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

Telefónica, S.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.

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

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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.

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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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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.

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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.

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.

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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.

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.

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.

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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.

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).

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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.

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