

IMPORTANT NOTICE

~~The Depository Trust Company~~



#: 7550-10
Date: November 05, 2010
To: All Participants
Category: Dividends
From: International Services
Attention: Operations, Reorg & Dividend Managers, Partners & Cashiers
Subject: TaxRelief - Country: Spain
Telefonica, S.A. (TEF) CUSIP: 879382208
Record Date: 11/05/10 Payable Date: 11/17/10
EDS Cut-Off Date: 11/10/10
Post Payable EDS window (Quick Refund): 11/18/10 thru 12/03/10

DTC has been notified by Telefonica (the "Issuer") that income derived from its securities bearing CUSIPs 879382208 is subject to the 19% Non-Resident Income Tax (NRIT) in Spain, subject to the exemptions described in the attached document.

Participants can use DTC's Elective Dividend System (EDS) function over the Participant Terminal System (PTS) or TaxRelief option on the Participant Browser System (PBS) web site to certify all or a portion of their position entitled to the applicable withholding tax rate. Participants are urged to consult the PTS or PBS function TAXI or TaxInfoSM respectively before certifying their elections over PTS or PBS.

Important: Prior to certifying tax withholding elections, participants are urged to read, understand and comply with the information in the Legal Conditions category found on TAXI or TaxInfo in PTS or PBS respectively.

Questions regarding this Important Notice may be directed to Acupay.

Important Legal Information *ository Trust Company ("DTC") does not represent or warrant the accuracy, adequacy,*

Non-Confidential

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Citibank, as ADR Depository, is hereby distributing this important announcement with regard to the below upcoming dividend payment. Citibank has arranged with Acupay System LLC to provide certain tax relief services to holders of the ADS shares.

Issuer: Telefonica, S.A. (TEF)

Security Type:	American Depositary Shares (ADS)		
CUSIP / ISIN / Ticker:	879382208 / US8793822086 / TEF		
Issue Country:	Spain		
ADR : ORD Ratio	1 ADR share : 3 ordinary shares		
ADR Record Date:	Nov 5, 2010 (Fri)		
ADR Payment Date:	Nov 17, 2010 (Wed)		
Immediate Refund PD:	Nov 17, 2010 (Wed)		
Quick Refund PD:	Dec 17, 2010 (Fri) <i>approx.</i>		
Gross Dividend Amt:	EUR 1.95 per ADR share (to be paid in USD, approximately \$2.695095)		
Default Tax Rate:	19%		
Available Tax Rates:	18%, 15%, 12%, 10%, 5% (depending on the domicile and type of the investor, see below)		
Services Available:	Immediate Refund: Issuer Sponsored, All Investor Types, Original Documents Needed		
	Quick Refund: Issuer Sponsored, All Investor Types, Original Documents Needed		
	Standard Refund: Post-Payable Reclaim Process, All Investor Types, Original Documents Needed		
Tax Relief via Immediate Refund:	Acupay Open: Nov 02, 2010 9:00 AM EST	Acupay Cut-off: Nov 10, 2010 8:00 PM EST	
	EDS Open: Nov 08, 2010 9:00 AM EST	EDS Cut-off: Nov 10, 2010 8:00 PM EST	
Tax Relief via Quick Refund:	Acupay Open: Nov 18, 2010 9:00 AM EST	Acupay Cut-off: Dec 3, 2010 8:00 PM EST	
	EDS Open: Nov 18, 2010 9:00 AM EST	EDS Cut-off: Dec 3, 2010 8:00 PM EST	
Tax Relief via Standard Refund:	Available after December 3, 2010 – please contact Acupay for further details.		

How to Read this Important Notice:

The information in this important notice is organized as follows:

Order	Topic	Location
1	Security Details, Deadline Summary, Tax Rates and Services Summary	Page 1
2	How to Read this Important Notice	Page 1
3	Synopsis	Page 2
4	Immediate Refund: Filing Procedure	Page 3
5	Quick Refund: Filing Procedure	Page 6
6	Standard Refund: Filing Procedure	Page 6
7	Summary of Tax Relief Processing Fees	Page 6
8	Further Information and Contacts	Page 7
9	Annex A: Spanish Treaty-Reduced Tax Rates and list of E.U. Member States	Page 8
10	Annex B: Obtaining an IRS Form 6166 (U.S.-Resident Investors Only)	Page 9

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Synopsis:

- Under Spanish law, dividends paid by Telefonica to a non-Spanish resident holder of Telefonica shares including American Depositary Shares (“ADS”) are subject to the Non-Resident Income Tax (“NRIT”) in Spain, approved by Spanish Royal Decree Legislative 5/2004 of March 5, withheld at the source, currently at a 19% tax rate. To meet this requirement, the company will apply a 19% withholding tax on the gross amount of dividends, subject to the exemptions, refunds and reductions described below.
- **United States Tax Residents:** Under the terms of the Convention between the United States and Spain for the Avoidance of Double Taxation, referred to as the “Treaty”, a U.S. Tax Resident is subject to a Treaty-reduced rate of 15%, as a general rule, or 10% if the beneficial owner is a corporation which owns at least 25% of the voting rights of the shares of the company distributing the dividends. In addition, according to the new wording of the law governing the Spanish NRIT (in force since January 1, 2007), the first €1,500 of any dividends received annually from Spanish entities (such as those distributed by Telefonica) by individual holders without a permanent establishment in Spain, who are resident in a country that has an effective “exchange of fiscal information” agreement with Spain (such as the United States) will be exempt from Spanish taxation. In practice, on any dividend payment date, U.S. Residents will be subject to a withholding of 19% of the gross amount of dividends.
- **Most shareholders** are eligible for a reduced rate of tax based on tax treaties that are in force between the shareholder’s country of residence and Spain – however these rates must be requested and certain documentation must be provided in order to qualify. *See Annex A for a list of Spanish Treaty Rates.*
- **Citibank, N.A. and Acupay System LLC (Citi/Acupay)** are providing issuer-sponsored tax reductions in the form of an **Immediate Refund**. Participation in the **Immediate Refund** procedure will result in your tax withholding reduction being applied at the time of the ADR Payment Date. If the **Immediate Refund** process is not followed, the ADR dividend will be paid less the statutory 19% tax withholding, and any further tax relief must be processed via a **Standard Refund**.
- To receive a reduction in Spanish tax effective for this November 17, 2010 ADR Dividend Payment, an **original Spain-specific Certificate of Residence (e.g., U.S. IRS Form 6166)** must either be **on file** with Telefonica/Citi/Acupay or **must be provided**. This document must be valid as of **November 08, 2010** and must mention the **“United States -- Spain Income Tax Convention”** (replace *United States* as appropriate to the country of residence of the Beneficial Owner) and must be **dated no earlier than November 08, 2009 and no later than November 08, 2010** to participate in the **Immediate Refund (NOTE: Certificates of Residence dated after this date, but which specify Tax Year 2010 may be used for the **Standard Refund**)**. For Standard Refund claims, please contact Citi/Acupay to verify the documentation requirements specific to your claim. To be accepted for Spanish tax purposes, the Certificate of Residence employed must be written in either **English** or **Spanish**. These **original documents** **MUST be received by Citi/Acupay by 5:00 PM EST on December 3, 2010** for the **Immediate and Quick Refund**.

- For U.S.-resident Beneficial Owners who are not yet in possession of a U.S. IRS Form 6166, Citi/Acupay provide an easy-to-use online tool to help investors apply for one from the IRS. You may wish to notify your clients, and/or their advisors or relationship managers of the availability of this system which will enable them to receive more of their investment income. **The documentation will automatically be received by Acupay from the IRS** – you will not need to handle this documentation for your investors to benefit. The IRS charges a \$35 processing fee to produce an IRS Form 6166, and there is a small handling fee of \$10 to cover Acupay’s processing costs for each 6166. To get started, please visit: www.USTaxCertificate.com and use the *Access Code*: **879382208**.

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Immediate Refund: (Phase 1)

Filing Procedure and Documentation Requirements

Telefonica ADS shareholders that are U.S. or Canadian residents (or eligible residents of other countries, see **Annex A**), not holding their shares through a permanent establishment or a fixed base in Spain and entitled to claim the benefits under tax treaty with Spain, can apply for an Immediate Refund via Citi/Acupay. Please note that this service is intended to allow participants and investors who are already in possession of a valid Certificate of Residence (e.g., US IRS Form 6166) to provide the necessary documentation and apply for the corresponding tax relief to be paid as part of the dividend payment they are to receive on the ADR dividend payment date.

Requests for an **Immediate Refund** are available for all eligible investors (except Spanish Residents), and will involve the following requirements. Any investors that are not able to claim tax relief via **Immediate Refund** will still be able to make use of the **Standard Refund** procedure described later in this notice.

U.S. and Canadian Resident Investors – 15% Treaty-Reduced Tax Rate (4% Refund)		
	Investor Types	
1	Individuals / Physical Persons	
2	Corporations, Legal Entities	
3	Participant Owned Account	
	Required Items	Format Needed
1	DTC EDS Election for <u>15% favorable rate</u>	Via DTC
2	Valid, Original Spain-Specific IRS Form 6166	Fax/Scan <u>and</u> Original
3	Signed Acupay Cover Letter – Generated by the Acupay System	Fax/Scan <u>and</u> Original

Non U.S. Investors – See <u>Annex A</u> for Tax Treaty Rates		
	Investor Types	
1	Individuals / Physical Persons	
2	Corporations, Legal Entities	
3	Participant Owned Account	
	Required Items	Format Needed
1	DTC EDS Election See <u>Annex A</u> for Treaty-Reduced Tax Rates	Via DTC
2	Valid, Original Spain-Specific Certificate of Residence	Fax/Scan <u>and</u> Original
3	Signed Acupay Cover Letter – Generated by the Acupay System	Fax/Scan <u>and</u> Original

REMINDER: Only holdings as of November 05, 2010 (the ADR Record Date) are entitled to receive the dividend payment and any related refunds of taxes withheld. All submissions (described below) made through Acupay and EDS Elections made through DTC seeking the treaty-reduced

received by Citi/Acupay after this deadline it will invalidate your Immediate Refund request(s), and may be held for submission via the **Standard Refund** process.

- Make sure that **DTC EDS Elections** are made **equal to the total number of shares** and for the **correct tax rate(s)** for which tax relief is being requested via the Acupay System.
- **Special Instructions for Investors with original IRS Forms 6166 already on file with Citi/Acupay:**
 - For Beneficial Owners that employ the **6166 Wizard** to obtain their IRS Form 6166 (see **Annex B** of this notice), the IRS will transmit the U.S. IRS Forms 6166 directly to Citi/Acupay, where they will be kept on file awaiting employment for tax relief processing. Therefore, the U.S. IRS Form 6166 may already be on file with Citi/Acupay and not need to be provided during the Acupay submission process. If an IRS Form 6166 is **ALREADY ON FILE** for a particular Beneficial Owner, then the Acupay System will indicate that it is not necessary to provide a new IRS Form 6166 in order for that Beneficial Owner to receive the treaty-reduced rate. This will also be indicated on the Official Acupay Cover Sheet produced at the end of the submission.
 - If **NO** such IRS Form 6166 is on file for a Beneficial Owner client, then the Acupay System will indicate that an IRS Form 6166 is **“NOT ON FILE”** and the participant will need to provide one along with their submission (they will be instructed on how to do this) in order for such Beneficial Owner to receive their dividend distribution at the treaty-reduced rate.
- **DTC participants that provide clearing arrangements for downstream correspondents** can allow their downstream correspondents to make Acupay submissions themselves on behalf of their direct clients:
 - **Register their downstream correspondents** in the Acupay System by entering the details of such downstream correspondents into the ‘Add a New Registered Downstream Correspondent’ form under the ‘Downstream Correspondents’ section of their Acupay System account. Alternatively, they can invite such downstream correspondents to register themselves at www.acupaysystem.com by providing them with the **Acupay Registration Code** found within the ‘View Downstream Correspondent Registrations’ tab under ‘Downstream Correspondents’.
 - Once registered, the **downstream correspondents will be able to enter beneficial owner information** and submit documentation and U.S. IRS Forms 6166 for their own clients.
 - **Confirm the downstream correspondent's omnibus position.** If a downstream correspondent makes their own submissions via the Acupay System, the DTC participant must confirm that the positions reported by its downstream correspondent(s) are, in total, less than or equal to the aggregate share position held for that downstream correspondent as of the Record Date. This confirmation is made **ONLY** with regard to the aggregate omnibus amount held by the downstream correspondents, **NOT** with regard to the identity or tax status of the end investor clients of the downstream correspondents. These aggregate position confirmations should be kept updated through 8:00 PM EST on November 10, 2010, the Acupay Deadline date. **NOTE:** Should you have any questions or require assistance regarding this process, please contact Acupay at the contact details listed below.
 - **Make the necessary EDS elections**, for the **correct tax rate(s)** to match the total amount of Acupay submissions made by the downstream correspondent(s).

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Quick Refund: (Phase 2)

Filing Procedure and Documentation Requirements

The filing procedure and documentation requirements for the **Quick Refund** process are identical to those of the Immediate Refund process, with the exception of the dates involved and the fact that the **Quick Refund** process takes place after the ADR Payment Date. DTC participants that have as clients beneficial owners who received income net of 19% Spanish withholding tax on the Payment Date may qualify for a refund of the withheld amount through the **Quick Refund** procedure. Participants may use the Acupay System to request relief through the **Quick Refund** procedures on behalf of their clients beginning November 18, 2010 and until December 3, 2010. Please follow the above instructions for the **Immediate Refund**, keeping in mind that the dates involved will be different. Should you require assistance, please contact Acupay at the details provided below.

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Standard Refund: (Phase 3)

Filing Procedure and Documentation Requirements

If for any reason participants have not certified through the **Immediate Refund** or **Quick Refund** procedures and have received unfavorable tax treatment, eligible investors may request a tax refund from the Spanish tax authorities by following the **Standard Refund** procedure. Please note that this process may require a (non-notarized) Power of Attorney document to be signed by the Beneficial Owner empowering Citi/Acupay to claim refunds on their behalf, unless the Beneficial Owner in question has previously provided such a signed (non-notarized) Power of Attorney, which is valid until revoked by the Beneficial Owner.

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Summary of Tax Relief Processing Fees:

Tax relief via **Immediate Refund** is subject to a processing fee of \$0.005 per ADS per payment, which will be deducted from the tax refunds on dividend payments receiving a treaty-reduced rate.

Tax relief via **Quick Refund** is subject to a processing fee of \$0.0035 per ADS per payment, which will be deducted from the tax refunds on dividend payments receiving a treaty-reduced rate.

Tax relief via **Standard Refund** is subject to a processing fee of \$0.005 per ADS per payment, which will be deducted from the tax refunds on dividend payments receiving a treaty-reduced rate.

Please Note: In all cases, a Spanish local market processing fee will be charged in addition to the above ADR tax relief Processing fees. Currently, the Spanish local market processing fee €30.05 per claim will be deducted from the tax refund payments made to beneficial owners for whom refunds were successfully processed.

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Further Information and Contacts:

By submitting EDS elections DTC participants agree that they will indemnify Citi/Acupay and their agents for any liability that they may incur as a result of reliance upon information provided by such participant in such EDS elections. The DTC participant also agrees to return any funds erroneously received (including any income, penalties and additions to tax thereon) arising from its EDS elections.

Questions regarding the EDS process should be directed to DTC's International Services by calling one of the following: Sean Bollers at (212) 855-4706, Marslena Thomas at (813) 470-1117, Ambrose Devaux at (813) 470-1562, or Donna Ruggiero at (212) 855-4619.

Questions regarding relief entitlements, the **Immediate Refund**, the **Quick Refund**, the **Standard Refund**, or the Acupay System should be directed to Rosa Lopez at +1-212-422-1222 or Maria Mercedes at +44-207-382-0340 or by emailing info@Acupay.com.

Annex A

Spanish Tax Treaty Countries and Treaty Rates and list of European Union Member States

Algeria	15%	Hungary †	15%	Poland †	15%
Argentina	15%	Iceland	15%	Portugal †	15%
Australia	15%	India	15%	Romania †	15%
Austria †	15%	Indonesia	15%	Russia	15%
Belarus*	18%	Iran	10%	Saudi Arabia	5%
Belgium †	15%	Ireland †	15%	Slovakia †	15%
Bolivia	15%	Israel	10%	Slovenia †	15%
Brazil	15%	Italy †	15%	South Africa	15%
Bulgaria †	15%	Jamaica	10%	Sweden †	15%
Canada	15%	Japan	15%	Switzerland	15%
Chile	10%	Korea	15%	Tajikistan*	18%
China	10%	Kyrgyzstan*	18%	Thailand	10%
Colombia	5%	Latvia †	10%	Trinidad & Tobago	10%
Croatia	15%	Lithuania †	15%	Tunisia	15%
Cuba	15%	Luxembourg †	15%	Turkey	15%
Czech Republic †	15%	Macedonia	15%	Turkmenistan*	18%
Denmark †	<i>n/a</i>	Malaysia	5%	Ukraine*	18%
Ecuador	15%	Malta †	5%	United Arab Emirates	15%
Egypt	12%	Mexico	15%	United Kingdom †	15%
El Salvador	12%	Moldova	10%	United States	15%
Estonia †	15%	Morocco	15%	Venezuela	10%
Finland †	15%	Netherlands †	15%	Vietnam	15%
France †	15%	New Zealand	15%		
Germany †	15%	Norway	15%		
Greece †	10%	Philippines	15%		

* The countries of the former USSR are covered together under treaty. Russia, Estonia, Lithuania, Moldova and Latvia covered under separate treaties.

† European Union member states.

Please note that the above information is intended as a summary only and therefore may be incomplete.

Annex B

Obtaining an IRS Form 6166: (U.S.-Resident Investors Only)

In the U.S., all investors must provide an original Spain-specific IRS Form 6166 (certificate of residence) in order to qualify for tax relief. For those shareholders who aren't yet in possession of a U.S. IRS Form 6166, Citi/Acupay provides an easy-to-use tool to help step through the 6166 application process (i.e., IRS Form 8802). You may wish to notify your clients, and/or their advisors or relationship managers of the availability of this system which will enable them to receive more of their investment income. The documentation will automatically be received by Acupay from the IRS – you will not need to handle this documentation for your investors to benefit. The IRS charges a \$35 processing fee to produce an IRS Form 6166, and there is a small handling fee of \$10 to cover Acupay's processing costs for each 6166. To get started, please visit: www.USTaxCertificate.com and use the *Access Code*: **879382208**.

The investor creates a login so they can check on the status of the application while processing...

The 6166 Wizard is designed to ask the investor to provide only the minimum required information...

The Wizard allows for all possibilities, including single individual filers, joint filers, and partnerships...

At the end of the process, the investor can review what they've entered, reducing errors and delays.