Total accumulated amortization	**189**	**31**			**220**
Provisions	**2**				**2**
Intangible assets, net	**76**	**(11)**	**(8)**	**40**	**97**

	Millions of euros					
	Balance at 12/31/05	**Merger with Telefónica Móviles**	**Additions**	**Disposals**	**Transfers**	**Balance at 12/31/06**
Cost:						
Computer software	153	6	(8)			177
Intellectual property	20	5				26
Other intangible assets	62					64
Intangible assets, gross	**235**	**11**	**(8)**			**267**
Accumulated amortization:						
Computer software	124	6				152
Intellectual property	17	5				23
Other intangible assets	7					14
Total accumulated amortization	**148**	**11**				**189**
Provisions	**2**					**2**
Intangible assets, net	**85**		**(8)**			**76**

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6) PROPERTY, PLANT AND EQUIPMENT

The breakdown and movement in this heading and related accumulated depreciation in 2007 and 2006 is the following:

	Millions of euros				
	Balance at 12/31/06	Additions	Disposals	Transfers	Balance at 12/31/07
Cost:					
Land and buildings	520	22	(1)	54	595
Plant and machinery	126	44		30	200
Furniture, tools and other items	22	14			36
Other items of property, plant and equipment	42	12		4	58
Property, plant and equipment under construction	144	6		(128)	22
Property, plant and equipment, gross	**854**	**98**	**(1)**	**(40)**	**911**
Accumulated depreciation:					
Buildings	62	12			74
Plant and machinery	19	17			36
Furniture, tools and other items	5	4			9
Other items of property, plant and equipment	22	1			23
Total accumulated depreciation	**108**	**34**			**142**
Provision	**4**				**4**
Property, plant and equipment, net	**742**	**64**	**(1)**	**(40)**	**765**

	Millions of euros					
	Balance at 12/31/05	Merger with Telefónica Móviles	Additions	Disposals	Transfers	Balance at 12/31/06
Cost:						
Land and buildings	214		54		252	520
Plant and machinery	6	5	69		46	126
Furniture, tools and other items	4	3	7		8	22
Other items of property, plant and equipment	29	5	2		6	42
	356		100		(312)	144

Property, plant and equipment under construction				
Property, plant and equipment, gross	**609**	**13**	**232**	**854**
Accumulated depreciation:				
Buildings	54		8	62
Plant and machinery	5	4	10	19
Furniture, tools and other items	2	2	1	5
Other items of property, plant and equipment	15	5	2	22
Total accumulated depreciation	**76**	**11**	**21**	**108**
Provision	**4**			**4**
Property, plant and equipment, net	**529**	**2**	**211**	**742**

Additions in 2007 and 2006 mostly relate to costs associated with the construction of the new Telefónica Group central offices (named District C) in a business park development in Las Tablas (Madrid). Land and buildings includes 86 million euros related to the value of the land.

Transfers from property, plant and equipment under construction to other asset accounts relate to the start-up of the various phases of District C, which were fully operational at year end.

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Firm commitments to acquire property, plant and equipment at December 31, 2007 amounted to 7 million euros.

Capitalized interest and other financial expenses incurred in the construction of property, plant and equipment in 2007 amounted to 1 million euros (4 million euros in 2006).

The Company has buildings with a total area of 550,413m^2 leased to other Telefónica Group companies. This is equivalent to an occupancy rate of 94% of total property available for lease. Revenue from property leases amounted to 31 million euros in 2007 (see Note 16.1), compared to 9 million euros in 2006.

In 2006, the Company recorded a gain of 7 million euros on the disposal of property, plant and equipment (see Note 16.6).

At December 31, 2007, the Company had 24 million euros of fully depreciated property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

(7) INVESTMENTS

7.1 The breakdown and movement in Long-term investments is the following:

	Millions of euros				
	Balance at 12/31/06	**Increases**	**Decreases**	**Transfers and other**	**Balance at 12/31/07**
Investments in Group companies	61,375	9,005	(1,094)	(12)	69,274
Investments in associated companies	870	2,315	(160)		3,025
Other investments	614	138			752
Loans to Group and associated companies	12,501	33	(755)	(1,498)	10,281
Other loans	178	3	(15)	(117)	49
Deposits and guarantees	349	28	(12)		365
Tax receivables (Note 14.2)	3,166	1,691	(2,458)	(283)	2,116
Total	**79,053**	**13,213**	**(4,494)**	**(1,910)**	**85,862**

	Millions of euros					
	Balance at 12/31/05	**Merger Telefónica Móviles, S.A.**	**Increases**	**Decreases**	**Transfers and other**	**Balance at 12/31/06**
Investments in Group companies	23,128	9,043	27,939	(5)	1,270	61,375
Investments in associated companies	1,098	5	1	(202)	(32)	870
Other investments	1,848				(1,234)	614
	14,004	686	76	(378)	(1,887)	12,501

Loans to Group and associated companies						
Other loans	1	123	54			178
Deposits and guarantees	6	338	5			349
Tax receivables (Note 14.2)	3,256	467	1,725	(2,155)	(127)	3,166
Total	**43,341**	**10,662**	**29,800**	**(2,740)**	**(2,010)**	**79,053**

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Investments sold and acquired by Telefónica are as follows:

a) Acquisitions of equity investments and capital increases:

2007

Company	**Millions of euros**
Subsidiaries:	
O2 Europe Ltd	8,520
Telefónica International Wholesale Services America, S.A	407
Atento, N.V.	70
Telefónica Ingeniería de Seguridad, S.A.	6
Others	2
Total subsidiaries:	**9,005**
Associated companies:	
Telco, S.p.A.	2,314
Others	1
Total associated companies:	**2,315**
Other investments	
PT Multimedia, S.G.P.S., S.A.	136
Others	2
Total other investments	**138**

On December 20, 2007, Telefónica O2 Europe Plc (formerly O2 Plc) paid Telefónica, S.A. a dividend in kind entailing the transfer of 100% of the shares it held of O2 Europe Ltd. O2 Europe Ltd is the parent to a group of Telefónica companies in Germany. The valuation of the dividend at the transfer date was 8,500 million euros (see Note 16.8). In addition, on December 27, 2007, O2 Europe Ltd increased capital by 20 million euros via the issuance of 100 new shares.

On July 2, 2007, approval was given at the Extraordinary General Shareholders Meeting of Telefónica International Wholesale Services America, S.A. to convert into equity the participating facility between this company at Telefónica, S.A., dated July 31, 2003, whose capital plus accrued interest amounted to 549 million US dollars (407 million euros). After this transaction, Telefónica, S.A. owned 80.56% of the share capital of Telefónica International Wholesale Services America, S.A.

On April 23, 2007, General de Participaciones Empresariales, S.L. (GPE), a subsidiary of Banco Bilbao Vizcaya Argentaria, S.A., announced its intention of exercising the put option granted by Telefónica on all the shares it owned in Atento N.V. at that date. As a result, on July 31, 2007, a purchase-sale contract was signed for Telefónica, S.A. to acquire 10,044 shares owned by GPE, representing 8.65% of Atento N.V. s share capital, for 70 million euros. The acquisition price may be adjusted up to April 1, 2008, in accordance with certain conditions. After this operation, Telefónica, S.A. controlled 100% of the shares of Atento, N.V.

In addition, in July 2007 Telefónica, S.A. paid off before maturity two participating loans granted to Telefónica Ingeniería de Seguridad, S.A. for 5.5 million euros for their conversion into capital. Telefónica, S.A. owns 100% of the shares of this company.

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On April 28, 2007, Telefónica, S.A., together with its partners Assicurazioni Generali S.p.A., Intesa Sanpaolo, S.p.A., Mediobanca S.p.A. and Sintonía, S.A. (Benetton), entered into a Co-Investment Agreement and Shareholders Agreement with a view to establishing the terms and conditions of their acquisition of an indirect shareholding in Telecom Italia S.p.A. through an Italian company, currently called Telco S.p.A., in which Telefónica has a 42.3% interest. Both agreements were modified on October 25, 2007 following the inclusion of the Assicurazioni Generali Group companies indicated hereafter and the Shareholders Agreement was further amended on November 19, 2007.

On October 25, 2007 Telco, S.p.A. acquired 100% of Olimpia, S.p.A., which held 17.99% of the voting shares of Telecom Italia, S.p.A. Also on that date, Assicurazioni Generali S.p.A. (together with its group companies Alleanza Assicurazioni S.p.A., INA Assitalia S.p.A., Volksfürsorge Deutsche Lebenversicherung A.G. and Generali Vie S.A.) and Mediobanca S.p.A. contributed a total share of 5.6% of Telecom Italia S.p.A. s voting shares (4.06% and 1.54%, respectively) to Telco S.p.A.

On December 10, 2007, an agreement was reached to takeover and merge Olimpia S.p.A. into Telco S.p.A., making Telco S.p.A s entire stake in the voting shares of the Italian operator (23.6%) direct and leaving Telefónica with an indirect holding in the voting shares of Telecom Italia S.p.A. of 9.98% (6.88% of the dividend rights) for 2,314 million euros.

The Shareholders Agreement signed on April 28, 2007 contained a general clause whereby both Telefónica, at the shareholders meetings of Telco S.p.A. and Telecom Italia S.p.A, and the Telefónica directors appointed to the companies respective boards, would abstain from participating in and voting at the meetings dealing with issues regarding the provision of telecommunications services by companies controlled by Telecom Italia S.p.A., in countries where there are legal or regulatory restrictions on the exercise of voting rights by Telefónica.

However, as indicated above, on November 19, 2007 the partners amended the Shareholders Agreement, as well as the bylaws of Telco S.p.A., to include the specific limitations imposed by the Brazilian telecommunications regulator, Agência Nacional de Telecomunicações (ANATEL), as initially posted on its website on October 23, 2007 and subsequently published on November 2, 2007 as ANATEL s Ato no. 68,276 dated October 31, 2007.

On November 7, 2007 Portugal Telecom, S.G.P.S., S.A. granted a dividend in kind whereby Telefónica, S.A. obtained the right to receive 0.176067 shares of PT Multimedia, S.G.P.S., S.A. (listed on the Lisbon Stock Exchange and whose main shareholder was Portugal Telecom) for each of the 90,150,075 shares of Portugal Telecom held by the Company. The valuation of the shares received upon their distribution was 9.18 euros per share. Accordingly, Telefónica, S.A. recorded dividend income of 160 million euros (see Note 16.9). The dividend received is subject to a 15% tax. As a result, the shares of PT Multimedia received by Telefónica, S.A. amounted to 14,838,497, representing 4.80% of the company s share capital, valued at 136 million euros.

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2006

Company	**Millions of euros**
Subsidiaries:	
O2 Plc	24,888
Telefónica Móviles, S.A.	2,978
Others	73
Total subsidiaries:	**27,939**

In 2006, Telefónica, S.A. acquired 100% of the shares of British company O2 plc. The total acquisition cost was 26,154 million euros (17,887 million pounds sterling), of which 1,266 million euros (859 million pounds) was paid in 2005. The value of the investments acquired in 2005 was recorded under Other investments in the balance sheet at December 31, 2005, until the merger took effect in January 2006. It was then restated to Investments in Group companies and recorded under Transfers in the table of movements.

Under the terms of the merger agreement between Telefónica, S.A. and Telefónica Móviles, S.A. (see Note 1), Telefónica acquired 927,917,620 shares of Telefónica Móviles, S.A., representing 21.43% of its share capital, which formerly belonged to Telefónica Internacional, S.A. (a wholly-owned subsidiary of Telefónica). This intragroup transfer meant that Telefónica, S.A. s investment in Telefónica Móviles, S.A. was now directly wholly-owned, thereby avoiding creating any indirect treasury stock holdings as a result of the merger.

The shares transferred were priced at 8.653 euros per share. The acquisition cost of these shares, after deducting the margin on the transaction generated and paid by Telefónica Internacional, S.A., was 2,956 million euros.

Another 2 million Telefónica Móviles S.A. shares were acquired for a total of 22 million euros. Following these acquisitions, the percentage investment in Telefónica Móviles, S.A. before the share exchange was 92.5% (see Note 7.4).

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b) Disposals of investments

2007

Company	Millions of euros Gross book value
Subsidiaries	
Endemol Investment Holding, B.V.	842
Seguros de Vida y Pensiones Antares, S.A.	148
Ecuador Cellular Holdings, B.V.	77
Terra Lycos Intangibles, S.A.	19
Others	8
Total subsidiaries	**1,094**
Associated companies	
Portugal Telecom, S.G.P.S., S.A.	156
Others	4
Total associated companies	**160**

In May 2007, Telefónica, S.A. signed an agreement to sell its 99.7% holding in Endemol Investment Holding, B.V. to a newly created consortium. The sale was carried out on July 3, 2007, generating a capital gain of 1,776 million euros (see Note 16.6).

On May 31, 2007, a resolution was adopted at the General Shareholders Meeting of Seguros de Vida y Pensiones Antares, S.A. to reduce capital by condoning the unpaid dividend liability to its shareholders. After this operation, Telefónica owned 94.67% of the share capital of Seguros de Vida y Pensiones Antares, S.A.

In 2007, Ecuador Cellular Holdings, S.A. reimbursed its sole shareholder, Telefónica, S.A. for contributions amounting to 77 million euros. In addition, Terra Lycos Intangibles, S.A. was liquidated during the year.

On December 18, 2007, Telefónica, S.A. disposed of 18,558,181 shares representing 1.64% of the share capital of Portugal Telecom, S.G.P.S., S.A. This lowered Telefónica, S.A. s direct holding in Portugal Telecom to 7.14%.

2006

Company	Millions of euros Gross book value
Subsidiaries	
Telefónica Publicidad e Información, S.A.	4
Others	1
Total subsidiaries	**5**
Associated companies	
Sogecable, S.A.	12
Uno-e Bank, S.A.	190
Total associated companies	**202**

In April 2006, Telefónica, S.A. agreed to a takeover bid for its investment in Telefónica Publicidad e Información, S.A. by British telephone directories company Yell Group plc. In July 2006, Telefónica S.A. accepted the takeover bid presented by Yell at a price of 8.5 euros per share, tendering 216,269,764 shares representing its 59.905% stake in the company s share capital. This transaction generated a gain of 1,834 million euros, which was recorded under Gains on disposal of fixed assets (see Note 16.6).
In March 2006, Telefónica S.A. sold 590,656 shares in Sogecable S.A. for 22 million euros. This transaction generated a gain of 10 million euros, which was recorded under Gains on disposal of fixed assets (see Note 16.6).

Also, under the agreement signed January 10, 2003, between Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and Terra Networks, S.A. (now Telefónica, S.A.), which created a liquidity mechanism (put options) on the shares owned by Terra Networks, S.A. in Uno-e Bank, S.A., Telefónica S.A. sold its investment in Uno-e Bank to BBVA at the option strike price stated in the agreement. This transaction had no impact on the income statement for the year.

c) Other transactions

2007

On December 21, 2007, Telefónica, S.A. incorporated, as its sole shareholder, the Spanish limited liability company Atento Holding, Inversiones y Teleservicios, S.A. The share capital of this company was set at 24 million euros, divided up into 60 million shares, issued with a share premium of 138 million euros, at 2.306133 euros per share. The shares were fully subscribed and paid via the contribution to the newly created wholly-owned company of the 116,112 shares representing 100% of the share capital of Atento, N.V. owned by Telefónica, S.A.

In addition, on December 21, 2007, a resolution was adopted at the Extraordinary Shareholders Meeting of Telefónica Móviles Holding Uruguay, S.A, a wholly-owned subsidiary of Telefónica, S.A., to liquidate and wind up the company, assigning all the assets and liabilities of the company to the sole shareholder. As a result of this transaction, Telefónica, S.A. directly owns 62,700,000 shares, representing 32% of the share capital of Telefónica Móviles del Uruguay, S.A.

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The assets and liabilities assigned to Telefónica, S.A. are as follows:

	Valuation
Shares of Telefónica Móviles del Uruguay, S.A.	13
Receivables from Group companies (Telefónica Móviles del Uruguay, S.A.)	9
Payables to Group companies (Telefónica Móviles del Uruguay, S.A.)	1

2006

On July 3, 2006, Telefónica de España S.A.U. and Terra Networks España S.A.U., both wholly owned subsidiaries of Telefónica S.A., merged. The transaction involved the merger and takeover of Terra Networks España, S.A.U. by Telefónica de España S.A.U. As a result, Terra Networks España, S.A.U. was dissolved without liquidation, and Telefónica de España, S.A.U. assumes all its rights and obligations. The gross acquisition cost of Terra Networks España, S.A.U. was 94 million euros, which was fully provisioned.

In 2006, there was a restructuring of the Company s wireless investments in Argentina. This culminated in the final quarter of 2006 with the Compañía de Radiocomunicaciones Móviles, S.A. and Telefónica Móviles Argentina, S.A. merger. Telefónica Móviles Argentina, S.A. took over Compañía de Radiocomunicaciones Móviles, S.A. s operations once the Argentine securities exchange commission (*Comisión Nacional de Valores de Argentina*) lifted the merger conditions it had imposed on October 31, 2006. The merger took effect from January 1, 2006.

Also completed in 2006 was the merger between Telefónica Móviles Inversora, S.A. and Telefónica Móviles Argentina Holding, S.A., with effect from January 1, 2006. This corporate restructuring left Telefónica direct ownership of 15.4% of Telefónica Móviles Argentina, S.A., along with its 100% investment in the Telefónica Móviles Argentina Holding, S.A. holding company, which owns the remaining 84.6%.

7.2 The detail of subsidiaries, associated companies and investees is provided in Appendix I.

7.3 The breakdown and movement in provisions for long-term investments are as follows:

	Millions of euros				
	Balance at 12/31/06	**Change in provision**	**Decreases**	**Transfers and other**	**Balance at 12/31/07**
Investments in Group companies	5,530	9,876	(12)	(25)	15,369
Investments in associated companies	3	(1)			2
Other investments	5				5
Total investment writedown provisions	**5,538**	**9,875**	**(12)**	**(25)**	**15,376**

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	Millions of euros					
	Balance at 12/31/05	Merger with Telefónica Móviles, S.A.	Change in provision	Decreases	Transfers and other	Balance at 12/31/06
Investments in Group companies	3,440	2,420	(156)		(174)	5,530
Investments in associated companies	86	1	(43)	(41)		3
Other investments	37		(32)			5
Total investment writedown provisions	**3,563**	**2,421**	**(231)**	**(41)**	**(174)**	**5,538**

The main provisions recorded for investments in Group companies in 2007 relate to the investment in Telefónica O2 Europe, Plc for 9,947 million euros arising from the dilution to this company s equity from the dividends paid to Telefónica, S.A. in 2007 for a total a mount of 11,272 million euros (see Notes 7.1.a and 16.8). The Company also allocated 91 million euros in 1997 to provisions for the investment in Telefónica de Contenidos, S.A.
In addition, a charge of 436 million euros was recorded to extraordinary income in 2007 (506 million euros in 2006) due to the negative equity of Telefónica Móviles México, S.A. de C.V. (see Notes 4.c and 16.7).

Conversely, in 2007 provisions were reversed for the improvement in equity of Atento, N.V., Telefónica Móviles Argentina Holding and Telefónica O2 Czech Republic, for 60, 54 and 36 million euros, respectively.

The main provisions recorded for investments in Group companies in 2006 relate to the investments in Telefónica Móviles Puerto Rico Inc. (48 million euros), Ecuador Cellular Holding, BV (32 million euros) and Telefónica O2 Czech Republic, a.s. (98 million euros) which paid a dividend of 354 million euros to Telefónica, S.A. (see Note 16.8).

Meanwhile, some provisions were reversed in 2006, owing to the improvement in equity of other companies, mainly Telefónica de Contenidos (192 million euros), Telefónica Datacorp, S.A.U. (65 million euros) and the Atento Group (45 million euros).

In addition, after the Terra Networks España, S.A.U. and Telefónica de España, S.A.U. merger (see Note 7.1.c), the outlook for the new company led to the reversal of a provision for liabilities and charges recorded for the negative equity of Terra Networks España, S.A. This generated 336 million euros of extraordinary income. Additionally, 292 million euros was reversed from the provision recorded for Telefónica Móviles Argentina Holding, S.A. in 2006, of which 242 million was recorded as extraordinary income (see Note 16.6).

In 2006 the entire 36 million euro provision for the investment in Portugal Telecom, S.G.P.S., S.A was reversed from writedown provisions on Investments in associated companies.

The reversals from investment writedown provisions on Other investments in 2006 included the 22 million euro provision recorded for Telefónica, S.A. s stake in Banco Bilbao Vizcaya Argentaria, S.A.

Retirements recorded in 2007 and 2006 correspond to investments sold, liquidated or transferred in the course of the year (see 7.1 of this Note).

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7.4 Impact on long-term investments of the merger of Telefónica, S.A. and Telefónica Móviles, S.A. (2006)

As indicated in Note 1, on July 29, 2006 the merger between Telefónica, S.A. y Telefónica Móviles, S.A. was registered in the Madrid Mercantile Register on January 1, 2006.

Telefónica transferred to Telefónica Móviles, S.A. shareholders 244,344,012 of its treasury share at the exchange ratio established in the merger agreement of four Telefónica S.A. shares for every five Telefónica Móviles, S.A. shares. The acquisition cost of the treasury stock transferred amounted to 3,179 million euros, was recorded as an increase in value of Long-term investments.

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The detail of Telefónica Móviles, S.A. s contributions on January 1, 2006 to Investments in Group companies, and the corresponding investment writedown provisions shown in the financial statements of Telefónica, S.A., was the following:

	Millions of euros		
	Acquisition cost	Investment writedown provisions	Additional provision for negative net book value of the investment (see Note 4.c)
Investments in Group companies			
Telefónica Móviles España, S.A.	933		
TES Holding, S.A. de C.V.	161	(96)	
Telefónica Móviles Argentina Holding, S.A.	790	(790)	(242)
Telefónica Móviles Inversora, S.A.	370	(33)	
Compañía Radiocomunicaciones Móviles, S.A.	142	(5)	
Telefónica Móviles Chile, S.A.	308	(9)	
Telefónica Móviles Chile Inversiones, S.A.	10	(5)	
TCG Holdings, S.A.	239	(104)	
Redanil, S.A.	8		
TEM eServices Latin America Inc.	3		
Telefónica Móviles Perú Holding, S.A.A.	254	(31)	
Telefónica Móviles México, S.A. de C.V.	1,176	(1.176)	(942)
Brasilcel, N.V.	2,179		
Telefónica Móviles Soluciones y Aplicaciones, S.A.	11	(6)	
Telefónica Móviles Puerto Rico, Inc.	63	(63)	(3)
Panamá Cellular Holding B.V.	238	(3)	
Telefónica Móviles Holding Uruguay, S.A.	26		
Telefónica Móviles Colombia, S.A.	116	(1)	
Cellular Holdings (Central America), Inc.	38		
Comtel Comunicaciones Telefónicas, S.A.	0		
Telefónica Móviles Perú, S.A.	0		
Ecuador Cellular Holding, B.V.	658	(75)	
Guatemala Cellular Holding, B.V.	29	(3)	
Inversiones Telefónicas Móviles Holding, S.A.	424		
Latin American Cellular Holding, B.V.	1,227	(19)	
Multi Holding Corporation	301	(1)	
Telcel, C.A.	134		
Others	1		
Total Group companies	**9,839**	**(2,420)**	**(1,187)**
Investments in associated companies			
MobiPay Internacional, S.A.	5	(1)	
Total associated companies	**5**	**(1)**	

The effect of the inclusion of the investments of Telefónica Móviles, S.A. described above, combined with the retirement of Telefónica S.A. s pre-merger investment in Telefónica Móviles, S.A. is shown in the Merger with Telefónica Móviles, S.A. column of the tables of changes in long-term investments and investment writedown provisions.

7.5 Transactions protected for tax purposes.

Transactions carried out in 2007 and 2006 that are considered protected for tax purposes, as defined in Articles 83 and 94, 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. Transactions prior to 2006 were duly disclosed in prior years financial statements.

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2007

On December 21, 2007, the public deed was registered for the contribution of 100% of the shares of Dutch company Atento N.V. to Spanish company Atento Holding, Inversiones y Teleservicios, S.A. The share exchange was registered in the Mercantile Registry on January 15, 2008.

In addition, the following transactions protected for tax purposes involving subsidiaries belonging to the tax group headed by Telefónica, S.A also took place in 2007:

In July 2007, the agreement for the merger of Maptel Networks, S.A. by Telefónica Soluciones de Informática y Comunicaciones, S.A. was executed. As a result of this merger the absorbing company Telefónica Soluciones de Informática y Comunicaciones, S.A. acquired by universal succession all the rights and obligations of Maptel Networks, S.A.

On October 5, the agreement for the merger and takeover of Telefónica Cable Galicia, S.A.U. by Telefónica Cable, S.A. was executed. As a result of this merger, the absorbing company Telefónica Cable, S.A. acquired by universal succession all the rights and obligations of Telefónica Cable Galicia, S.A.U. The merger was registered in the Mercantile Registry in October 2007.

On October 17, the agreement for the merger and takeover of Procesos Operativos, S.A. by Atento Teleservicios España, S.A.U. was executed. As a result of this merger, the absorbing company Atento Teleservicios España, S.A.U. acquired by universal succession all the rights and obligations of Procesos Operativos, S.A. The merger was registered in the Mercantile Registry on December 26, 2007.

On November 2, the agreement for the merger and takeover of Fonditel Valores, Agencia de Valores, S.A.U. by Fonditel Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, S.A.U. was executed. The merger was registered in the Mercantile Registry on November 15, 2007.

2006

On July 29, 2006, the merger of Telefónica Móviles S.A into Telefónica S.A., which held 100% of the outstanding shares, was registered in the Mercantile Registry. As a result of this merger the surviving company Telefónica S.A. acquired by universal succession all the rights and obligations of Telefónica Móviles S.A.

On July 7, 2006, the merger and takeover of Terra Networks España, S.A. by Telefónica de España, S.A. was registered in the Mercantile Registry, with Telefónica de España, S.A. retaining by universal succession all the rights and obligations of Terra Networks España S.A.

On June 15, 2006, Telefónica Móviles, S.A. contributed 97.97% of Peruvian company Telefónica Móviles Perú Holding, S.A. to the Dutch company Latin American Cellular Holdings B.V. a wholly owned subsidiary of Telefónica Móviles, S.A. The transaction was carried out through a share exchange.

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Finally, on May 31, 2006, Telefónica Móviles, S.A. contributed 91.54% of Venezuelan company Telcel, C.A. to the Dutch company Latin American Cellular Holdings, B.V., a wholly owned subsidiary of Telefónica Móviles, S.A. The transaction was carried out through a share exchange.

The following transactions protected for tax purposes involving subsidiaries belonging to the tax group headed by Telefónica, S.A also occurred in 2006:

On September 22, the agreement for the takeover and merger of Telefónica Soluciones de Informática y Comunicaciones, S.L. by Telefónica DataCorp, S.A, its sole shareholder, was executed. As a result of this merger, the absorbing company Telefónica DataCorp., S.A. acquired by universal succession all the rights and obligations of Telefónica Soluciones de Informática y Comunicaciones, S.L. The merger was registered in the Mercantile Registry on November 28, 2006.

On June 30, the takeover and merger of Telefónica Data España, S.A. by Telefónica de España, S.A. was registered in the Mercantile Registry, with Telefónica de España, S.A. obtaining all the rights and obligations of Telefónica Data España, S.A.

On June 12, the takeover and merger of Sociedad General de Cablevisión Canarias, S.A. by Telefónica Cable, S.A. was registered in the Mercantile Registry, with Telefónica Cable, S.A. taking over by universal succession all the rights and obligations of Sociedad General de Cablevisión Canarias, S.A.

7.6 The breakdown of loans to Group and associated companies is as follows:

	Millions of euros			
	2007		**2006**	
Company	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Telefónica de España, S.A.U.	3,188	3,096	4,207	1,734
Telefónica Móviles España, S.A.U.	3,102	1,112	3,135	1,241
Telefónica Móviles México, S.A. de C.V.	2,330	682	2,445	452
Telefónica O2 Europe Plc		2,727		
Telefónica de Contenidos, S.A.U.	1,221	81	1,329	40
Telefónica Internacional, S.A.		218	346	1,619
Telefónica Móviles Argentina, S.A.	284	85	490	33
Atento, N.V.	38	65	99	38
Telefónica International Wholesale Services America, S.A.				400
Comunicapital Inversiones, S.A.U.			54	
Lotca, Servicios Integrales, S.A.U.	57	5	65	5
Terra Networks Asociadas, S.L.	16	19	35	1
Telefónica B2B Licencing Inc.	9		11	
Telefónica Internacional Wholesale Services, S.L.		28	60	
Inversiones Telefónica Móviles Holding Limitada	29		142	
Telefónica Móviles El Salvador Holding, S.A. de C.V.		49	48	27
Latin America Cellular Holdings, B.V.				218
Panama Cellular Holdings, B.V.		5		40
Others	7	44	35	67
Total	**10,281**	**8,216**	**12,501**	**5,915**

As a consequence of the merger with Telefónica Móviles, S.A. (see Note 1), Telefónica, S.A. assumed all the loans granted to finance the wireless operators, including those to Telefónica Móviles España, S.A., Telefónica Móviles México, S.A. de C.V., Telefónica Móviles Argentina, S.A. and Latin America Cellular Holdings, B.V.

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The main loans granted to Group companies are:

Financing granted to Telefónica de España, S.A.U. consists mainly of a loan dated January 4, 1999 resulting from the company s spin-off from Telefónica on January 1, 1999, that bears interest at 6.80% and had an outstanding balance of 3,488 million euros at December 31, 2007, of which 2,791 million euros are long term and 697 million euros are short term.

2006 featured the takeover and merger of Terra Networks España, S.A.U. by Telefónica de España, S.A.U., both wholly owned direct subsidiaries of Telefónica, S.A. As a result, Terra Networks España, S.A.U. was dissolved without liquidation, and Telefónica de España, S.A.U. assumed the 397 million euro participating loan granted by Telefónica, S.A. to Terra Networks España, S.A.U. The loan matures on November 15, 2009 and bears interest linked to the Euribor rate.

Financing granted to Telefónica Móviles España, S.A.U. mainly comprises a long-term participating loan dated October 1, 2002, for 3,102 million euros, paying annual fixed interest plus a floating interest rate based on the performance of the company. The loan matures on December 22, 2009.

Financing granted to Telefónica Móviles México, S.A. de C.V. comprises:

A 1,330 million euro loan, drawn down in full at December 31, 2007. The loan matures on December 31, 2011 and interest is linked to the 12M Euribor rate.

Several loans in Mexican pesos, wholly drawn down for a total of 8,518 million pesos (533 million euros). These loans mature between 2009 and 2011 and bear a fixed interest rate.

Two loans denominated in US dollars, totaling 685 million dollars (467 million euros). These loans mature in 2009 and interest is linked to the 12M Libor rate.

Financing granted to Telefónica de Contenidos, S.A.U. mainly comprises a 1,142 million euro participating loan, fully drawn down at December 31, 2007, which bears interest based on Telefónica de Contenidos, S.A.U. s business performance. In addition, Telefónica, S.A. granted a new participating loan of 79 million euros maturing in 2015 to provide Telefónica de Contenidos, S.A.U. with funding to cover the financial charges linked to the participating loan detailed above.

A multi-currency credit facility of 1,962 million US dollars granted to Telefónica Internacional, S.A., of which 318 million US dollars (216 million euros) had been drawn down at December 31, 2007. This facility matures April 15, 2008.

Financing granted to Telefónica Móviles Argentina, S.A. comprises a number of US dollar-denominated loans, maturing between 2008 and 2017 and bearing a fixed interest rate.

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Financing granted to Atento, N.V. consists of the following:

A participating loan for 75 million euros, repayable in 2013. The loan bears interest based on Atento, N.V. s operating profit. The outstanding amount at December 31, 2007 was 45 million euros.

Loan of 214 million euros to support Atento Holding s ability to pay its liabilities to its subsidiaries, bearing interest at market rates and maturing in 2008. The balance outstanding at December 31, 2007 was 57 million euros.

The Company has also extended 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 14), mainly 2,350 million euros to Telefónica Móviles España, S.A. and 1,060 million euros to Telefónica de España, S.A.U., with short-term maturities.

At December 31, 2007, pending receipt is the interim dividend against 2007 profit by Telefónica O2 Europe Plc for 2,000 million pounds sterling (equivalent to 2,727 million euros), which will be paid in the first quarter of 2008.

Loans to Group companies includes accrued interest payable at December 31, 2007 amounting to 814 million euros (583 million euros at December 31, 2006).

Transfers under Loans to Group and associated companies in the table of movements in investments relate mainly to short-term movements required to meet the repayment schedules of the loans listed above.

7.7 Other loans

The heading mainly includes the cost of share options arranged in 2006 to cover the Telefónica, S.A. share option plan (see Note 16.2), amounting to 46 million euros.

7.8 Deposits and guarantees

The main components of this heading are the 335 million euros of guarantees of IPSE 2000, S.p.A. at December 31, 2007. These deposits will decrease in line with the respective obligations they guarantee.

7.9 Other short-term investments

This heading consists mainly of temporary cash surpluses placed in short-term investments. At December 31, 2006, it included 111 million euros pending payment on the sale of the investment in Uno-e Bank (see Note 7.1.b), which was collected in 2007.

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(8) DEFERRED CHARGES

The detail of this heading and the related amortization schedule at December 31, 2007 and 2006 are as follows:

	Maturity 2008	2009	2010	2011	2012	Subsequent years	Balance at 12/31/07	Balance at 12/31/06
Interest on long-term promissory notes	11	7	8	1			27	44
Debt issuance costs	67	34	29	25	23	30	208	271
Other deferred charges	20	10	7	6	6	4	53	52
Total	**98**	**51**	**44**	**32**	**29**	**34**	**288**	**367**

(9) SHAREHOLDERS EQUITY

The amount and movements in this heading in 2007 and 2006 was the following:

	Balance at 12/31/05	Appropriation of 2005 profit	Distribution of dividends	Other movements	Balance at 12/31/06	Appropriation of 2006 profit	Distribution of dividends	Other movements	Balance at 12/31/07
Share capital	4,921				4,921			(148)	4,773
Share premium	1,671			918	2,589			(2,068)	521
Revaluation reserves	1,369				1,369			(1,178)	191
Legal reserve	920	64			984				984
Reserve for treasury stock	348			(87)	261			(29)	232
Other reserves	6	521		(521)	6	5,400		1,178	6,584
Profit (loss) for the year	1,754	(1,754)		8,284	8,284	(8,284)		6,620	6,620
Interim dividend			(1,458)		(1,458)	1,458	(1,652)		(1,652)
Total	**10,989**	**(1,169)**	**(1,458)**	**8,594**	**16,956**	**(1,426)**	**(1,652)**	**4,375**	**18,253**

a) *Share capital*

At December 31, 2007, Telefónica, S.A. s share capital amounted to 4,773,496,485 euros and consisted of 4,773,496,485 fully paid ordinary shares of a single series, par value 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system (Continuous Market), where they form part of the Ibex 35 Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, Sao Paulo and Lima Stock Exchanges. In October 2007, Telefónica, S.A. began taking steps to delist shares of Telefónica from the Paris and Frankfurt stock exchanges. This will take place in the first quarter of 2008.

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At the Shareholders meeting of Telefónica S.A. on June 21, 2006, the Board of Directors was authorized under Article 153.1.b) of the Spanish Corporation Law, to increase the Company s capital by up to 2,460 million euros, equivalent to half the Company s current capital stock, one or several times within a maximum of five years of that date, with no need for further meetings or authorization, where the Board considered it in the Company s interests, by issuing for this purpose the corresponding new common shares or shares of any other type permitted by law, at a fixed or variable premium and, in all cases, paid in cash with the possibility explicitly allowed of partial subscription for shares issued in accordance with Article 161.1 of the Corporation Law. The Board was also authorized to fully or partly disapply pre-emptive subscriptions rights under Article 159.2 of the Corporation Law and associated provisions.

In addition, at the May 10, 2007 Shareholders Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from the date of adoption of the related resolution. The fixed-income securities may be debentures, bonds, promissory notes or any other kind of fixed-income security, plain, or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. As at December 31, 2007, the Board of Directors had exercised these powers, approving a program to issue corporate promissory notes for 2008.

In addition, on May 10, 2007, shareholders voted to authorize the derivative acquisition by the Board of Directors of treasury shares, for a consideration, up to the limits and pursuant to the terms and conditions established by the Shareholders Meeting, within a maximum period of 18 months from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed 5% of Telefónica s share capital.

At December 31, 2007 and 2006, Telefónica, S.A. held the following shares of treasury stock:

		Euros per share			
	No. of shares	Acquisition price	Market price	Market Value	%
Treasury stock at 12/31/07	**64,471,368**	**16.67**	**22.22**	**1.433**	**1.35061%**
Treasury stock at 12/31/06	**75,632,559**	**14.04**	**16.12**	**1.219**	**1.53689%**

In 2007, the Company paid 2,392 million euros to acquire 149,099,044 of its own shares (including a 68 million euros premium on the share options arranged in 2007 and exercised in 2007) and sold 12,621,573 treasury shares at a total selling price of 210 million euros. As a result of these transactions, the Company recorded extraordinary income of 23 million euros (see Note 16.6) and a decrease in expenses of 11 million euros from the sale of treasury shares allocated to the share option plan for Endemol Group employees.

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In addition, the Company used 147,633,912 shares of treasury stock at an acquisition cost of 2,202 million euros to reduce its share capital. Finally, 4,750 shares of treasury stock were delivered as part of the share option plan for Endemol Group employees (own shares were also sold to compensate).

The balance sheets at December 31, 2007 and 2006 include the cost of acquiring own shares (1,075 and 1,062 million euros, respectively) net of provisions of 843 and 801 million euros, respectively, recorded in accordance with current accounting regulations (see Note 4.e), against extraordinary results for the difference between the acquisition cost and market price and against Unrestricted reserves for the difference between the market price and the underlying book value. The movement in the provision charged to Other reserves in 2007 and 2006 were a credit of 42 million euros and a debit of 590 million euros, respectively. In 2006, the Company reserved a 38 million euro provision charged against extraordinary income (see Note 16.6).

The Company has set up the corresponding restricted reserve in the amount of the underlying book value of the shares comprising treasury stock.

Changes in subscribed capital and share premium in 2007

The movements in these headings in 2007 are as follows:

		Millions of euros	
	Number of Shares	Subscribed capital	Share premium
Balance at 12/31/06	**4,921,130,397**	**4,921**	**2,589**
Restricted reserve for treasury stock			29
Valuation of treasury stock			(43)
Capital reduction	(147,633,912)	(148)	(2,054)
Balance at 12/31/07	**4,773,496,485**	**4,773**	**521**

Authorization was given at the General Shareholders Meeting of Telefónica, S.A. of May 10, 2007 to reduce the Company s share capital by 147,633,912 via the cancellation of own shares held in treasury stock. The capital decrease was carried out with a charge to voluntary reserves, with the corresponding amount released from the restricted reserve provided for in Article 79.3 of the Spanish Corporation Law, and reserve recorded for cancelled share capital for 147,633,912 euros (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 indicated in section 3 of Article 167 of the Spanish Corporation Law are met.

Changes in subscribed capital and share premium in 2006

The movements in these headings in 2006 are as follows:

	Number of Shares	Millions of euros Subscribed capital	Share premium
Balance at 12/31/05	**4,921,130,397**	**4,921**	**1,671**
Restricted reserve for treasury stock			87
Valuation of treasury stock			1,111
Reserve for merger with Telefónica Móviles, S.A.			(280)
Balance at 12/31/06	**4,921,130,397**	**4,921**	**2,589**

As mentioned in Note 1, the proposed merger and takeover of Telefónica Móviles, S.A. by Telefónica, S.A. was approved at the General Shareholders Meetings held on June 20 and 21, 2006, respectively. The merger deed was registered in the Madrid Mercantile Register on July 29, 2006, effective retrospectively, for financial purposes, from January 1, 2006. The effect of the merger on Telefónica, S.A. s shareholders equity was a 280 million euros decrease in Share premium.

b) Legal reserve

According to the revised text of the Spanish Corporation Law, companies must transfer 10% of profits for the year to a legal reserve until this reserve reaches the equivalent to 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. Except for this purpose, until the legal reserve exceeds the limit of 20% of capital, it can only be used to offset losses, if there are no other reserves available.

c) Revaluation reserves

The balance of Revaluation reserves arose as a result of revaluations made from 1946 to 1987 and of the revaluation carried out pursuant to Royal Decree-Law 7/1996, of June 7. The balance of the revaluation reserve may be used, without incurring taxes, to offset any losses from future years or to increase capital. From January 1, 2007, the reserve may also be transferred to unrestricted reserves, provided that the capital gain is recorded. This capital gain will be considered realized for the amount of depreciation recorded or when the revalued assets have either been sold or eliminated from the accounting records. In this respect, an amount of 1,178 million euros corresponding to reserves subsequently considered unrestricted has been reclassified under Other reserves.

d) Dividends

At its meeting of February 28, 2006, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2005 profit of a gross 0.25 euros per share for each of the Company s outstanding shares carrying dividend rights. This dividend was paid on May 12, 2006, and the total amount paid was 1,169 million euros.

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At its meeting of September 27, 2006, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2006 profit of a gross 0.30 euros per share for each of the Company s outstanding shares carrying dividend rights. This dividend was paid on November 10, 2006, and the total amount paid was 1,458 million euros.

At its meeting held on February 28, 2007, the Company s Board of Directors agreed to propose to the Shareholders Meeting the payment of a final dividend against 2006 profit of a gross 0.30 euros per share for each of the Company s outstanding shares carrying dividend rights. A total of 1,426 million euros was paid in May.

At its meeting of September 26, 2007, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2007 profit of a fixed gross 0.35 euros for each of the Company s outstanding shares carrying dividend rights. This dividend was paid on November 14, 2007, and the total amount paid was 1,652 million euros.

In addition, at its meeting of February 27, 2008, the Company s Board of Directors agreed to submit for approval at the Shareholders Meeting the distribution of an additional dividend charged to 2007 profit of a fixed amount of 0.40 euros gross per outstanding share carrying dividend rights, up to a maximum total amount of 1,909 million euros (see Note 3).

(10) DEBENTURES, BONDS AND OTHER MARKETABLE SECURITIES

10.1 The balances and movements in this heading at December 31, 2007 and 2006 are the following:

	Millions of euros		
	Non-convertible Debentures and bonds	**Other marketable debt securities**	**Total**
Balance at 12/31/05	**1,828**	**1,334**	**3,162**
New issues		2,885	2,885
Redemptions		(2,188)	(2,188)
Adjustments and other movements	4	5	9
Balance at 12/31/06	**1,832**	**2,036**	**3,868**
New issues		1,096	1,096
Redemptions	(500)	(1,725)	(2,225)
Adjustments and other movements	5	11	16
Balance at 12/31/07	**1,337**	**1,418**	**2,755**
Maturity			
Long-term	916	181	1,097
Short-term	421	1,237	1,658
Accrued interest pending maturity	33		33

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10.2 The detail and main features of debentures and bonds outstanding at December 31, 2007 are as follows:

			Maturity						
Debentures and bonds	Type of Interest rate	% interest rate	2008	2009	2010	2011	2012	Subsequent years	TOTAL
DEBENTURES									
FEBRUARY 1990	FIXED								
SERIES C		12.60			4				4
FEBRUARY 1990	ZERO COUPON								
SERIES F		12.58			12				12
APRIL 99	FIXED	4.50		500					500
JUNE 99	FLOATING	5.16		300					300
JULY 99	ZERO COUPON	6.37						50	50
MARCH 00	FLOATING	5.30(*)						50	50
BONDS									
MARCH 98	FIXED	4.84	421						421
Total issues			**421**	**800**	**16**			**100**	**1,337**

(*) *The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.*

10.3 Zero-coupon debentures and bonds are recognized in the balance sheet at their issue value plus the related accrued interest.

The detail of the maturities and redemption values of these debentures and bonds is as follows:

Issue	Redemption date	Redemption rate	Present value	Redemption value
DEBENTURES				
FEBRUARY 1990 SERIES F	02/26/2010	1,069.47%	12	15
JULY 99	07/21/2029	637.64%	50	191
Total			**62**	**206**

The remaining debentures and bonds have been stated at nominal value.

10.4

At December 31, 2007, Telefónica, S.A. has a program of promissory note issues of up to 2,000 million euros. The outstanding balance at year end was 1,230 million euros.

With respect to the transaction with La Estrella, S.A. de Seguros consisting of the issuance of bearer promissory notes, on February 15, 2001 Telefónica, S.A. issued 74 bearer promissory notes with a face value of 126 million euros and final maturity in February 2011. The principal outstanding at year end was 80 million euros.

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In 2006, the Company acquired shares in O2 plc (see Note 7) payment for which was deferred through the arrangement of a 207 million pounds sterling (308 million euro) loan program. This program, enacted under UK law, gives the seller of the shares rights to of a security that pays semi-annual interest and the option to collect the principal on demand at the interest payment dates (June 30 and December 31) until December 31, 2010 when the program ends. The outstanding balance of the program at December 31, 2007 amounted to 79 million pounds sterling (108 million euros).

10.5 The average interest rate in 2007 on debentures and bonds outstanding during the year was 4.90% (4.83% in 2006), and the average interest rate on corporate promissory notes was 4.57% (3.50% in 2006).

(11) PAYABLE TO CREDIT INSTITUTIONS

11.1 The balances of this heading at December 31, 2007 and 2006 are the following:

	Millions of euros					
	2007			2006		
Item	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Loans and credits	556	8,150	8,706	188	9,736	9,924
Foreign-currency loans and credits	51	285	336	57	1,019	1,076
Total	**607**	**8,435**	**9,042**	**245**	**10,755**	**11,000**

11.2 Maturities at December 31, 2007 are as follows:

	Maturity						
Item	**2008**	**2009**	**2010**	**2011**	**2012**	**Subsequent years**	**Balance at 12/31/07**
Loans and credits	556		862	6,058	**39**	1,191	8,706
Foreign-currency loans and credits	51	256	27			2	336
Total	**607**	**256**	**889**	**6,058**	**39**	**1,193**	**9,042**

11.3 On April 21, 2006, Telefónica S.A. arranged a 700 million euro syndicated loan, denominated in euros and bearing interest linked to the Euribor rate. This loan was fully drawn down at December 31, 2006, thus there were no movements in 2007. It will be repaid in two equal installments, due April 2015 and 2017, respectively.

On February 20, 2006, the Company repaid 556 million euros on the last installment of the syndicated loan. Banco Santander Central Hispano acted as agent bank. This loan had been taken out in 1999 with a number of financial institutions for a total of 1,200 million euros.

On June 28, 2005 Telefónica, S.A. arranged a syndicated loan with 40 national and international financial institutions for 6,000 million euros, maturing on June 28, 2011. The loan is denominated in euros and can be drawn either in this currency or in US dollars, sterling, yen, Swiss francs or any other currency subject to prior agreement by the banking institutions. At December 31, 2006, this loan had been fully drawn down, so there were no movements in 2007.

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On July 6, 2004, Telefónica arranged a 3,000 million euro syndicated loan with several Spanish and foreign banks. This loan matures in five years (July 6, 2009) and bears interest of Euribor/Libor plus a spread based on the Company s credit rating. The total balance drawn down at December 31, 2006 was 1,800 million euros and 1,152 million dollars. In 2007, the Company repaid 1,800 million euros and 850 million dollars, taking the total amount drawn down at December 31, 2007 to 302 million dollars.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. agreed to a credit facility, secured by the export credit agencies of Finland (Finnvera) and Sweden (EKN), bearing fixed interest of 3.26% and with final maturity on November 15, 2010. This financing is to cover up to 85% of the purchases of network equipment to be made by Telefónica Móviles Group companies from Ericsson and Nokia. In 2006, a total of 153 million dollars was drawn down, leaving a total sum available at December 31, 2006, of 266 million dollars. In 2007, a total of 75 million dollars was repaid, leaving an outstanding balance at December 31, 2007 of 191 million dollars.

11.4 Average interest on loans and credits

The average interest rate in 2007 on loans and credits denominated in euros was 4.41% (3.27% in 2006) and on foreign-currency loans and credits was 4.97% (5.45% in 2006).

11.5 Unused credit facilities

The Loans and credit balances relate only to amounts drawn down.

At December 31, 2007, Telefónica had undrawn credit facilities amounting to 5,779 million euros.

(12) PAYABLE TO GROUP AND ASSOCIATED COMPANIES

12.1 The breakdown of this heading at December 31, 2007 and 2006 is as follows:

	Millions of euros					
	2007			**2006**		
	Long-term	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**
Loans	32,372	17,284	49,656	35,427	10,861	46,288
Accounts payable to Group companies for purchases and services		108	108		91	91
Accounts payable to subsidiaries due to taxation on consolidated basis		616	616	891	964	1,855
Total	**32,372**	**18,008**	**50,380**	**36,318**	**11,916**	**48,234**

Total financing raised by Telefónica S.A. through Telefónica Europe, B.V. at December 31, 2007 amounted to 13,805 million euros (18,885 million euros at December 31, 2006). This financing is arranged by these companies through a number of loans, paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate in 2007 was 5.62% (4.80% in 2006).

This financing mainly derives from the syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling at October 31, 2005 to fund the acquisition of O2 Plc (see Note 7.1.a), which at December 14, 2006 was reduced to 7,000 million pounds sterling, while the maturity was extended from 2008 to 2013. The outstanding balance on this loan at December 31, 2007 was 4,279 million pounds sterling (5,834 million euros).

Total financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2007 amounted to 16,206 million euros (12,642 million euros at December 31, 2006). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2007 was 5.08% (5.09% in 2006). The financing arranged includes, as a related cost, the fees or premiums charged to the income statement for the period corresponding to the financing (see Note 8).

Telefónica Emisiones, S.A.U. raised financing mainly by tapping the European and US capital markets, issuing a total amount in 2007 of 1,929 million euros, 8,000 million Czech crowns (equivalent to 301 million euros) and 2,300 million US dollars (equivalent to 1,562 million euros). In 2006, issues totaled 6,050 million euros, 1,750 million pounds sterling (equivalent to 2,606 million euros at the 2006 year-end exchange rate) and 5,250 million dollars (equivalent to 3,986 million euros at the 2006 year-end exchange rate)

Meanwhile, as at December 31, 2007, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A., in charge of the integrated cash management of the companies comprising the Telefónica Group, amounting to 14,737 million euros (9,807 million euros at December 31, 2006) in a series of loans earning market interest rates.

There were also loans at December 31, 2007 to Telefónica, S.A. by Telefónica Móviles España, S.A.U. for 3,404 million euros (from the merger with Telefónica Móviles, S.A.) and from Telefónica de España, S.A.U. for 1,042 million euros (1,042 million euros at December 31, 2006).

Loans to Group companies includes accrued and unpaid interest at December 31, 2007 amounting to 685 million euros (475 million euros at December 31, 2006).

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12.2 The short-term accounts payable to Group companies for purchases and services are as follows:

	Millions of euros	
	2007	**2006**
Telefónica de España, S.A.U.	15	1
Telefónica de Contenidos, S.A.U.	11	11
Telefónica Móviles España, S.A.U.	3	6
Telefónica Móviles Argentina Holding, S.A.	4	11
Terra Lycos Intangibles, S.A.		14
Telefónica Investigación y Desarrollo, S.A.U.	27	11
Telefónica Gestión de Servicios Compartidos, S.A.U.	2	2
Telefónica Ingeniería de Seguridad, S.A.	3	8
Telefónica Internacional Wholesale Services, S.L.		5
Telefónica Soluciones de Informática y Comunicaciones, S.L.	16	5
Telefónica Servicios Audiovisuales, S.A.	4	
Telefónica Móviles Puerto Rico, Inc	4	
Other	19	17
Total	**108**	**91**

12.3 The balance of Accounts payable to subsidiaries due to taxation on a consolidated basis was 616 million euros at December 31, 2007 (1,855 million euros at December 31, 2006). This basically includes accounts payable to Group companies for their contribution of tax losses to the tax group headed by Telefónica, S.A. (see Note 14). The Company classifies this balance as short- or long-term on the basis of the projected maturity of the payments.

The main amounts are those relating to Telefónica Internacional, S.A. (423 million euros), Telefónica Móviles España, S.A.U. (65 million euros), Telefónica de Contenidos, S.A.U. (59 million euros) and Telefónica Data Corp, S.A.U. (42 million euros).

(13) DERIVATIVES

In 2007 the Company continued to use derivatives both to limit interest and exchange rate risks on otherwise unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2007, the total outstanding balance of the derivatives portfolio was 78,089 million euros (68,078 million euros at December 31, 2006), of which 51,723 million euros related to interest rate risk and 26,366 million euros to exchange rate risk (48,968 million euros and 19,110 million euros, respectively, at December 31, 2006).

It should be noted that at December 31, 2007, Telefónica S.A. had arranged transactions with financial institutions to hedge interest and exchange rate risks for other Telefónica Group companies amounting to 532 million euros and 804 million euros, respectively (1,287 million euros and 3,072 million euros, respectively, at December 31, 2006). These external transactions are matched by parallel intragroup arrangements, with identical terms and maturities, and therefore involve no risk for Telefónica, S.A. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions, that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

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The breakdown of the portfolio by type of derivative at December 31, 2007, is the following:

		Millions of euros 2007			
	Value in	Telefónica receives		Telefónica pays	
Type of risk	**euros**	**Amount**	**Currency**	**Amount**	**Currency**
Euro interest rate swaps	**23,388**				
Fixed to floating	13,319	13,319	EUR	13,319	EUR
Floating to fixed	7,677	7,677	EUR	7,677	EUR
Floating to floating	2,392	2,392	EUR	2,392	EUR
Foreign currency interest rate swap	**13,641**				
Fixed to floating	**8,314**				
GBP/GBP	954	700	GBP	700	GBP
USD/USD	7,269	10,700	USD	10,700	USD
JPY/JPY	91	15,000	JPY	15,000	JPY
Floating to fixed	3,282				
USD/USD	551	811	USD	811	USD
MXN/MXN	3	47	MXN	47	MXN
CZK/CZK	1,098	29,241	CZK	29,241	CZK
GBP/GBP	1,630	1,195	GBP	1,195	GBP
Floating to floating	2,045				
GBP/GBP	2,045	1,500	GBP	1,500	GBP
Exchange rate swaps	**15,762**				
Fixed to fixed	**2,683**				
EUR/CLP	183	176	EUR	134,106	CLP
USD/EUR	2,500	2,357	USD	2,500	EUR
Fixed to floating	**336**				
EUR/CLP	17	16	EUR	12,217	CLP
USD/EUR	224	200	USD	224	EUR
JPY/EUR	95	15,000	JPY	95	EUR
Floating to fixed	**1,125**				
EUR/BRL	111	112	EUR	288	BRL
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	776	1,167	USD	3,598	ARS
USD/COP	116	149	USD	344,580	COP
USD/MXN	4	5	USD	58	MXN
USD/PEN	30	40	USD	132	PEN
Floating to floating	**11,618**				
EUR/CLP	15	14	EUR	10,646	CLP
EUR/CZK	1,289	1,150	EUR	34,321	CZK
EUR/GBP	4,084	4,460	EUR	2,995	GBP
EUR/USD	351	423	EUR	516	USD

USD/EUR	5,692	7,233	USD	5,692	EUR
USD/MXN	9	14	USD	152	MXN
JPY/EUR	178	30,000	JPY	178	EUR
Forwards	**8,467**				
ARS/USD	81	385	ARS	119	USD
EUR/CZK	1,487	1,480	EUR	39,592	CZK
EUR/GBP	38	40	EUR	28	GBP
EUR/USD	1,319	1,356	EUR	1,941	USD
GBP/EUR	3,825	2,743	GBP	3,825	EUR
PEN/USD	10	47	PEN	15	USD
USD/BRL	74	106	USD	193	BRL
USD/COP	255	3,729	USD	755,732	COP
USD/EUR	755	1,105	USD	755	EUR
USD/MXN	447	650	USD	7,147	MXN
USD/PEN	7	10	USD	30	PEN
GBP/USD	46	34	GBP	67	USD
COP/USD	19	58,709	COP	29	USD
MXN/USD	104	1,665	MXN	153	USD
Subtotal	**61,258**				

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Notional amounts of structured products with options	**EUR**	**Notional**	
Interest rate options	**14,694**		
Caps & Floors	**13,154**		
External counterparties			
US DOLLAR	900	1,325	USD
EURO CURRENCY	9,732	9,732	EUR
GBP CURRENCY	2,522	1,850	GBP
Swaptions	**1,540**		
EURO CURRENCY	1,540	1,540	EUR
Currency options	**2,137**		
External counterparties			
USD/EUR	2,273	3,346	USD
USD/BRL	(136)	(200)	USD
Subtotal	**16,831**		
TOTAL	**78,089**		

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The detail of the portfolio by type of derivative at December 31, 2006 is as follows:

		Millions of euros 2006			
	Value in	Telefónica receives		Telefónica pays	
Type of risk	**euros**	**Amount**	**Currency**	**Amount**	**Currency**
Euro interest rate swaps	**24,997**				
Fixed to floating	11,135	11,135	EUR	11,135	EUR
Floating to fixed	13,412	13,412	EUR	13,412	EUR
Floating to floating	450	450	EUR	450	EUR
Foreign currency interest rate swap	**11,125**				
Fixed to floating	**7,503**				
GBP/GBP	745	500	GBP	500	GBP
USD/USD	6,758	8,900	USD	8,900	USD
Floating to fixed	**3,622**				
USD/USD	661	871	USD	871	USD
MXN/MXN	56	803	MXN	803	MXN
CZK/CZK	976	26,841	CZK	26,841	CZK
GBP/GBP	1,929	1,295	GBP	1,295	GBP
Exchange rate swaps	**12,247**				
Fixed to fixed	**2,822**				
USD/EUR	2,560	2,433	USD	2,560	EUR
EUR/CLP	262	243	EUR	183,405	CLP
Fixed to floating	**241**				
EUR/CLP	17	16	EUR	12,217	CLP
USD/EUR	224	200	USD	224	EUR
Floating to fixed	**1,234**				
EUR/BRL	102	103	EUR	288	BRL
EUR/MAD	90	90	EUR	1,000	MAD
USD/ARS	653	860	USD	2,634	ARS
USD/COP	263	330	USD	776,005	COP
USD/MXN	11	15	USD	153	MXN
USD/PEN	115	146	USD	483	PEN
Floating to floating	**7,950**				
EUR/CLP	15	14	EUR	10,646	CLP
EUR/CZK	1,248	1,150	EUR	34,321	CZK
EUR/GBP	1,408	1,373	EUR	945	GBP