ACTION BY UNANIMOUS WRITTEN CONSENT

OF THE

BOARD OF DIRECTORS

OF

TELEFÓNICA FINANCE USA, LLC

The undersigned, being all the directors of Telefónica Finance USA, LLC, a Delaware Limited Liability Company (the "Company"), hereby adopt the following as a resolution of the board of directors of the Company:

> RESOLVED, the attached Management Report dated February 13, 2008 concerning the 2007 financial statements of Telefónica Finance USA, L.L.C. is hereby approved and accepted.

IN WITNESS WHERE OF, the undersigned have executed this Unanimous Written Consent as of the 27th day of July 2008.

Fernando Rodriguez Alvarez-Canton

Donald J. Puglisi

Telefonica Finance USA, L.L.C.
(Delaware)

The Management herewith submits the Financial Statements of Telefonica Finance USA, L.L.C. ("the Company") as of December 31, 2007 and for the year then ended.

Net income

For 2007, the Company's net income totaled EUR 86.756.897, which represents an increase over the prior year of EUR 83.678.493, which is detailed in the accompanying Financial Statements.

As in previous years, during 2007 the sole income source of the Company is generated from the 2002 €2 billion Intercompany Loan Agreement signed with Telefonica Europe B.V.. During 2007, the Company generated interest income of 98.814.555€, as compared to 95.740.000€ for 2006.

At September 30, 2007 the Loan's interest rate was 4,7870% (consisting of the three-month contract minimum EURIBOR effective rate -4.184%- and a fixed spread -0.603%-). As a result of the recorded increase in the 3 month - EURIBOR during the 4^{th} quarter, the rate surpassed the minimum EURIBOR rate fixed by the loan agreement, the applicable rate for the last year's interest payment was 5,3890% (4.786%+0.603%). Thus, the Company obtained 3.074.555€ in additional interest than the prior year.

There are no significant changes in expenses in comparison to the 2006 Profit and Loss Report. The Company's expenses are principally from the paid fees of a liquidity agreement signed together with the underwriters of our preferred capital securities. The Company administrative expenses have been reduced by 8,6% totaling 56.192€.

Dividends payment

86.754.555 € in preferred dividends were paid during 2007. It represents an increase of 3,67% compared to 2006 preferred dividends payment. This increase is due to our net income increase.

Assets

No relevant changes have been registered. At December 31, 2007 the 2€ billion Loan receivable remains the same outstanding amount as compared to 2006. No capital repayment has been made.

Liabilities

The minor increase in our current liabilities it's due to the variation of the dividends payable which have increased. The Company has not incurred any long term liabilities.

No significant variations have occurred in the Company's equity. An increase of (2.342 €) in equity has occurred as a result of net income.

Future developments

No significant variation on granted loans or outstanding liabilities is expected.

There are no plans for any new intercompany loans, but that could change during the 2008 fiscal year due to the Telefonica´s group financing needs.

Delaware, February 13, 2008

Acknowledgement of Independent Certified Public Accountants

We agree to the inclusion in the Telefonica Finance USA, LLC's 2007 Financial Report of our report dated March 24, 2008, with respect to the financial statements of Telefonica Finance USA, LLC. We understand that the Financial Report and the Management Report will be filed with the Comision Nacional del Mercado de Valores.

Ernst & Young LLP

Ernst & Young LLP

Miami, Florida
March 24, 2008

Telefónica

CNMV
Registro de Auditorias
Emisores
Nº 10944

Telefónica, S.A.

COMISION NACIONAL DEL MERCADO DE VALORES
04 JUN. 2008
REGISTRO DE ENTRADA
Nº 2008 57717

Dirección General de Mercados
Comisión Nacional del Mercado de Valores
Calle Serrano, 47
28001 - Madrid

Madrid, 4 de junio de 2008

Muy señores míos:

En cumplimiento de lo establecido en el artículo 8 del Real Decreto 1362/2007, de 19 de octubre, se remiten a esa Comisión los siguientes documentos:

(i) las Cuentas Anuales originales de Telefónica Finance, L.L.C. correspondiente al Ejercicio 2007, elaboradas de acuerdo con los principios de contabilidad aplicables a esta compañía;

(ii) las Declaraciones de responsabilidad sobre el contenido de los documentos anteriores firmadas por todos sus Administradores; y

(iii) los documentos en los que constan los Informes de verificación de dichas Cuentas Anuales por parte del Auditor de Cuentas de la Compañía, Ernst & Young, S.L.

Atentamente,

Lucila Rodríguez Jorge
Secretaria General Jurídica y del Consejo
Asesoría del Mercado de Valores

RESPONSABILITY STATEMENT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007.

The members of the Board of Directors of Telefónica Finance USA, L.L.C. hereby declare that, insofar as the know, the Annual Financial Statements for the year ended December 31, 2007, approved at the meeting held on March 24, 2008, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Telefónica Finance USA, L.L.C.

On May 2, 2008

Ms. Cecilia Arriera
Director of Telefónica Finance USA, L.L.C.

Mr. Fernando Rodríguez Álvarez-Cantón
Director of Telefónica Finance USA, L.L.C.

Mr. Donald J.Puglisi
Director of Telefónica Finance USA, L.L.C.

RESPONSABILITY STATEMENT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007.

The members of the Board of Directors of Telefónica Finance USA, L.L.C. hereby declare that, insofar as the know, the Annual Financial Statements for the year ended December 31, 2007, approved at the meeting held on March 24, 2008, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Telefónica Finance USA, L.L.C.

On May 2, 2008

Ms. Cecilia Arriera
Director of Telefónica Finance USA, L.L.C.

Mr. Fernando Rodríguez Álvarez-Cantón
Director of Telefónica Finance USA, L.L.C.

Mr. Donald J.Puglisi
Director of Telefónica Finance USA, L.L.C.

FINANCIAL STATEMENTS

Telefónica Finance USA, L.L.C.
For the Years Ended December 31, 2007 and 2006
With Report of Independent Certified Public Accountants

Telefónica Finance USA, L.L.C.

Financial Statements

For the Years Ended December 31, 2007 and 2006

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Ernst & Young

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Suite 3000
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Miami, Florida 33131-4330

Phone: (305) 358-4111
www.ey.com

Report of Independent Certified Public Accountants

The Board of Trustees and Securityholders
Telefónica Finance USA, L.L.C.

We have audited the accompanying balance sheets of Telefónica Finance USA, L.L.C. (the Company), as of December 31, 2007 and 2006, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telefónica Finance USA, L.L.C. at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

March 24, 2008

Telefónica Finance USA, L.L.C.

Balance Sheets

		December 31 2007	2006
Assets			
Current assets:			
Cash		€ **36,832**	€ 34,991
Accrued interest receivable		**596,444**	531,889
Total current assets		**633,276**	566,880
Loan to Telefónica Europe B.V.	Note 3	**2,000,000,000**	2,000,000,000
Total assets		**€ 2,000,633,276**	€ 2,000,566,880
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable		€ **4,241**	€ 4,742
Notes payable		**12,000**	12,000
Preferred dividends payable		**529,444**	464,889
Liquidity fee payable		**66,663**	66,663
Total current liabilities		**612,348**	548,294
Stockholders' equity:			
Common capital	Note 4	**95**	95
Preferred shares	Note 5	**2,000,000,000**	2,000,000,000
Retained earnings		**20,833**	18,491
Total stockholders' equity		**2,000,020,928**	2,000,018,586
Total liabilities and stockholders' equity		**€ 2,000,633,276**	€ 2,000,566,880

See accompanying notes.

Telefónica Finance USA, L.L.C.

Statements of Operations and Retained Earnings

	Years Ended December 31	
	2007	**2006**
Revenues:		
Interest income	€ **98,814,555**	€ 95,740,000
Operating expenses:		
Liquidity fee	**12,000,000**	12,000,000
Administrative expenses	**56,192**	61,507
Total operating expenses	**12,056,192**	12,061,507
Other expense:		
Loss on currency exchange	**(1,466)**	–
Net income	**86,756,897**	83,678,493
Preferred dividends	**(86,754,555)**	(83,680,000)
Net income (loss) attributable to common securityholder	**2,342**	(1,507)
Retained earnings – beginning of year	**18,491**	19,998
Retained earnings – end of year	€ **20,833**	€ 18,491

See accompanying notes.

Telefónica Finance USA, L.L.C.

Statements of Cash Flows

	Years Ended December 31 2007	2006
Operating activities		
Net income	€ **86,756,897**	€ 83,678,493
Adjustments to reconcile net income to cash provided by operations:		
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	**(64,555)**	–
Decrease in accounts receivable	–	3,814
Decrease in accounts payable	**(501)**	(553)
Cash provided by operating activities	**86,691,841**	83,681,754
Financing activities		
Payment of preferred dividends	**(86,690,000)**	(83,680,000)
Cash used in financing activities	**(86,690,000)**	(83,680,000)
Increase in cash	**1,841**	1,754
Cash – beginning of year	**34,991**	33,237
Cash – end of year	€ **36,832**	€ 34,991
Supplemental disclosure of noncash financing activities		
Accrued dividends on preferred capital securities	€ **64,555**	€ 464,889

See accompanying notes.

1. General

Telefónica Finance USA, L.L.C. (the Company) was formed under the laws of the State of Delaware on June 27, 2002. The Company commenced operations on December 30, 2002. The Company is a wholly owned subsidiary of Telefónica Europe B.V. (Telefónica Europe) which, in turn, is a wholly owned subsidiary of Telefónica, S.A. (Telefónica). Telefónica is a Spanish corporation that operates in the telecommunications, internet, and media businesses. The Company was established for the purpose of issuing preferred capital securities and common capital securities and to use substantially all of the proceeds thereof to enter into loan agreements with Telefónica Europe or other non-U.S. affiliates of Telefónica.

2. Summary of Significant Accounting Policies

The Company's functional currency is the Euro. The following summarizes the significant accounting policies:

Cash—Cash represents cash with original maturities of three months or less.

Revenue Recognition—Interest income is recognized as earned, based upon the principal amount outstanding on an accrual basis.

Fair Value of Financial Instruments—Presented below is a brief summary of the significant management estimates relating to the fair value of financial instruments:

Cash—The recorded amounts of cash approximate fair value due to the short-term nature of these instruments.

Loan to Telefónica Europe B. V.—The recorded amount of the loan approximates fair value due to the periodic repricing of the loan's interest rate to a rate that approximates market interest rates.

Estimates and Assumptions—Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Income Taxes—The Company is a partnership for federal income tax purposes. As such, the income tax effects of the results of operations of the Company accrue directly to the owners. Accordingly, the accompanying financial statements do not include any effects for income taxes.

New Accounting Pronouncements—In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company on January 1, 2008. The effect of SFAS No. 157 is not expected to have a material impact on the financial position and results of operations.

In February 2007, the Financial Accounting Standard Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which provides companies with an option to report selected financial assets and liabilities at their fair values. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with FASB's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective for the Company on January 1, 2008. The Company is currently evaluating the effects of the adoption of SFAS No. 159.

3. Loan to Telefónica Europe B.V.

On December 30, 2002, the Company made a loan of €2 billion to Telefónica Europe in exchange for a promissory note. The note, which matures on December 30, 2012, bears interest at a rate equal to the three-month Euro Interbank Offered Rate (Euribor) plus a margin (0.603%), provided, however, that the three-month Euribor effective rate shall in no event be less than 4.184% or more than 6.823%. Interest shall be due and payable quarterly in arrears on March 30, June 30, September 30, and December 30 commencing March 30, 2003. The effective interest rate of the loan was 5.389% as of December 30, 2007 and 4.787% December 30, 2006.

4. Common Capital Securities

The Company has issued 10 common capital securities to Telefónica Europe. Common capital securities are allocated 100% of all net losses of the Company (in the event such should occur) and all gains and losses resulting from the disposition of assets from the Company. The net profits of the Company are allocated to the preferred capital securities until the amount so allocated equals the amount of dividends declared for the year on the preferred capital securities. Any net profits in excess of the amount allocated to the preferred capital securities are allocated to the common capital securities.

5. Preferred Capital Securities

The Company is authorized to issue and sell preferred capital securities having an aggregate initial liquidation preference of €2 billion. This amount may be amended or restated by resolution of the Board of Directors. Holders of preferred capital securities are entitled to receive, when and if declared by the Board of Directors out of the Company's net profits, cash dividends that will be paid at such rates as will be determined by the Board of Directors prior to the first issuance of these securities. Dividends on the preferred capital securities are noncumulative.

Preferred capital securities possess no voting rights. However, in the event that the Company fails to pay dividends in full on the preferred capital securities (and the guarantor fails to make a corresponding payment under the guarantee) for five consecutive dividend periods, then the holders of the preferred capital securities have the right to alter the composition of the Board of Directors as prescribed in the Amended and Restated Limited Liability Company Agreement of the Company (the Agreement).

Preferred capital securities may not be sold or otherwise transferred to persons in the United States of America except pursuant to sales or other transfers that satisfy the requirements of Regulation S under the Securities Act of 1933 (the Securities Act) or that are otherwise exempt from the registration requirements of the Securities Act.

In the event of any voluntary or involuntary liquidation of the Company, the holders of the preferred capital securities will be entitled to receive out of the assets of the Company available for distribution to securityholders, an amount equal to the liquidation preference per preferred capital security, plus accrued and unpaid dividends thereon for the then-current dividend period, if any, to the date of liquidation. This distribution will occur before any distribution of assets is made to holders of common capital securities or any other class of securities ranking junior to the preferred capital securities.

5. Preferred Capital Securities (continued)

On December 30, 2002, the Company completed the issuance of two million preferred capital securities and received proceeds of €2 billion from the issuance. Preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor effective rate, provided, however, that the three-month Euribor effective rate shall in no event be less than 4.184% or more than 6.823%. Dividends are payable quarterly in arrears on March 30, June 30, September 30, and December 30, commencing March 30, 2003. The preferred capital securities shall not be redeemed by the Company prior to December 30, 2012, with the exception of certain tax-related events, as defined in the Agreement. In the event the preferred capital securities are not redeemed on December 30, 2012, preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor rate plus an effective annual rate of 4%. All costs related to this transaction were incurred by Telefónica and will not be charged to the Company. Telefónica is the guarantor of these securities.

6. Liquidity Fee

In December 2002, the Company entered into a Contrato de Liquidez (the Liquidity Fee Agreement) with the underwriters of its preferred capital securities offering. Pursuant to the Liquidity Fee Agreement, the Company is committed to pay a quarterly liquidity fee of 0.15% of the outstanding principal amount of the preferred capital securities to certain financial institutions.

7. Related-Party Transactions

Pursuant to the Agreement, Telefónica Europe is responsible for, and will pay; substantially all expenses of the Company to the extent such expenses are not paid by the Company. The expenses covered by the Agreement include administrative and organization costs as well as any costs resulting from any litigation against the Company. No expenses were paid on behalf of the Company in 2007 and 2006.

As discussed in Note 3, the Company's loan to Telefónica Europe B.V. is with a related party.

7. Related-Party Transactions (continued)

Puglisi & Associates, under the terms of a Vendor Agreement dated October 24, 2002, provides accounting, accounts payable, treasury functions, and related administrative functions for the Company. The related vendor fee amounts to $28,500 per year. Under the terms of a Lease Agreement dated October 24, 2002, Puglisi & Associates also provides office space to the Company. The office lease expense amounts to $1,500 per year. Puglisi & Associates is a sole proprietorship owned by Donald J. Puglisi, who is a director of Telefónica Finance USA, LLC. The related director fee amounts to $6,000 per year.

Had the Company operated autonomously the financial position, results of operations, and cash flows may have differed from what is presented here in these financial statements.