

**In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full Board meeting; the relevant appointment and removal procedures being spelled out in the Board's regulations.**

See section: B.1.34

Complies

**19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.**

See section: B.1.29

Complies

**20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: B.1.28 and B.1.30

Complies

**21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.**

Complies

**22. The Board in full should evaluate the following points on a yearly basis:**

- a) The quality and efficiency of the Board's operation;**
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and Chief Executive have carried out their duties;**
- c) The performance of its committees on the basis of the reports furnished by the same.**

See section: B.1.19

Complies

**23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or Board's regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.**

See section: B.1.42

Complies

**24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.**

See section: B.1.41

Complies

**25. Companies should organise induction's programmes for new directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.**

Complies

**26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

- a) **Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;**
- b) **Companies should lay down rules about the number of directorships their board members can hold.**

See sections: B.1.8, B.1.9 and B.1.17

Complies

**27. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:**

- a) **On the proposal of the Nomination Committee, in the case of independent directors.**
- b) **Subject to a report from the Nomination Committee in all other cases.**

See section: B.1.2

Complies

**28. Companies should post the following director particulars on their websites, and keep them permanently updated:**

- a) **Professional experience and background;**
- b) **Directorships held in other companies, listed or otherwise;**
- c) **An indication of the director's classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.**

d) The date of their first and subsequent appointments as a company director;  
and;

e) Shares held in the Company and any options on the same.

Complies

**29. Independent directors should not stay on as such for a continued period of more than 12 years.**

See section: B.1.2

Complies

**30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

See sections: A.2, A.3 and B.1.2

Complies

**31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.**

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

**32. Companies should establish rules obliging directors to inform the Board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the Board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

Complies

33. All directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the Board, director or otherwise.

Complies

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Not applicable

35. The Company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

- a) The amount of the fixed components, itemised, where necessary, of board and board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to;
- b) Variable components, in particular:
  - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.
  - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;
  - iii) The main parameters and ground for any system of annual bonuses or other, non cash benefits; and
  - iv) An estimate of the sum total of variable payments rising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
- c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

**d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:**

- i) Duration;**
- ii) Notice periods; and**
- iii) Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relation between company and executive director.**

See section: B.1.15

Complies

**36. Remuneration comprising the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to executive directors.**

**The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.**

See sections: A.3, B.1.3

Complies

**37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Complies

**38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Not applicable

**39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.**

Complies

40. The Board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the Board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Partially complies

At the Company's Ordinary General Shareholders' Meeting, the annual report regarding the Director compensation policy is given to shareholders for information purposes. In addition, this Report is available to shareholders from the date of publication of the call for the General Shareholders' Meeting.

41. The notes to the Annual Accounts should list individual directors' remuneration in the year, including:
- a) a breakdown of the compensation obtained by each company director, to include where appropriate:
    - i) Participation and attendance fees and other fixed director payments;
    - ii) Additional compensation for acting as chairman or member of a board committee;
    - iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
    - iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;
    - v) Any severance packages agreed or paid;
    - vi) Any compensation they receive as directors of other companies in the group;
    - vii) The remuneration executive directors receive in respect of their senior management posts;
    - viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

- b) **An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:**
  - i) **Number of shares or options awarded in the year, and the terms set for their execution;**
  - ii) **Number of options exercised in the year, specifying the number of shares involved and the exercise price;**
  - iii) **Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;**
  - iv) **Any change in the year in the exercise terms of previously awarded options.**
- c) **Information on the relation in the year between the remuneration obtained by executive directors and the Company's profits, or some other measure of enterprise results.**

Partially complies

In accordance with article 28.4 of the Company By-Laws, the Notes to the Financial Statements shall set forth the compensation corresponding to each position or office on the Board and the Committees thereof (Chairman, Vice Chairman, Member). The compensation payable to executive Directors shall be reflected as an aggregate figure, but shall include a breakdown of the different compensation items.

In addition, the complexity of the organizational structure of the Telefónica Group, the variety and nature of the sectors in which it carries out its activity, its multinational nature and its economic and business relevance, justify the fact that said information is included in the mentioned manner, given that its publication in any other way could damage corporate interests.

- 42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the Board should also act as secretary to the Executive Committee.**

See sections: B.2.1 and B.2.6

Complies

- 43. The Board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.**

Complies

- 44. In addition to the Audit Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.**

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

- a) **The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**

- b) **These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.**
- c) **Committees should be chaired by an independent director.**
- d) **They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e) **Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: B.2.1 and B.2.3

Complies

- 45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.**

Complies

- 46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.**

Complies

- 47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.**

Complies

- 48. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.**

Complies

- 49. Control and risk management policy should specify at least:**

- a) **The different types of risk (operational, technological, financial, legal, reputational, ...) the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;**
- b) **The determination of the risk level the Company sees as acceptable;**
- c) **Measures in place to mitigate the impact of risk events should they occur;**
- d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See section: D

Complies

**50. The Audit Committee's role should be:**

**1. With respect to internal control and reporting systems:**

- a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.
- c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

**2. With respect to the external auditor:**

- a) Make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.
- b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
- c) Monitor the independence of the external auditor, to which end:
  - i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
  - ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
  - iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.
- d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control Committee.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Complies

54. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See section: B.2.1

Complies

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals which the chief executive proposes to the Board.

**d) Report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: B.2.3

Complies

**56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.**

**Any board member may suggest directorship candidates to the Nomination Committee for its consideration.**

Complies

**57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:**

**a) Make proposals to the Board of Directors regarding:**

- i) The remuneration policy for directors and senior officers;**
- ii) The individual remuneration and other contractual conditions of executive directors.**
- iii) The standard conditions for senior officer employment contracts.**

**b) Oversee compliance with the remuneration policy set by the Company.**

See sections: B.1.14, B.2.3

Complies

**58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Complies

## **G OTHER INFORMATION OF INTEREST**

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

GENERAL CLARIFICATION: It is hereby stated that the details contained in this report refer to the Financial Year ended on December 31, 2009, except in those issues in which a different date of reference is specifically mentioned.

- Note 1 to Section A.2.]

Capital Research and Management Company, in the notification sent to the Comisión Nacional del Mercado de Valores on May 20, 2009, has not disclosed the name of the direct owner of its stake in Telefónica, S.A.

- Note 2 to Section A.3.]

It should be noted that the Company has an Internal Code of Conduct for Securities Markets Issues setting out, among other issues, the general operating principles for Directors and senior executive officers when carrying out personal trades involving securities issued by Telefónica and financial instruments and contracts whose underlying securities or instruments are issued by the Company.

The general operating principles of this Internal Code of Conduct include transactions subject to notification, action limitations as well as the minimum holding period when acquiring securities in the Company, during which time these may not be transferred, except in the event of extraordinary situations that justify their transfer, subject to authorization by the Regulatory Compliance Committee.

- **Note 3 to Section A.3.]**

On January 12, 2010, Ms. María Eva Castillo Sanz notified the Comisión Nacional del Mercado de Valores of the direct acquisition of 10,540 shares of Telefónica, S.A. In addition, on January 26, 2010, Ms. Castillo Sanz notified the CNMV of the direct acquisition of 5,475 shares of Telefónica, S.A.

- **Note 4 to Section A.3.]**

On March 5, 2007, the Executive Chairman of the Company, Mr. César Alierta Izuel, notified the Comisión Nacional del Mercado de Valores of the purchase of 8,200,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 22 euros. In addition, on April 16, 2008, Mr. Alierta notified the Comisión Nacional del Mercado de Valores of the purchase of 2,000,000 European call options on shares of Telefónica, S.A., to be settled by offset, with maturity on March 2, 2011, and an exercise price of 30 euros.

On October 16, 2007, Mr. Alfonso Ferrari Herrero notified the Comisión Nacional del Mercado de Valores of the purchase of 485,000 put-warrants on shares of Telefónica, S.A., to be settled by offset, with maturity on October 11, 2010, and an exercise price of 18.4852 euros.

On September 10, 2009, Mr. Carlos Colomer Casellas notified the Comisión Nacional del Mercado de Valores of the sale of 33,334 put options on shares of Telefónica, S.A., to be settled by offset, with maturity on May 31, 2010, and an exercise price of 15 euros. In addition, on October 23, 2009, Mr. Carlos Colomer Casellas notified the Comisión Nacional del Mercado de Valores of the sale of 17,648 put options on shares of Telefónica, S.A., to be settled by offset, with maturity on July 31, 2010, and an exercise price of 17 euros.

The amounts appearing in Section A.3. of this report under "Number of direct options" (i.e. Mr. César Alierta Izuel, 438,773; Mr. Julio Linares López, 289,190; and Mr. José María Álvarez-Pallete López, 199,810) related to the maximum number of shares corresponding to the second, third and fourth phases of the "Performance Share Plan" to be delivered (from July 1, 2010, July 1, 2011 and July 1, 2012) if all the terms established for such delivery are met.

- **Note 5 to Section B.1.10.]**

Although the investment and financing policy is not included literally in article 5.4. of the Regulations of the Board of Directors, in practice said policy is the exclusive competency of the Board of Directors of the Company.

- **Note 6 to Section B.1.11.]**

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2009, below we provide the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2009.

The compensation of Telefónica, S.A.'s directors is governed by Article 28 of the By-Laws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors. In this respect, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Board of Director's advisory or control committees. In addition, the compensation provided for above, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Therefore, the compensation paid to Telefónica directors in their capacity as members of the Board of Directors, the Executive Commission and/or the advisory and control committees consists of a fixed amount payable monthly plus fees for attending the meetings of the Board's Advisory or Control Committees. In this respect, it was also agreed that executive Board members, other than the Chairman would not receive the fixed amounts established for their directorships, but only receive the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

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

Post	Board of Directors	Executive Commission	Advisory or Control Committees
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	-
Board member			
Executive			14,000
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	-

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

Total compensation paid to Telefónica's directors for discharging their duties in 2009 amounted to 4,081,333 euros in fixed compensation and 252,500 euros in fees for attending the Board Advisory or Control Committee meetings. It should also be noted that the compensation paid to Company directors sitting on the Boards of other Telefónica Group companies amounted to 1,791,104 euros. In addition, the Company directors who are members of the regional advisory committees, including the Telefónica Corporate University Advisory Council, received a total of 553,750 euros in 2009.

The following table presents the breakdown by item of the compensation and benefits paid to Telefónica's directors for discharging their duties in 2009:

Board Members	Board of Directors	Executive Commission	Other Board Committees		TOTAL
			Fixed payment	Per diems	
<b>Chairman</b>					
Mr. César Aluerta Izuel	300,000	100,000	-	-	400,000
<b>Vice chairmen</b>					
Mr. Iñigo Fariña Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafria Aznar	250,000	-	56,000	22,500	328,500
<b>Members</b>					
Mr. Julio Linares López	-	-	-	-	-
Mr. José María Abril Pérez	150,000	100,000	14,000	1,250	265,250
Mr. José Fernando de Almansa Moreno-Barreda	150,000	-	56,000	21,250	227,250
Mr. José María Álvarez-Pallete López	-	-	-	-	-
Mr. David Arculus	150,000	-	28,000	11,250	189,250
Ms. Eva Castillo Saiz	150,000	-	14,000	10,000	174,000
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	16,250	322,250
Mr. Peter Erskine	150,000	100,000	56,000	25,000	331,000
Mr. Alfonso Ferrari Herrero	150,000	100,000	84,000	38,750	372,750
Mr. Luis Fernando Furlán	150,000	-	14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	42,500	390,500
Mr. Pablo Isla Álvarez de Tejera	150,000	-	84,000	16,250	250,250
Mr. Antonio Massanell Lavilla	150,000	-	65,333	28,750	244,083
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	15,000	321,000
<b>TOTAL</b>	<b>2,600,000</b>	<b>800,000</b>	<b>681,333</b>	<b>252,500</b>	<b>4,333,833</b>

(Euros)

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

ITEM	2009 (euros)
Salaries	5,947,604
Variable compensation	8,058,179
Compensation in kind <sup>(1)</sup>	100,051
Contributions to pension plans	25,444

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

In addition, with respect to the Pension Plan for Senior Executives, the total amount of contributions made by the Telefónica Group in 2009 in respect of executive directors was 1,925,387 euros.

In relation to the "Performance Share Plan" approved at the General Shareholders' Meeting of June 21, 2006, the maximum number of shares corresponding to the second, third and fourth phases of the Plan will be given (on July 1, 2010, July 1, 2011 and July 1, 2012) to each of Telefónica's executive directors if all the terms established for such delivery are met, is as follows: For Mr. César Alierta Izuel, 116,239, 148,818 and 173,716 shares, respectively; for Mr. Julio Linares López, 57,437, 101,466 and 130,287 shares, respectively, for Mr. José María Álvarez-Pallete López, 53,204, 67,644 and 78,962 shares, respectively. Similarly, with respect to the execution of the first phase of the Plan in July 2009, since the Total Shareholder Return (TSR) of Telefónica was higher in this phase than the TSRs of companies representing 75% of the market cap of the comparison group, the beneficiaries received, in accordance with the general terms and conditions of the Plan, all the shares assigned to them as follows: to Mr. César Alierta Izuel, 129,183 shares; to Mr. Julio Linares López, 65,472 shares; and to Mr. José María Álvarez-Pallete López, 62,354 shares.

It should be noted that the external directors do not receive and did not receive in 2009 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica's share price.

In addition, the Company does not grant and did not grant in 2009 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S., which is applicable to Telefónica as a listed company in that market.

- **Note 7 to Section B.1.11.]**

Subsection b). The "Fixed Payment" includes both the amounts of the salaries received from other Telefónica Group companies by the members of the Board of Directors in their capacity as executives, and the amount received by the members of the Board of Directors as fixed allowance for belonging to the Board of Directors of any of the companies of the Group or of its respective Committees.

- **Note 8 to Section B.1.12.]**

"Total" includes the economic valuation of the compensation received under the "Performance Share Plan", as well as contributions made by the Telefónica Group in 2009 to the Pension Plan.

In order to ensure maximum transparency in this matter, and in accordance with the information provided in the Notes to the Financial Statements corresponding to the financial year 2009, below we provide the remuneration and benefits received by the Directors of Telefónica, S.A. in the year 2009.

The six senior executives of the Company, excluding those that are directors, received a total for all items in 2009 of 10,533,852 euros. In addition, the contributions by the Telefónica Group in 2009 with respect to the Pension Plan for these directors amounted to 922,728 euros.

Furthermore, the maximum number of shares corresponding to the second, third and fourth phases of the "Performance Share Plan" assigned to the Company's senior executives for each of the periods is 130,911 shares for the second phase, 306,115 shares for the third phase and 394,779 shares for the fourth phase. Similarly, as explained above, these senior executives received a total of 284,248 shares in the first phase of the Plan.

- **Note 9 to Section B.1.21.]**

Although there are no specific powers granted to an independent Director to these effects, the Company considers that this recommendation can be deemed as complied with for the following reasons:

- In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.
- Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee – who shall in all events be an independent Director (Article 22 of the Regulations)- shall be responsible for organizing and coordinating a periodic assessment of the Board.

- **Note 10 to Section B.1.29.]**

In 2009, the other Board Committees held the following meetings:

- Human Resources and Corporate Reputation and Responsibility Committee: 5
- Regulation Committee: 6
- Service Quality and Customer Service Committee: 4
- International Affairs Committee: 4
- Innovation Committee: 8
- Strategy Committee: 10

- **Note 11 to Section B.1.31.]**

In accordance with the US securities market regulations, the information contained in the Annual Report on form 20-F (which includes the consolidated Annual Financial Statements of the Telefónica Group), filed with the Securities and Exchange Commission, is certified by the Executive Chairman of the Company, Mr. César Alierta Izuel, and by the CFO, Mr. Santiago Fernández Valbuena. However, this certification is made after the Financial Statements have been prepared by the Board of Directors of the Company.

- **Note 12 to Section B.1.39.]**

Financial year 1983 was the first audited by an external auditor. Prior to that, the financial statements were revised by chartered accountants ('censores de cuentas'). Therefore, 1983 is the base year taken for calculating the percentage in the case of audits of the Individual Annual Accounts of Telefónica, S.A. and 1991 is the date taken for the calculation of the percentage in the case of the Consolidated Annual Accounts, as 1991 was the first year in which the Telefónica Group prepared Consolidated Annual Accounts.

- **Note 13 to Section B.1.44.]**

The ruling has been appealed before the Supreme Court.

- **Note 14 to Section C.2.]**

The transactions included under "Commitments Undertaken" in amounts of 91,043, 7,733,279 and 800,000 euros, the first two of which are with Banco Bilbao Vizcaya Argentaria, S.A. and third with Caja de Ahorros y Pensiones de Barcelona, "la Caixa", entail transactions with derivatives.

- **Note 15 to Section F. Recommendation 34]**

Notwithstanding the information provided in this section, it is hereby noted that in 2009 no Director of the Company gave up their place before their tenure expired.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

**Binding definition of independent director:**

List any independent directors who maintain, or have maintained in the past, a relationship with the company, its significant shareholders or managers, when the significance or importance thereof would dictate that the directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code:

No

This Annual Corporate Governance Report was approved by the company's Board of Directors at its meeting held on February 24, 2010.

Indicate whether any Directors voted against or abstained from voting on the approval of this Report.

No

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