REGIS CORP
Form 8-K
August 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 3, 2010**

REGIS CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	**1-12725**	**41-0749934**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No)

7201 Metro Boulevard

Minneapolis, MN 55439

(Address of principal executive offices and zip code)

(952) 947-7777

(Registrant s telephone number, including area code)

(Not applicable)

(Former name or former address, if changed from last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Regis Corporation
Current Report on Form 8-K

ITEM 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

On August 3, 2010, Mr. Joseph L. Conner was elected to the Board of Directors of Regis Corporation (the Company). Mr. Conner was appointed to serve as a member of the Audit, Compensation and Nominating and Corporate Governance Committees of the Board of Directors. Mr. Conner will receive the Company s standard director compensation, which is described under the heading 2009 Director Compensation Table in the Company s proxy statement for its 2009 annual meeting of shareholders.

A copy of the press release announcing Mr. Conner s election to the Board of Directors is attached as Exhibit 99.1 and incorporated herein by reference.

ITEM 8.01. OTHER EVENTS.

A copy of a press release announcing that the Company s Board of Directors has authorized the exploration of strategic alternatives to enhance shareholder value is attached as Exhibit 99.2 and incorporated herein by reference.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(d) Exhibits.

EXHIBIT NUMBER	
99.1	Regis Corporation News Release dated August 4, 2010 Regis Elects New Independent Director
99.2	Regis Corporation News Release dated August 4, 2010 Regis Board to Evaluate Strategic Alternatives to Enhance Shareholder Value

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

REGIS CORPORATION

Dated: August 5, 2010	By:	/s/ Eric Bakken Name: Eric Bakken, Title: Secretary

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sp; 3.52% 3.27% 1.84%
USD
(37)
Fixed to floating
(28)
Receiving leg
(594) (63) (229) (886) (914)
Average interest rate
3.08% 3.74% 4.43%
Paying leg
594 63 229 886 886
Average spread

Floating to fixed
(9)
Receiving leg
(486) (191) (451) (416) (635) (2,179) (473)
Average spread
0.20% 0.35% 3.99% 3.61% 1.59%
Paying leg
486 191 451 416 635 2,179 464
Average interest rate
2.62% 0.50% 3.68% 1.70%
MXN

Floating to fixed

Receiving leg
(1) (1) (1)
Average spread
(0.54%) (0.54%)
Paying leg

1	1	1
Average interest rate		
8.43%		8.43%

INTEREST RATE SWAPS

				Maturity				
Millions of euros	**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**TOTAL**	**Fair value**
NON TRADING PURPOSES								
EUR								**(274)**
Fixed to floating								(669)
Receiving leg	(5,088)	(2,039)	(504)	(1, 654)	(3,055)	(3,313)	(15,653)	(13,806)
Average interest rate	3.23%	3.50%	3. 77%	4.69%	3.33%	3.47%	3.51%	
Paying leg	5,088	2,039	504	1,654	3,055	3,313	15,653	13,137
Average spread	0.80%	0.01%	0.05%	0.03%	0.01%	0.00%	0.27%	
Floating to fixed								395
Receiving leg	(5,312)	(3,949)	(500)	(550)	(730)	(7,503)	(18,544)	(14,842)
Average spread	0.19%			3.48%	2.35%		0.25%	
Paying leg	5,312	3,949	500	550	730	7,503	18,544	15,237
Average interest rate	2.64%	2.82%	3.74%		1.09%	3.72%	3.01%	
CZK								**5**
Floating to fixed								5
Receiving leg	(430)						(430)	(430)
Average spread	0.01%						0.01%	
Paying leg	430						430	435
Average interest rate	3.35%						3.35%	
USD								**(547)**
Fixed to floating								(583)
Receiving leg		(694)		(521)		(4,304)	(5,519)	(6,103)
Average interest rate		3. 90%		5.52%		4.84%	4.79%	
Paying leg		694		521		4,304	5,519	5,520
Average spread								
Floating to fixed								36
Receiving leg	(26)	(26)	(26)	(616)	(26)	(51)	(771)	(769)
Average spread								

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INTEREST RATE SWAPS

Millions of euros	2010	2011	2012	2013	2014	Subsequent years	TOTAL	Fair value
Paying leg	26	26	26	616	26	51	771	805
Average interest rate	4.34%	4.34%	4.34%	3.35%	4.34%	4.34%	3.55%	
BRL								
Floating to floating								
Receiving leg	(598)						(598)	(483)
Average spread	0.35%						0.35%	
Paying leg	598						598	483
Average spread								
MXN								**3**
Floating to fixed								3
Receiving leg	(159)						(159)	(166)
Average spread	0.61%						0.61%	
Paying leg	159						159	169
Average interest rate	8.16%						8.16%	
GBP								**22**
Fixed to floating								216
Receiving leg					(563)	(732)	(1,295)	(1341)
Average interest rate					5.25%	3.92%	4.50%	
Paying leg					563	732	1,295	1,557
Average spread						1.64%	0.92%	
Floating to fixed								(194)
Receiving leg		(609)				(455)	(1,064)	(1,065)
Average spread								
Paying leg		609				455	1,064	871
Average interest rate		5.12%				4.96%	5.05%	
JPY								**(4)**
Fixed to floating								(4)
Receiving leg			(113)				(113)	(117)
Average interest rate			1.68%				1.68%	
Paying leg			113				113	113
Average spread								
CLP								
Fixed to floating								1
Receiving leg				(21)	(28)		(49)	(48)
Average interest rate				4.12%	4.51%		4.34%	
Paying leg				21	28		49	49
Average spread								
Floating to fixed								(1)
Receiving leg	(82)	(96)	(51)	(95)			(324)	(147)
Average spread	1.55%						0.39%	
Paying leg	82	96	51	95			324	146
Average interest rate		1.82%	3.74%	3.76%			2.23%	

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Foreign exchange and interest rate options, by maturity, at December 31, 2009 are as follows:

	CURRENCY OPTIONS MATURITIES				
Figures in euros	**2010**	**2011**	**2012**	**2013**	**Subsequent years**
Put USD / Call EUR					
Notional amount of options bought		201,305,012		70,803,832	1,664,931,279
Strike		1.59%		1.50%	1.75%
Notional amount of options sold		195,129,693			831,255,453
Strike		1.49%			1.20%

	INTEREST RATE OPTIONS MATURITIES				
Figures in euros	**2010**	**2011**	**2012**	**2013**	**Subsequent years**
Collars					
Notional bought			1,119,299,628		2,161,986,806
Strike Cap			4.746%		4.77%
Strike Floor			3.409%		3.48%
Caps					
Notional bought			3,412,999,662		
Strike			4.205%		
Notional sold			6,032,299,291		2,161,986,806
Strike			5.399%		5.003%
Floors					
Notional bought			2,619,299,628		2,094,499,493
Strike			2.844%		0.802%
Notional sold	363,096,573		700,000,000		
Strike	4.382%		2.147%		

Cash flows receivable or payable on derivative financial instruments settled via the swap of nominals, by currency of collection/payment, along with contractual maturities are as follows:

Millions of euros		**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**Total**
Currency swaps								
Receive	ARS							
Pay	ARS	(130)	(52)					(182)
Receive	BRL							
Pay	BRL	(51)	(64)	(65)	(4)	(38)	(88)	(310)
Receive	CLP	96	175	82	95			448
Pay	CLP	(191)	(349)	(232)	(189)	(195)		(1,156)
Receive	COP							
Pay	COP	(86)	(172)	(172)	(21)	(21)		(472)
Receive	CZK							
Pay	CZK	(622)	(111)	(111)		(222)		(1,066)
Receive	EUR	1,714	958	323		280	588	3,863

Pay	EUR	(3,619)	(785)	(356)	(1,118)		(7,872)	(13,750)
Receive	GBP	873						873
Pay	GBP	(873)	(609)				(455)	(1,937)
Receive	JPY	8	9	451			113	581
Pay	JPY							
Receive	MAD							
Pay	MAD			(88)				(88)
Receive	MXN							
Pay	MXN	(2)						(2)
Receive	PEN							
Pay	PEN	(7)	(15)	(16)	(16)	(13)	(60)	(127)

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Millions of euros		2010	2011	2012	2013	2014	Subsequent years	Total
Receive	UFC	204	34	172		143		553
Pay	UFC	(102)	(111)	(86)				(299)
Receive	USD	1,959	1,297	160	1,286	67	7,283	12,052
Pay	USD	(7)	(156)		(104)			(267)
TOTAL		**(836)**	**49**	**62**	**(71)**	**1**	**(491)**	**(1,286)**
Forwards								
Receive	ARS	42						42
Pay	ARS	(340)						(340)
Receive	BRL							
Pay	BRL	(159)						(159)
Receive	CLP	142						142
Pay	CLP	(244)	(1)					(245)
Receive	COP	22						22
Pay	COP	(191)						(191)
Receive	CZK						14	14
Pay	CZK	(1,145)						(1,145)
Receive	EUR	3,262						3,262
Pay	EUR	(2,985)	(3)	(23)	(19)		(14)	(3,044)
Receive	GBP	2,488						2,488
Pay	GBP	(544)						(544)
Receive	MXN							
Pay	MXN	(530)						(530)
Receive	PEN	25						25
Pay	PEN	(27)						(27)
Receive	UFC	140						140
Pay	UFC	(142)						(142)
Receive	USD	2,112	4	24	20			2,160
Pay	USD	(1,897)						(1,897)
TOTAL		**29**		**1**	**1**			**31**

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The breakdown of financial instruments arranged by us (notional amount) by currency and interest rates at December 31, 2008, is as follows:

								FAIR VALUE		
Millions of Euros	**2009**	**2010**	**2011**	**2012**	**2013**	**Subsequent years**	**Total**	**Underlying debt**	**Associated derivatives**	**TOTAL**
EURO	**619**	**3,198**	**8,482**	**3,223**	**4,066**	**7,893**	**27,481**	**24,421**	**2,626**	**27,047**
Floating rate	(9,170)	(1,210)	6,475	(158)	4,112	799	848	7,639	(7,574)	65
Spread Ref Euribor	-0.05%	-0.35%	0.18%	0.46%	0.04%	0.25%	0.62%			
Fixed rate	9,439	4,408	1,607	31	(46)	5,844	21,283	11,349	10,244	21,593
Interest rate	4.40%	4.76%	2.66%	-22.88%	-51.84%	4.20%	4.37%			
Rate cap	350		400	3,350		1,250	5,350	5,433	(44)	5,389
OTHER EUROPEAN CURRENCIES	**846**	**700**	**779**	**1,770**	**160**	**2,359**	**6,614**	**3,557**	**2,964**	**6,521**
Instruments in CZK	**2,025**	**700**	**123**	**111**		**97**	**3,056**	**303**	**2,753**	**3,056**
Floating rate		278					278	88	191	279
Spread		0.07%					0.07%			
Fixed rate	2,025	422	123	111		97	2,778	215	2,562	2,777
Interest rate	4.04%	3.35%	3.41%	4.35%		4.62%	3.94%			
Rate cap										
Instruments in GBP	**(1,179)**		**656**	**1,659**	**160**	**2,262**	**3,558**	**3,254**	**211**	**3,465**
Floating rate			63	740	155	(525)	433	59	569	628
Spread			4.60%	0.27%	0.27%		0.34%			
Fixed rate	(1,179)		593	394	5	1,737	1,550	1,916	(472)	1,444
Interest rate	3.16%		5.12%	7.63%	6.44%	5.27%	7.42%			
Rate cap				525		1,050	1,575	1,279	114	1,393
AMERICA	**(60)**	**1,844**	**889**	**747**	**1,146**	**3,764**	**8,330**	**12,334**	**(6,555)**	**5,779**
Instruments in USD	**473**	**205**	**245**	**188**	**782**	**921**	**2,814**	**9,855**	**(9,502)**	**353**
Floating rate	(529)	206	151	173	142	96	239	2,492	(2,374)	118
Spread	0.85%	0.41%	-1.34%	0.96%	1.89%		-0.98%			
Fixed rate	669	(11)	84	5	630	795	2,172	6,957	(7,143)	(186)
Interest rate	4.09%	-48.90%	26.66%	-7.92%	3.20%	13.20%	8.28%			
Rate cap	333	10	10	10	10	30	403	406	15	421
Instruments in UYU	**(2)**	**2**	**2**				**2**	**1**		**1**
Floating rate										
Spread										
Fixed rate	(2)	2	2				2	1		1
Interest rate	-3.19%	3.75%	3.75%				13.67%			
Rate cap										
Instruments in ARS	**110**	**141**	**59**				**310**	**(85)**	**321**	**236**
Floating rate										

Spread										
Fixed rate	110	141	59				310	(85)	321	236
Interest rate	-54.69%	6.63%	11.49%				-14.12%			
Rate cap										

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Millions of Euros	2009	2010	2011	2012	2013	Subsequent years	Total	FAIR VALUE Underlying debt	Associated derivatives	TOTAL
Instruments in BRL	**(209)**	**726**	**161**	**154**	**154**	**311**	**1,297**	**607**	**661**	**1,268**
Floating rate	(348)	667	136	130	130	272	987	548	469	1,017
Spread	0.74%	0.49%	3.64%	3.74%	3.75%		2.20%			
Fixed rate	139	59	25	24	24	39	310	59	192	251
Interest rate	21.00%	4.23%	10.03%	10.03%	10.03%	9.96%	13.83%			
Rate cap										
Instruments in CLP	**349**	**105**	**170**	**102**	**78**		**804**	**(15)**	**820**	**805**
Floating rate	212	105	151	102	78		648	113	475	588
Spread	-0.20%	0.09%	0.06%	0.13%			-0.01%			
Fixed rate	137		19				156	(128)	345	217
Interest rate	8.59%		4.70%				8.11%			
Rate cap										
Instruments in UFC	**2**	**2**	**68**	**2**	**2**	**4**	**80**	**173**	**(95)**	**78**
Floating rate								86	(86)	
Spread										
Fixed rate	2	2	68	2	2	4	80	87	(9)	78
Interest rate	6.53%	6.56%	4.43%	7.45%	6.00%	6.00%	4.74%			
Rate cap										
Instruments in PEN	**161**	**181**	**102**	**82**	**61**	**339**	**926**	**807**	**155**	**962**
Floating rate										
Spread										
Fixed rate	161	181	102	82	61	339	926	807	155	962
Interest rate	5.63%	7.13%	6.67%	6.70%	7.45%	6.23%	6.47%			
Rate cap										
Instruments in COP	**579**	**56**	**82**	**33**	**69**	**183**	**1,002**	**391**	**587**	**978**
Floating rate	8	43	36	33	30		150	148		148
Spread										
Fixed rate	571	13	46		39	183	852	243	587	830
Interest rate	12.66%	15.82%	14.10%		13.44%		10.10%			
Rate cap										
Instruments in UVR						**2,006**	**2,006**	**2,006**		**2,006**
Floating rate										
Spread										
Fixed rate						2,006	2,006	2,006		2,006
Interest rate						7.67%	7.67%			
Rate cap										
Instruments in VEB	**(1,998)**						**(1,998)**	**(1,999)**		**(1,999)**
Floating rate										

Spread				
Fixed rate	(1,998)	(1,998)	(1,999)	(1,999)
Interest rate	10.34%	10.34%		
Rate cap				

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								FAIR VALUE		
Millions of Euros	**2009**	**2010**	**2011**	**2012**	**2013**	**Subsequent years**	**Total**	**Underlying debt**	**Associated derivatives**	**TOTAL**
Instruments in MXN	**479**	**426**		**186**			**1,091**	**597**	**498**	**1,095**
Floating rate	47	266					313	412	63	475
Spread	3.30%	0.61%					1.01%			
Fixed rate	432	160		186			778	185	435	620
Interest rate	12.85%	8.17%		9.25%			11.02%			
Rate cap										
Instruments in GTQ	**(4)**						**(4)**	**(4)**		**(4)**
Floating rate	(4)						(4)	(4)		(4)
Spread	0.01%						0.01%			
Fixed rate										
Interest rate										
Rate cap										
ASIA								**575**	**(597)**	**(22)**
Instruments in JPY								**575**	**(597)**	**(22)**
Floating rate								152	(158)	(6)
Spread										
Fixed rate								423	(439)	(16)
Interest rate										
Rate cap										
AFRICA				**88**			**88**		**84**	**84**
Instruments in MAD				**88**			**88**		**84**	**84**
Floating rate										
Spread										
Fixed rate				88			88		84	84
Interest rate				4.54%			8.57%			
Rate cap										
TOTAL	**1,405**	**5,742**	**10,150**	**5,828**	**5,372**	**14,016**	**42,513**	**40,887**	**(1,478)**	**39,409**
Floating rate	(9,784)	355	7,012	1,020	4,647	642	3,892	11,733	(8,425)	3,308
Fixed rate	10,506	5,377	2,728	923	715	11,044	31,293	22,036	6,862	28,898
Rate cap	683	10	410	3,885	10	2,330	7,328	7,118	85	7,203
Currency options							**(202)**		**(202)**	
Other							**422**			

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	CURRENCY OPTIONS MATURITIES					
Figures in euros	**2009**	**2010**	**2011**	**2012**	**2013**	**2013+**
Call USD/Put BRL						
Notional amount of options bought	287,418,265					
Strike	2.36					
Notional amount of options sold	290,062,464					
Strike	2.36					
Put USD / Call BRL						
Notional amount of options bought	114,284,734					
Strike	1.86					
Notional amount of options sold	143,709,133					
Strike	1.86					
Call USD / Put ARS						
Notional amount of options bought	15,825,484					
Strike	3.38					
Call USD / Put EUR						
Notional amount of options bought	291,010,994		208,378,242		148,020,407	1,723,431,774
Strike	1.59		1.59		1.49	1.40
Notional amount of options sold	268,984,547		195,129,693			831,255,453
Strike	1.51		1.49			1.20

	INTEREST RATE OPTIONS MATURITIES				
Figures in euros	**2009**	**2010**	**2011**	**2012**	**2013+**
Collars					
Notional bought	781,127,398		400,000,000	200,000,000	2,689,686,974
Strike Cap	3.897%		4.000%	3.80%	4.53%
Strike Floor	2.733%		3.300%	2.80%	3.13%
Caps					
Notional bought				6,784,908,136	
Strike				4.28%	
Notional sold	700,000,000		400,000,000	6,784,908,136	2,689,686,974
Strike	4.75%		4.55%	5.156%	5.24%
Floors					
Notional bought	1,481,127,398		400,000,000	567,454,068	2,599,868,766

Strike	0.71%		1.00%	1.15%	1.72%
Notional sold	1,050,000,000	367,974,663		1,067,454,068	
Strike	2.73%	4.39%		2.75%	

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APPENDIX IV: INTEREST-BEARING DEBT

The main financing transactions included under this heading outstanding at December 31, 2009 and 2008 and their nominal amounts are as follows:

Name Summary	Amount of contract (millions)	Outstanding nominal balance (million euros) 12/31/09	12/31/08	Arrangement date	Maturity date
Telefónica Europe, B.V. syndicated loan O2 acquisition	5,250 GBP	3,091	4,203	12/07/06	12/14/13
Telefónica Europe, B.V. loan	15,000 JPY	113	119	08/23/07	07/27/37
Telefónica, S.A. syndicated loan Cesky acquisition	6,000 EUR	6,000	6,000	06/28/05	06/28/13
Telefónica, S.A. syndicated loan with savings banks	700 EUR	700	700	04/21/06	04/21/17
TELFISA EIB financing	257 USD	179	211	09/15/04	09/15/16
TELFISA EIB financing	109 EUR	109	125	11/15/04	09/15/16
TELFISA EIB financing	300 EUR	300	300	12/12/06	12/12/11
TELFISA EIB financing	100 EUR	100	100	01/31/07	01/31/15
TELFISA EIB financing	375 EUR	375	375	01/30/08	01/30/15
Vivo loans	765 BRL	287	211	07/13/07	08/15/14
Telesp loans	2,034 BRL	792	525	10/23/07	05/15/15
CTC loans	4 UFC	103	86	04/14/05	04/14/10
CTC syndicated loans	150 USD	104	108	10/28/05	06/21/11
CTC syndicated loans	150 USD	104	108	06/09/08	05/13/13
Telefónica Móviles Chile syndicated loans	180 USD	125	129	01/05/06	01/05/11
Telefónica Móviles Chile syndicated loans	100,000 CLP	105	113	11/15/06	11/15/12
Colombia Telecomunicaciones loans	310,000 COP	105	99	12/28/09	12/28/14
Telefónica Móviles Colombia loans	600 USD	417	431	12/20/07	11/15/12
Other		**4,849**	**5,987**		
TOTAL		**17,958**	**19,930**		

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APPENDIX V: MAIN COMPANIES COMPRISING THE TELEFÓNICA GROUP

The table below lists the main companies comprising the Telefónica Group at December 31, 2009 and the main investments consolidated using the equity method.

Included for each company are the company name, corporate purpose, country, functional currency, share capital (in million of functional currency units), the Telefónica Group s effective shareholding and the company or companies through which the Group holds a stake.

Name and corporate purpose	Country	Currency	Share capital	% Telefónica Group	Holding company
Parent company:					
Telefónica, S.A.	Spain	EUR	4,564		
Telefónica Spain					
Telefónica de España, S.A.U. *Telecommunications service provider*	Spain	EUR	1,024	100%	Telefónica, S.A. (100%)
Telefónica Móviles España, S.A.U. *Wireless communications services provider*	Spain	EUR	423	100%	Telefónica, S.A. (100%)
Telefónica Serv. de Informática y Com. de España, S.A.U. *Telecommunications systems, networks and infrastructure engineering*	Spain	EUR	6	100%	Telefónica de España, S.A.U. (100%)
Telefónica Soluciones Sectoriales, S.A.U. *Consulting services for ICT companies*	Spain	EUR	14	100%	Telefónica de España, S.A.U. (100%)
Interdomain, S.A.U. *Internet resources operator*	Spain	EUR		100%	Telefónica Soluciones Sectoriales, S.A. (100%)
Teleinformática y Comunicaciones, S.A.U. (TELYCO) *Promotion, marketing and distribution of telephone and telematic equipment and services*	Spain	EUR	8	100%	Telefónica de España, S.A.U. (100%)
Telyco Marruecos, S.A. *Promotion, marketing and distribution of telephone services*	Morocco	MAD	6	54.00%	Teleinformática y Comunicaciones, S.A. (TELYCO) (54.00%)
Telefónica Telecomunicaciones Públicas, S.A.U. *Installation of public telephones*	Spain	EUR	1	100%	Telefónica de España, S.A.U. (100%)
Telefónica Remesas, S.A. *Remittance management*	Spain	EUR		100%	Telefónica Telecomunicaciones Públicas, S.A.U. (100%)
	Spain	EUR		51.00%	

Telefónica Salud, S.A. *Management and operation of telecommunications and public television services*					Telefónica Telecomunicaciones Públicas, S.A.U. (51.00%)
Iberbanda, S.A. *Broadband telecommunications operator*	Spain	EUR	3	58.94%	Telefónica de España, S.A.U. (58.94%)
Telefónica Cable, S.A.U. *Cable telecommunication services provider*	Spain	EUR	3	100%	Telefónica de España, S.A.U. (100%)
Telefónica Latin America					
Telefónica Internacional, S.A. *Investment in the telecommunications industry abroad*	Spain	EUR	2,839	100%	Telefónica, S.A. (100%)
Telefónica International Holding, B.V. *Holding company*	Netherlands	USD	548	100%	Telefónica Internacional, S.A. (100%)
Latin American Cellular Holdings, B.V. (NETHERLANDS) *Holding company*	Netherlands	EUR	281	100%	Telefónica, S.A. (100%)
Telefónica Datacorp, S.A.U. *Telecommunications service provider and operator*	Spain	EUR	700	100%	Telefónica, S.A. (100%)
Telecomunicaçoes de Sao Paulo, S.A. TELESP *Wireline telephony operator in Sao Paulo*	Brazil	BRL	6,558	87.95%	Telefónica Internacional, S.A. (65.30%) Sao Paulo Telecomunicaçoes Participaçoes, Ltda. (22.65%)
Brasilcel, N.V. (*) *Joint Venture and holding company for wireless communications services*	Netherlands	BRL		50.00%	Telefónica, S.A. (50.00%)
Vivo Participaçoes, S.A. (*) *Holding company*	Brazil	BRL	8,780	33.31%	Brasilcel, N.V. y subsidiarias (29.63%) Subsidiaries of Telefónica Group (3.68%)
Vivo, S.A. (*) *Wireless services operator*	Brazil	BRL	5,999	33.31%	Vivo Participaçoes, S.A. (33.31%)
Telemig Celular, S.A. (*) *Wireless services operator*	Brazil	BRL	528	33.31%	Vivo Participaçoes, S.A. (33.31%)
Compañía Internacional de Telecomunicaciones, S.A. *Holding company*	Argentina	ARS	731	100%	Telefónica Holding de Argentina, S.A. (50.00%) Telefónica International Holding, B.V. (37.33%) Telefónica Internacional, S.A. (12.67%)
Telefónica de Argentina, S.A. *Telecommunications service provider*	Argentina	ARS	624	100%	Compañía Internacional de Telecomunicaciones, S.A. (51.49%) Telefóníca Internacional, S.A. (16.20%) Telefónica Móviles Argentina, S.A. (29.56%) TelefónicaTelefónica International Holding, B.V. (0.95%) Telefónica, S.A. (1.80%)

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Name and corporate purpose	**Country**	**Currency**	**Share capital**	**% Telefónica Group**	**Holding company**
Telefónica Móviles Argentina, S.A. *Wireless telephone services provider*	Argentina	ARS	1,198	100%	Telefónica Móviles Argentina Holding, S.A. (84.60%) Telefónica, S.A. (15.40%)
Telcel, C.A. *Wireless operator*	Venezuela	VEF	905	100%	Latin America Cellular Holdings, B.V. (97.21%) Telefónica, S.A. (0.08%) Comtel Comunicaciones Telefónicas, S.A. (2.71%)
Telefónica Móviles Chile, S.A. *Wireless communications services operator*	Chile	CLP	1,628,654	100%	TEM Inversiones Chile Ltda. (100%)
Telefónica Chile, S.A. *Local, long distance and international telephony services provider*	Chile	CLP	578,078	97.89%	Inversiones Telefónica Internacional Holding Ltda. (53.00%) Telefónica Internacional de Chile, S.A. (44.89%)
Telefónica del Perú, S.A.A. *Local, domestic and international long distance telephone service provider*	Peru	PEN	2,962	98.34%	Telefónica Internacional, S.A. (49.90%) Latin America Cellular Holdings, B.V. (48.28%) Telefónica, S.A. (0.16%)
Telefónica Móviles Perú, S.A.C. *Wireless communications services provider*	Peru	PEN	602	100%	Telefónica del Perú, S.A.A. (100%)
Colombia Telecomunicaciones, S.A. ESP *Communications services operator*	Colombia	COP	909,929	52.03%	Telefónica Internacional, S.A. (52.03%)
Telefónica Móviles Colombia, S.A. *Wireless operator*	Colombia	COP		100.00%	Olympic, Ltda. (50.58%) Telefónica, S.A. (49.42%)
Telefónica Móviles México, S.A. de C.V. (MEXICO) *Holding company*	Mexico	MXN	46,271	100%	Telefónica Internacional, S.A. (100%)
Pegaso Comunicaciones y Sistemas, S.A. de C.V. *Wireless telephone and communications services*	Mexico	MXN	27,173	100%	Telefónica Móviles México, S.A. de C.V. (100%)
Telefónica Móviles del Uruguay, S.A. *Wireless communications and services operator*	Uruguay	UYU	196	100%	Latin America Cellular Holdings, B.V. (68.00%) Telefónica, S.A. (32.00%)
Telefónica Larga Distancia de Puerto Rico, Inc. *Telecommunications service operator*	Puerto Rico	USD	111	98.00%	Telefónica Internacional, S.A. (98.00%)

Telefónica Móviles Panamá, S.A. *Wireless telephony services*	Panama	USD	71	100%	Telefónica, S.A. (56.31%) Panamá Cellular Holdings, B.V. (43.69%)
Telefónica Móviles El Salvador, S.A. de C.V. *Provision of wireless and international long distance communications services*	El Salvador	SVC	367, 541	99.08%	Telefónica El Salvador Holding, S.A. de C.V. (99.08%)
Telefónica Móviles Guatemala, S.A. *Wireless, wireline and radio paging communications services provider*	Guatemala	GTQ	1,420	99.98%	TCG Holdings, S.A. (65.99%) Telefónica, S.A. (13.60%) Guatemala Cellular Holdings, B.V. (13.12%) Panamá Cellular Holdings, B.V. (7.27%)
Telefonía Celular de Nicaragua, S.A. *Wireless telephony services*	Nicaragua	NIO	247	100%	Latin America Cellular Holdings, B.V. (98.00%) Telefónica El Salvador Holding, S.A. de C.V. (2.00%)
Otecel, S.A. *Wireless communications services provider*	Ecuador	USD	156	100%	Ecuador Cellular Holdings, B.V. (100%)
Telefónica International Wholesale Services, S.L. *International services provider*	Spain	EUR	230	100%	Telefónica, S.A. (92.51%) Telefónica Datacorp, S.A.U (7.49%)
Telefónica International Wholesale Services America, S.A. *Provision of high bandwidth communications services*	Uruguay	UYU	579	100%	Telefónica, S.A. (76.85%) Telefónica International Wholesale Services II, S.L. (23.15%)
Telefónica International Wholesale Services France, S.A.S. *Provision of high bandwidth communications services*	France	EUR		100%	Telefónica International Wholesale Services, S.L. (100%)
Telefónica International Wholesale Services Argentina, S.A. *Provision of high bandwidth communications services*	Argentina	USD	78	100%	T. International Wholesale Services America, S.A. (99.94%) Telefónica International Wholesale Services, S.L. (0.06%)
Telefónica International Wholesale Services Brasil Participaçoes, LtdParticipaçoes, Ltd. *Provision of high bandwidth communications services*	Brazil	USD	62	100%	Telefónica International Wholesale Services, S.L. (99.99%) Telefónica International, S.A. (0.01%)
Telefónica International Wholesale Services Perú, S.A.C. *Provision of high bandwidth communications services*	Peru	USD	20	100%	T. International Wholesale Services America, S.A. (100%) Telefónica Servicios Integrados, S.A.C.
	United States	USD	36	100%	

Telefónica International Wholesale Services USA, Inc. *Provision of high bandwidth communications services*					T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services Puerto Rico, Inc. *Provision of high bandwidth communications services*	Puerto Rico	USD	24	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica International Wholesale Services Ecuador, S.A *Provision of high bandwidth communications services*	Ecuador	USD	6	100%	T. International Wholesale Services America, S.A. (99.99%) Telefónica International Wholesale Services Perú, S.A.C. (0.01%)
Terra Networks Brasil, S.A. *ISP and portal*	Brazil	BRL	1,046	100%	Sao Paulo Telecomunicaçoes Participaçoes, Ltda. (100%)
Terra Networks Mexico, S.A. de C.V. *ISP, portal and real-time financial information services*	Mexico	MXN	45	99.99%	Terra Networks Mexico Holding, S.A. de C.V. (99.99%)

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Name and corporate purpose	Country	Currency	Share capital	% Telefónica Group	Holding company
Terra Networks Perú, S.A. *ISP and portal*	Peru	PEN	10	99.99%	Telefónica Internacional, S.A. (99.99%)
Terra Networks Argentina, S.A. *ISP and portal*	Argentina	ARS	18	100%	Telefónica Internacional, S.A. (99.92%) TelefónicaTelefónica International Holding, B.V. (0.08%)
Terra Networks Guatemala, S.A. *ISP and portal*	Guatemala	GTQ	154	99.99%	Telefónica Internacional, S.A. (99.99%)
TelefónicaTelefónica China, B.V. *Holding company*	Netherlands	EUR		100%	Telefónica Internacional, S.A. (100%)
Telefónica Europe					
Telefónica Europe plc *Holding company*	UK	GBP	13,061	100%	Telefónica, S.A. (100%)
MmO2 plc *Holding company*	UK	GBP	20	99.99%	Telefónica Europe plc (99.99%)
O2 Holdings Ltd. *Holding company*	UK	EUR	12	100%	MmO2 plc (100%)
Telefónica O2 UK Ltd. *Wireless communications services operator*	UK	GBP	10	100%	O2 Networks Ltd. (80.00%) O2 Cedar Ltd. (20.00%)
The Link Stores Ltd. *Telecommunications equipment retailer*	UK	GBP		100%	Telefónica O2 UK Ltd. (100%)
Be Un Limited (Be) *Internet services provider*	UK	GBP	10	100%	Telefónica O2 UK Ltd. (100%)
Tesco Mobile Ltd. (*) *Wireless telephony services*	UK	GBP		50.00%	O2 Ash Ltd. (50.00%)
O2 (Europe) Ltd. *Holding company*	UK	GBP	1,239	100%	Telefónica, S.A. (100%)
Telefónica O2 Germany GmbH & Co. OHG *Wireless communications services operator*	Germany	EUR	51	100%	Telefónica O2 Germany Verwaltungs GmBh (99.99%) Telefónica O2 Germany Management GmBh (0.01%)
Tchibo Mobilfunk GmbH & Co. KG (*) *Telecommunications equipment retailer*	Germany	EUR	16	50.00%	Telefónica O2 Germany GmbH & Co. OHG (50.00%)
TelefónicaTelefónica O2 Ireland Ltd. *Wireless communications services operator*	Ireland	EUR	98	100%	Kilmaine, Ltd. (1%) O2 Netherland Holdings B.V. (99%)
	Isle of Man	GBP	12	100%	

Manx Telecom Ltd. *Telecommunications service provider*					O2 (Netherlands) Holdings BV (100%)
Telefónica O2 Czech Republic, a.s. *Telecommunications service provider*	Czech Republic	CZK	32,209	69.41%	Telefónica, S.A. (69.41%)
Telefónica O2 Slovakia, s.r.o. *Wireless telephony, internet and data transmission services*	Slovak Republic	EUR	192	69.41%	Telefónica O2 Czech Republic, a.s. (100%)
Other companies					
Telefónica de Contenidos, S.A.U. *Organization and operation of multimedia service-related businesses*	Spain	EUR	1,865	100%	Telefónica, S.A. (100%)
Atlántida Comunicaciones, S.A. *Media*	Argentina	ARS	22	100%	Telefónica Media Argentina S.A. (93.02%) Telefónica Holding de Argentina, S.A. (6.98%)
Televisión Federal S.A.- TELEFE *Provision and operation TV and radio broadcasting services*	Argentina	ARS	148	100%	Atlántida Comunicaciones S.A. (79.02%) Enfisur S.A. (20.98%)
Telefónica Servicios Audiovisuales, S.A.U. *Provision of all type of audiovisual telecommunications services*	Spain	EUR	6	100%	Telefónica de Contenidos, S.A.U. (100%)
Gloway Broadcast Services, S.L. *DSNG-based transmission and operation services*	Spain	EUR		100%	Telefónica Servicios Audiovisuales, S.A.U. (100%)
Telefónica Servicios de Música, S.A.U. *Provision of telemarketing services*	Spain	EUR	1	100%	Telefónica de Contenidos, S.A.U. (100%)
Atento Inversiones y Teleservicios, S.A.U. *Telecommunications service provider*	Spain	EUR	24	100%	Telefónica, S.A. (100%)
Atento N.V. *Telecommunications service provider*	Netherlands	EUR		100%	Atento Inversiones y Teleservicios, S.A. (100%)
Atento Teleservicios España, S.A.U. *Provision of all type of telemarketing services*	Spain	EUR	1	100%	Atento N.V. (100%)
Atento Brasil, S.A. *Telecommunications services provider*	Brazil	BRL	152	100%	Atento N.V. (100%)
Atento Argentina, S.A. *Telecommunications services provider*	Argentina	ARS	3	100%	Atento Holding Chile, S.A. (97.99%) Atento N.V. (2.01%)
	Peru	PEN	14	100%	

Teleatento del Perú, S.A.C. *Telecommunications services provider*					Atento N.V. (83.33%) Atento Holding Chile, S.A. (16.67%)
Atento Chile, S.A. *Telecommunications services provider*	Chile	CLP	11,128	99.06%	Atento Holding Chile, S.A. (71.16%) Compañía de Telecomunicaciones de Chile, S.A (26.52%) Telefónica Empresas Chile, S.A. (0.93%) Telefónica Larga Distancia, S.A. (0.45%)
Atento Centroamérica, S.A. *Provision of call-center services*	Guatemala	GTQ	55	100%	Atento N.V. (99.99%) Atento El Salvador, S.A. de C.V. (0.01%)
Terra Networks Asociadas, S.L. *Holding company*	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Red Universal de Marketing y Bookings Online, S.A. (RUMBO) (*) *Online travel agency*	Spain	EUR	1	50.00%	Terra Networks Asociadas, S.L. (50.00%)

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Name and corporate purpose	Country	Currency	Share capital	% Telefónica Group	Holding company
Telefónica Learning Services, S.L. *Vertical e-learning portal*	Spain	EUR	1	100%	Terra Networks Asociadas, S.L. (100%)
Telefónica Ingeniería de Seguridad, S.A.U. *Security services and systems*	Spain	EUR	1	100%	Telefónica, S.A. (100%)
Telefónica Engenharia de Segurança *Security services and systems*	Brazil	BRL	21	99.99%	Telefónica Ingeniería de Seguridad, S.A. (99.99%)
Telefónica Capital, S.A.U. *Finance company*	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Lotca Servicios Integrales, S.L. *Aircraft ownership and operation*	Spain	EUR	17	100%	Telefónica, S.A. (100%)
Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. *Administration of pension funds*	Spain	EUR	16	70.00%	Telefónica Capital, S.A. (70.00%)
Fonditel Gestión, Soc. Gestora de Instituciones de Inversión Colectiva, S.A. *Administration and representation of collective investment schemes*	Spain	EUR	2	100%	Telefónica Capital, S.A. (100%)
Telefónica Investigación y Desarrollo, S.A.U. *Telecommunications research activities and projects*	Spain	EUR	6	100%	Telefónica, S.A. (100%)
Telefónica Investigación y Desarrollo de Mexico, S.A. de C.V. *Telecommunications research activities and projects*	Mexico	MXN		100%	Telefónica Investigación y Desarrollo, S.A. (100%)
Telefônica Pesquisa e Desenvolvimento do Brasil, Ltda. *Telecommunications research activities and projects*	Brazil	BRL	1	100%	Telefónica Investigación y Desarrollo, S.A. (100%)
Casiopea Reaseguradora, S.A. *Reinsurance*	Luxemburg	EUR	4	100%	Telefónica, S.A. (99.97%) Telefónica Finanzas, S.A. (TELFISA) (0.03%)
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. *Distribution, promotion or preparation of insurance contracts*	Spain	EUR		100%	Casiopea Reaseguradora, S.A. (83.33%) Telefónica, S.A. (16.67%)
Altaïr Assurances, S.A. *Direct insurance transations*	Luxemburg	EUR	6	100%	Casiopea Reaseguradora, S.A. (95.00%) Seguros de Vida y Pensiones Antares, S.A. (5.00%)
Seguros de Vida y Pensiones Antares, S.A.	Spain	EUR	51	100%	Telefónica, S.A. (89.99%) Casiopea Reaseguradora, S.A.

Life insurance, pensions and health insurance					(10.01%)
Telefónica Finanzas, S.A.U. (TELFISA) *Integrated cash management, consulting and financial support for Group companies*	Spain	EUR	3	100%	Telefónica, S.A. (100%)
Fisatel Mexico, S.A. de C.V. *Integrated cash management, consulting and financial support for Group companies*	Mexico	MXN	5	100%	Telefónica, S.A. (100%)
Telfisa Global, B.V. *Integrated cash management, consulting and financial support for Group companies*	Netherlands	EUR		100%	Telefónica, S.A. (100%)
Telefónica Europe, B.V. *Fund raising in capital markets*	Netherlands	EUR		100%	Telefónica, S.A. (100%)
Telefónica Finance USA, L.L.C. *Financial intermediation*	United States	EUR	2,000	0.01%	Telefónica Europe, B.V. (0.01%)
Telefónica Emisiones, S.A.U. *Financial debt instrument issuer*	Spain	EUR		100%	Telefónica, S.A. (100%)
Spiral Investments, B.V. *Holding company*	Netherlands	EUR	39	100%	Telefónica Móviles España, S.A.U. (100%)
Solivella Investment, B.V. *Holding company*	Netherlands	EUR	881	100%	Telefónica Móviles España, S.A.U. (100%)
Aliança Atlântica Holding B.V. *Holder of 5,225,000 Portugal Telecom, S.A. shares*	Netherlands	EUR		93.99%	Telefónica, S.A. (50.00%) Telecomunicaçoes de Sao Paulo, S.A. - TELESP (43.99%)
Telefónica Gestión de Servicios Compartidos España, S.A. *Provision of management and administration services*	Spain	EUR	8	100%	Telefónica, S.A. (100%)
Telefónica Gestión de Servicios Compartidos, S.A.C. *Provision of management and administration services*	Argentina	ARS		99.99%	T. Gestión de Servicios Compartidos España, S.A. (95.00%) Telefónica, S.A. (4.99%)
Telefónica Gestión de Servicios Compartidos, S.A. *Provision of management and administration services*	Chile	CLP	1,017	97.89%	Compañía de Telecomunicaciones de Chile, S.A (97.89%)
Telefónica Gestión de Servicios Compartidos, S.A. *Provision of management and administration services*	Peru	PEN	1	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Cobros Serviços de Gestao, Ltda. *Provision of management and administration services*	Brazil	BRL		99.33%	T. Gestión de Servicios Compartidos España, S.A. (99.33%)
Tempotel, Empresa de Trabajo Temporal, S.A. *Temporary employment agency*	Spain	EUR		100%	T. Gestión de Servicios Compartidos España, S.A. (100%)

Telefónica Gestao de Serviços Compartilhados do BRASIL, Ltda. *Provision of management and administration services*	Brazil	BRL	12	99.99%	T. Gestión de Servicios Compartidos España, S.A. (99.99%)
Telefónica Gestión de Servicios Compartidos Mexico, S.A. de C.V. *Provision of management and administration services*	Mexico	MXN	50	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Telefónica Servicios Integrales de Distribución, S.A.U. *Distribution services provider*	Spain	EUR	2	100%	T. Gestión de Servicios Compartidos España, S.A. (100%)
Telefónica Compras Electrónicas, S.L. *Development and provision of information society services*	Spain	EUR		100%	T. Gestión de Servicios Compartidos España, S.A. (100%)

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Name and corporate purpose	Country	Currency	Share capital	% Telefónica Group	Holding company
Companies accounted for using the equity method					
Telco S.p.A. *Holding company*	Italy	EUR	3,588	46.18%	Telefónica, S.A. (46.18%)
Telecom Italia S.p.A. *Holding company*	Italy	EUR	10,674	10. 49%	Telco S.p.A. (10.49%)
Portugal Telecom, SGPS, S.A. *Holding company*	Portugal	EUR	27	9.86%	Telefónica, S.A. (8.51%) Telecomunicaçoes de Sao Paulo, S.A. - TELESP (0.79%) Aliança Atlântica Holding B.V. (0.56%)
Lycos Europe, N.V. *Internet portal*	Netherlands	EUR	3	32.10%	LE Holding Corporation (32.10%)
Telefónica Factoring Mexico, S.A. de C.V. SOFOM ENR *Factoring services provider*	Mexico	MXN	33	50%	Telefónica, S.A. (40.5%) Telefónica Factoring España, S.A. (9.50%)
Hispasat, S.A. *Operation of a satellite telecommunications system*	Spain	EUR	122	13.23%	Telefónica de Contenidos, S.A.U. (13.23%)
Telefónica Factoring España, S.A. *Factoring services provider*	Spain	EUR	5	50.00%	Telefónica, S.A. (50.00%)
Telefónica Factoring Do Brasil, Ltd. *Factoring services provider*	Brazil	BRL	5	50.00%	Telefónica, S.A. (40.00%) Telefónica Factoring España, S.A. (10.00%)
Ipse 2000 S.p.A *Installation and operation of 3G wireless communications systems*	Italy	EUR	13	39.92%	Solivella Investment, B.V. (39.92%)
China Unicom (Hong Kong) Limited *Telecommunications service operator*	China	RMB	2,329	8.37%	Telefónica Internacional, S.A. (8.37%)

(*) Companies consolidated using proportionate consolidation.

Through these consolidated financial statements, O2 (Germany) GmbH & Co. OHG, complies with the provisions of Art. 264b HGB [Handelsgesetzbuch : Germany code of commerce], and is exempt in accordance with the stipulations of Art. 264b HGB.

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CONSOLIDATED RESULTS

We continued to increase our customer base, measured in terms of total accesses, by 2.1% to 264.6 million accesses at December 31, 2009 from 259.1 million accesses at December 31, 2008, which was a 13.3% increase from the 228.7 million accesses we had at December 31, 2007. This growth from December 31, 2008 to December 31, 2009 was primarily driven by a 3.3% increase in mobile accesses, a 8.2% increase in broadband accesses and a 9.8% increase in pay TV accesses, which more than offset our 5.4% loss of fixed telephony accesses and 28.5% loss of narrowband accesses as these technologies continue to be substituted by customers for mobile and broadband technologies, respectively. Growth in our total number of accesses from December 31, 2007 to December 31, 2008 was primarily driven by strong growth in mobile and broadband accesses.

The growth in our customer base from December 31, 2008 to December 31, 2009 under difficult economic circumstances did not compensated a decrease of 2.1% in revenues in 2009 compared to 2008. However, excluding foreign exchange rate effects and Venezuela s hyperinflationary economy, revenues would have increased 0.3% in 2009 compared to 2008. In Spain and Europe, the competitive environment remained intense and continued to put downward pressure on our tariff structures, which resulted in revenue growth not keeping pace with access growth. In addition, further downward pressure was placed on our revenues from mobile accesses as a result of regulatory action in the European Union and certain Latin American countries, which resulted in decreased interconnection and roaming rates during the period. This decrease in revenues led to a 1.4% decrease in OIBDA to 22,603 million in 2009 from 22,919 million 2008. Nonetheless, excluding foreign exchange rate effects and Venezuela s hyperinflationary economy, OIBDA would have increased 0.5% in 2009 compared to 2008. Operating income decreased 1.6% to 13,647 million in 2009 from 13,873 million in 2008, while profit for the year attributable to equity holders of the parent company increased 2.4% to 7,776 million in 2009 from 7,592 million in 2008 as a result of our share of profit of associates and lower corporate income tax.

At December 31, 2008, our customer base, measured in terms of total accesses, increased 13.3% to 259,1 million accesses from the 228.7 million accesses we had at December 31, 2007. Growth in our total number of accesses from December 31, 2007 to December 31, 2008 was primarily driven by strong growth in mobile and broadband accesses.

The strong growth in our customer base from December 31, 2007 to December 31, 2008 under difficult economic circumstances translated into a moderate increase of 2.7% in revenues in 2008 compared to 2007. Negative exchange rate effects resulted in a reduction of our revenue growth by 3.0 percentage points. This modest increase in revenues led to a small increase in OIBDA to 22,919 million in 2008 from 22,824 million 2007, which amount in 2007 included non-recurring gains on the sales of Airwave (1,296 million) and Endemol (1,368 million). Operating income rose 3.6% to 13,873 million in 2008 from 13,388 million in 2007, while profit for the year attributable to equity holders of the parent company decreased 14.8% to 7,592 million in 2008 from 8,906 million in 2007.

By geographic area, Telefónica Europe had the largest percentage increase in accesses with an increase of 6.9% to 49.2 million accesses at December 31, 2009 from 46.1 million accesses at December 31, 2008, primarily driven by a 6.5% increase in mobile accesses. Telefónica Latin America had the largest percentage increase in accesses from December 31, 2007 to December 31, 2008, with an increase of 18.0% to 158.3 million accesses at December 31, 2008 from 134.1 million accesses at December 31, 2007, primarily driven by strong growth in its mobile business, increased broadband sales and an expanding pay TV customer base.

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By access type, we increased **mobile accesses** by 3.3% to 202.3 million (no longer including 9.0 million accesses of Medi Telecom, which we sold in December 2009) at December 31, 2009 from 195.8 million at December 31, 2008 (including approximately 4.0 million accesses of Telemig, which we incorporated in April 2008), which was a 16.7% increase from the 167.8 million mobile accesses we had at December 31, 2007. Contributions to mobile net adds from December 31, 2008 to December 31, 2009, by country, were Brazil (6.8 million additional mobile accesses), Mexico (2.1 million additional mobile accesses), Germany (1.3 million additional mobile accesses) and Argentina (1.1 million additional mobile accesses) and the United Kingdom (1.0 million additional mobile accesses), and with negative mobile net adds of 1.0 million mobile accesses in Colombia. Contributions to mobile net adds from December 31, 2007 to December 31, 2008, by country, were also dominated by countries in Latin America, with the highest growth in Brazil (7.5 million additional mobile accesses, excluding the previously mentioned mobile accesses of Telemig), Mexico (2.8 million additional mobile accesses), and Peru (2.5 million additional mobile accesses). In Europe, Germany was a strong contributor to the growth in mobile accesses with 1.7 million additional mobile accesses from December 31, 2007 to December 31, 2008.

We also increased **broadband accesses** by 8.2% to 13.5 million at December 31, 2009 from 12.5 million at December 31, 2008, which was a 20.9% increase from the 10.3 million broadband accesses we had at December 31, 2007. We increased our number of broadband accesses from December 31, 2007 to December 31, 2009 primarily as a result of robust demand for Duo and Trio bundles, including broadband, pay TV and fixed telephony, which have made a significant contribution to the development of the broadband market and to increased customer loyalty. From December 31, 2008 to December 31, 2009, we increased broadband accesses by 4.4% in Spain to 5.5 million, by 5.9% to 6.4 million in Latin America and by 37.1% to 1.6 million in Europe. At December 31, 2009, in Spain 88% of our broadband accesses were included in Duo or Trio bundles, while in Latin America the weight of packaged products continued to grow, with 56% of broadband accesses bundled in Duo and Trio bundles at the same date. This growth in broadband accesses more than offset the continued decrease in narrowband accesses from 2.7 million accesses at December 31, 2007 to 2.0 million accesses at December 31, 2008 to 1.4 million accesses at December 31, 2009.

Finally, we increased **pay TV accesses** by 9.8% to 2.5 million at December 31, 2009 from 2.3 million at December 31, 2008, which was a 29.7% increase from the 1.7 million pay TV accesses we had at December 31, 2007. The continued growth in pay TV accesses from December 31, 2007 to December 31, 2009 was primarily as a result of further market penetration in the areas in which this service is available, which as of December 31, 2009, included Spain, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela, and the success of bundling this service with others.

During 2009 and the beginning of 2010 several factors have surfaced with respect to the Venezuelan economy that have led us to reconsider the accounting treatment that the Telefónica Group previously applied in the translation of the financial statements of our subsidiaries in that country, and the recoverability of our financial investments in there. Key among these factors are: the inflation index reached in 2009 and the cumulative inflation index over the last three years, restrictions in the official foreign exchange market, and the devaluation of the bolivar fuerte on January 8, 2010. Consequently, according to IFRS, the Venezuelan economy should be considered as hyperinflationary for 2009.

Revenues decreased 2.1% to 56,731 million in 2009 compared to 57,946 million in 2008. Excluding foreign exchange rate effects and excluding considering Venezuela a hyperinflationary economy, revenues would have increased 0.3% in 2009 compared to 2008.

By geographic area, Telefónica Latin America contributed the greatest percentage to our revenues in 2009, accounting for 40.5% of the total, which represents an increase of 2.2 percentage points from 2008. Telefónica Spain contributed 34.7% (36.0% in 2008) of our 2009 revenues and Telefónica Europe contributed 23.9% (24.7% in 2008).

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Other income decreased to 1,645 million in 2009 compared to 1,865 million in 2008. Excluding foreign exchange rate effects and excluding considering Venezuela a hyperinflationary economy, other income would have decreased 9.7% in 2009 compared to 2008. Other income in 2009 included a 220 million gain on the sale of our stake in Medi Telecom. In 2008, other income included a 143 million gain on the sale of our stake in Sogecable.

Total expenses include supplies, personnel expenses and other expenses (mainly external services and taxes). Total expenses do not include depreciation and amortization. Our total expenses decreased 3.0% to 35,773 million in 2009 compared to 36,892 million in 2008. Excluding foreign exchange rate effects and excluding considering Venezuela a hyperinflationary economy, total expenses would have decreased 0.4% in 2009 compared to 2008.

Supplies decreased 6.2% to 16,717 million in 2009 compared to 17,818 million in 2008. On a constant euro basis and excluding considering Venezuela a hyperinflationary economy, supplies would have decreased 3.1% from 2008 to 2009. This decrease is primarily due to lower interconnection costs associated with lower fixed-mobile traffic and the reduction of mobile termination rates.

Personnel expenses increased 0.2% to 6,775 million in 2009 compared to 6,762 million in 2008. On a constant euro basis and excluding considering Venezuela a hyperinflationary economy, personnel expenses would have increased 2.7% from 2008 to 2009. This increase was primarily due to increases in our work force and wages over the period. The average workforce during 2009 reached 255,151 employees, with a net increase of 3,376 employees compared to 2008, mainly due to the workforce increases within Atento. Excluding employees of Atento, our average number of employees in 2009 would have increased by 381 employees to 125,266 employees compared to 2008.

Other expenses are mainly comprised of external services, which consist of commercial expenses related to our business (such as commissions to distributors of services, marketing and advertising expenses and customer service related expenses), network maintenance expenses, general administrative expenses and subcontracted services expenses, as well as certain types of taxes. Other expenses also include changes in operating allowances and other operating expenses. Other expenses decreased 0.2% to 12,281 million in 2009 from 12,312 million in 2008. Excluding foreign exchange rate effects and excluding considering Venezuela a hyperinflationary economy, other expenses would have increased 2.0% in 2009 compared to 2008. This increase was principally driven by higher customer care, network and IT expenses in Telefónica Latin America.

As a result of the foregoing, our **operating income before depreciation and amortization (OIBDA)** decreased 1.4% to 22,603 million in 2009 compared to 22,919 million in 2008. On a constant euro basis and excluding considering Venezuela a hyperinflationary economy, OIBDA would have increased 0.5% from 2008 to 2009.

Of our 2009 OIBDA, Telefónica Spain contributed 43.2% (44.9% in 2008), while Telefónica Latin America and Telefónica Europe contributed 40.5% (36.8% in 2008) and 17.3% (18.2% in 2008), respectively.

Our OIBDA margin increased to 39.8% in 2009 compared to 39.6% in 2008. For a reconciliation of OIBDA to operating income, see Presentation of Financial Information Non-GAAP financial information Operating income before depreciation and amortization .

Our **depreciation and amortization** decreased 1.0% to 8,956 million in 2009 compared to 9,046 million in 2008. On a constant euro basis and excluding considering Venezuela a hyperinflationary economy, depreciation and amortization would have increased 1.3% from 2008 to 2009, principally driven by Telefónica Latin America and Telefónica Europe depreciation and amortization increases. Telefónica Europe depreciation and amortization in 2009 includes the amortization of the purchase price allocation made following the acquisitions of the O2 Group (635 million; 689 million in 2008) and Telefónica O2 Czech Republic (89 million; 131 million in 2008).

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As a result of the foregoing, our **operating income** decreased 1.6% to 13,647 million in 2009 from 13,873 million in 2008. On a constant euro basis and excluding considering Venezuela a hyperinflationary economy, operating income would have remained constant in 2009 compared to 2008.

Our **share of profit (loss) of associates** amounted to a gain of 47 million in 2009 compared to a loss of 161 million in 2008, primarily as a result of share of profits we recorded in respect to our interest in Portugal Telecom and lower share of loss we recorded in respect to our interest in Telco S.p.A.. In 2008, the loss in our share of profit (loss) of associates was primarily the result of the net adjustment Telco made to the valuation of its investment in Telecom Italia. To estimate the adjustment to be recorded by the Telefónica Group, we took the value of the estimated synergies that we expect to achieve by improving certain processes in our operations in Europe as a result of certain alliances reached with Telecom Italia. As a result of this revaluation, we recorded a loss of 209 million in 2008, which more than offset share of profits we recorded in respect of our interest in Portugal Telecom.

Net financial expense increased 18.2% to 3,307 million in 2009 compared to 2,797 million in 2008, leaving the average cost of debt of the Group in the 7.3%. The impact of Venezuela is of 630 million; if this effect is not taken into account the average cost is 5.9%, the financial cost is reduced 4.3% in respect of the previous year due to:

- A decrease of the expenses in 298 million due to the interest rates drop during 2009 mainly in European currencies.
- A decrease of 3.7% in the average debt, which has generated savings of 104 million.
- Changes of the actual value of commitments derived mainly from the pre-retirement plans and other positions equally accounted at market value have generated a lower income by 85 million in comparison with the same period of the previous year as the positive 2008 results were not repeated.
- Changes in the FX gains and losses up to December 2009 with respect to the same period in 2008 yield a higher cost of about 197 million.

Corporate income tax decreased to 2,450 million in 2009 compared to 3,089 million in 2008, implying an effective tax rate of 23.6%. We would highlight that in December 2007, the European Commission opened an investigation involving the Kingdom of Spain on the potential consideration of the deduction for tax amortization of the financial goodwill arising on certain foreign shareholding acquisitions as government aid under the provisions of article 12.5 of the revised Spanish Income Tax Law (TRLIS). This investigation led to widespread uncertainties regarding the scope of the European Commission s decision on the future for, among others, the Telefónica Group. In the case of the Telefónica Group, as a result of this uncertainty the Company deemed it necessary to recognize a liability in the consolidated financial statements until the proceedings were clarified as it had been applying a tax incentive. In December 2009, the European Commission released its decision regarding the investigation, deeming the deduction as state aid. This decision does not affect investments made before December 21, 2007, which is the case of the Telefónica Group s investments in O2 Group companies, the operators acquired from BellSouth, Colombia Telecomunicaciones, ESP and Telefonica O2 Czech Republic, a.s. As a result of this decision and considering the corporate structure of these investments, income tax in the Telefónica Group s consolidated income statement for the year ended December 31, 2009 is 591 million euros lower due to the reversal of this liability.

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Our **non-controlling interests** amounted to a negative figure of 161 million in 2009 compared to a negative figure of 234 million in 2008, primarily as a result of lower profits at Telesp and Telefónica Chile (after the public offering dropped on the minority shareholders of it in 2008) and higher loss at Colombia Telecom, which we account for as non-controlling interests.

As a result of the above, our **profit for the year attributable to equity holders of the parent company** increased 2.4% to 7,776 million in 2009 compared to 7,592 million in 2008.

The following table shows our total accesses at the dates indicated. The classifications and explanatory notes below also apply, to the extent applicable, to the tables detailing our accesses by business area and country elsewhere in this section.

		At December 31,	
	2007	**2008 (1)**	**2009**
		(in thousands)	
Fixed telephony accesses (2)	43,433.6	42,930.8	40,606.0
Internet and data accesses	13,156.6	14,654.3	15,082.5
Narrowband accesses	2,678.7	1,997.2	1,427.5
Broadband accesses (3)	10,320.2	12,472.1	13,492.6
Other accesses (4)	157.7	185.0	162.4
Mobile accesses (5) (6)	167,781.1	195,818.6	202,332.5
Pay TV accesses	1,748.1	2,267.5	2,489.2
Final clients accesses	**226,119.4**	**255,671.1**	**260,510.2**
Unbundled local loop accesses	1,396.5	1,748.1	2,206.0
Shared UL accesses	776.4	602.3	447.7
Full UL accesses	620.1	1,145.8	1,758.3
Wholesale ADSL accesses (7)	571.7	534.7	463.4
Other accesses (8)	656.0	1,150.1	1,426.0
Wholesale accesses	**2,624.2**	**3,433.0**	**4,095.3**
Total accesses	**228,743.6**	**259,104.1**	**264,605.5**

(1) From January 1, 2008, fixed wireless public use telephony accesses are included under the caption fixed telephony accesses .

(2) PSTN (including public use telephony) x1;

ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes the Group s accesses for internal use. It also includes VOIP and naked ADSL accesses.

(3) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits and naked ADSL.

(4) Includes remaining non-broadband final client circuits.

(5) Includes accesses of Telemig since 2008. Medi Telecom accesses are excluded in 2009.

(6) As of 1 January 2008, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including

machine to machine accesses. In addition, the accounting criteria for prepaid access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

(7) Includes unbundled lines by Telefónica O2 Germany.

(8) Includes circuits for other operators.

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SERVICES AND PRODUCTS

a) Fixed business

The principal services we offer in our fixed businesses in Spain, Europe and Latin America are:

Traditional fixed telecommunication services. Our principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long distance and fixed-to-mobile communications services; corporate communications services; supplementary value-added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business-oriented value-added services; intelligent network services; leasing and sale of terminal equipment; and telephony information services.

Internet and broadband multimedia services. Our principal Internet and broadband multimedia services include Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL, naked ADSL (broadband connection without the monthly fixed line fee); narrowband switched access to Internet for universal service, and other technologies; residential-oriented value-added services (including instant messaging, concerts and video clips by streaming video, e-learning, parental control, firewall protection, anti-virus protection, content delivery and personal computer sales); television services such as *Imagenio*, our IPTV business, cable television and satellite television; companies-oriented value-added services, like *puesto integral o puesto informático*, which includes ADSL, computer and maintenance for a fixed price and VoIP services. Telefónica Spain is also providing services based on Fiber to the Home (FTTH), including a new range of products and services named FUTURA . This line of products includes high speed Internet access (currently up to 30Mb), which allows Telefónica Spain to provide its customers with advanced IPTV services such as Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR).

Data and business-solutions services. Our data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, or ASP, service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.

Wholesale services for telecommunication operators. Our wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators network deployment; and local loop leasing under the unbundled local loop regulation framework. It also includes bit stream services, bit stream naked, wholesale line rental accesses and leased ducts for other operators fiber deployment.

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b) Mobile business

We offer a wide variety of mobile and related services and products to personal and business customers. Although the services and products available vary from country to country, the following are our principal services and products:

Mobile voice services. Our principal service in all of our markets is mobile voice telephony.

Value added services. Customers in most of our markets have access to a range of enhanced mobile calling features, including voice mail, call hold, call waiting, call forwarding and three-way calling.

Mobile data and Internet services. Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allow customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide mobile broadband connectivity and Internet access. Through mobile Internet access, our customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use our other data services.

Wholesale services. We have signed network usage agreements with several MVNOs in different countries.

Corporate services. We provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing.

Roaming. We have roaming agreements that allow our customers to use their mobile handsets when they are outside of our service territories, including on an international basis.

Fixed wireless. We provide fixed voice telephony services through mobile networks in Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.

Trunking and paging. In Spain and Guatemala, we provide digital mobile services for closed user groups of clients and paging services.

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REGULATORY ENVIRONMENT

The regulatory debate in the EU has focused on three issues that will go a long way to shaping the future regulatory framework and the development of the telecommunications market in Europe.

First is the completion of the review of the European regulatory framework governing electronic communications in effect since 2002 following the agreement between the European Parliament and Council, which gave rise to a new set of rules governing the sector across Europe once the new legislation is transposed into national law of the EU Member States. As a result of this review, a new European-wide communications body (BEREC) was established to strengthen co-operation among the national regulatory authorities of EU Member States.

Second is the major initiative being undertaken by the European Commission to encourage the rollout of broadband networks, which has led to the publication of new community guidelines aimed at clarifying the role of public administrations in this field. Also worth highlighting is the heated debate regarding community policy on next-generation rollouts, particularly fiber networks, which is expected to culminate in a recommendation by the European Commission in 2010.

Third are the various initiatives in the area of mobile communications regulation. On the one hand, the European Commission issued a new recommendation for national regulatory authorities of Member States aimed at reducing call termination rates in mobile and fixed networks in order to achieve greater symmetry between them. On the other, the review of the GSM Directive has led to the removal of the restriction on the exclusive use of the 900MHz bank for GSM services and the European Commission has issued a Decision on harmonized technical specifications for the use of other wireless technologies (3G and future 4G technologies) on the 900MHz and 1800MHz banks.

Meanwhile, in Spain, the Telecoms regulator, CMT (*Comisión del Mercado de Telecomunicaciones*) continued with the second round of analysis of relevant markets in accordance with the new definitions established by the European Commission in 2007. At the beginning of 2009, the CMT approved the resolution enacting the new regulation for direct and indirect access wholesale broadband services. Subsequently, in July, it approved the regulation of the wholesale circuit leasing market. In practical terms, this second round has spelled continuity in terms of existing regulation to date, punctuated by small steps in terms of deregulation, for example of the retail line leasing market (minimum set of leased lines), decided in July 2009.

As for price regulation, the CMT approved an average 25% reduction in the price of Telefónica s regulated indirect or bitstream accesses and a 31.3% cut in the monthly wholesale shared loop price.

Among initiatives aimed at clarifying regulation of next-generation networks, the CMT approved a benchmark third-party access offering to Telefónica s civil engineering infrastructure (ducts, posts, catch basins, etc.). In addition, Ministry for Industry held a public consultation on the potential appointment of other operators besides Telefónica as providers of certain services within the scope of the universal service and the possible extension of the regulatory perimeter of these services to broadband (speed of 1 MB/second).

The CMT also confirmed that Orange and Vodafone were liable for contributing to the cost incurred by Telefónica in providing universal service, which in 2006 amounted to 75.3 million euros. In addition, the CMT recognized that the net cost of the universal service in 2007 was 71.1 million euros.

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Also worth highlighting is the approval in July 2009 of the regulation setting the new multi-year schedule for reducing mobile call termination rates by between 40% and 50% over the next three years. The new interconnection prices will remain in effect until April 2012, when the target prices of 0.04 euros/min for calls terminating on the networks of Telefónica Móviles, Vodafone and Orange and their respective mobile virtual network operators, and 0.0497 euros/min for Yoigo (Xfera) will have been achieved.

In the other European markets where Telefónica operates, especially Germany and the UK, discussions surrounding the procedures for awarding and sharing radioelectric spectrum have intensified. As regards this issue, we would underscore the proposed merger in Germany of Deutsche Telecom s and France Télècom s operations announced in September 2009, which is considerably shaping the mobile regulatory agenda in general and the procedure for the new spectrum auction in particular. Meanwhile, in 2009 other regulatory action was taken in the area of interconnection services, with specific decisions taken on the validity of the mobile termination prices applicable in Germany and the UK. In the UK, the regulator also initiated a consultation on potential alternatives to the existing interconnection models of mobile services. Meanwhile, progress was made on the various reviews of the necessary relevant markets to bring prevailing regulatory frameworks in line with the market s development on various fronts; although none of the initiatives undertaken in 2008 had a material impact on the Group s European operations.

In Latin America, a new Audiovisual Communication Services Law was enacted in Argentina, maintaining the limitations for telecommunications operators to be able to offer television services**.** Meanwhile, in August 2009, Telefónica and the Argentine government submitted a joint request for withdrawal to the ICSID arbitration court in an attempt to resolve the conflict arising from the Argentine government s decision in 2002 to proceed with the pesification and the freezing of tariffs; the arbitration court accepted the request in September 2009. During the course of 2009, the national court for the defense of competition (*Comisión Nacional de Defensa de la Competencia,* CNDC) analyzed the impact on the Argentine market of the acquisition of a stake by Telefónica, S.A. in Telecom Italia S.p.A. As a result, the CNDC issued a resolution forcing Telecom Italia to sell all of its assets in Argentina.

In Brazil, as a result of the service quality issues surrounding the Telesp s ADSL service, Speedy , at the end of June ANATEL decided to suspend the sale of broadband services until the agency could verify that the quality problems had been resolved and that a network improvement plan had been initiated. The suspension on the sale of Telesp s broadband services was lifted in August, as Telesp carried out the network improvement plan presented. In addition, in March ANATEL released the outcome of a public consultation over the five-year review of the concession agreement, which included a new General Quality Target Plan (PGMQ) and a new General Universal Service Target Plan (PGMU). In addition, in the latter months of 2009 the Federal government began making progress on designing the National Broadband Plan aimed at boosting the penetration of broadband services in Brazil. The Plan is expected to take form in the early months of 2010. Finally, we would highlight the approval by ANATEL of Telefónica, S.A. s purchase of a stake in Telecom Italia S.p.A.

In Chile, the tariff-setting procedures for establishing the access charges of Telefónica Móviles Chile (TMCH) and Telefónica CTC (TCH) for 2009-2014 was completed. For the first time, the court of the defense of free competition allowed Telefónica CTC to freely set its rates for local services, monthly charges and local prices per minute. In addition, an auction of 3G spectrum was held, in which Telefónica and the rest of the existing operators were not allowed to participate. This facilitated the arrival of new competitors to the Chilean wireless market, VTR and Nextel.

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In Colombia, the new law regulating the information and communication technology (ICT) sector was enacted in July. The features of the law with the greatest impact on Telefónica are the requirement of all operators to contribute a percentage of their revenue to the Fund for Information and Communication Technologies (ICT Fund), the gradual elimination of the current system of subsidies and contribution in the fixed telephony market. In the wirelesswireless market, existing concession agreements will be respected until their expiration (March 2014), after which the provision of mobile services will fall within a general authorization scheme. Meanwhile, in March the Resolution on Relevant Markets was published. The main implications were the liberalization of the local retail rates of all operators and the consideration that Comcel has a dominant position in the wireless market, imposing certain obligations on retail tariff setting.

In Mexico, the Federal Telecommunications commission published the terms and conditions of the tender for frequencies on the 1.9 GHz and 1.7-2.1 GHz bands, establishing the calendar for the spectrum auction in the first quarter of 2010. These terms and condictions include a limit on spectrum per operator (spectrum cap) of 70 MHz across the 850MHz to 1.9 GHz bands, and of 80 MHz from those plus the 1.7-2.1 GHz band. Meanwhile, the Federal Competition Commission declared TELMEX a dominant operator in local wireline termination and origination, switch leasing and carrying.

In Peru, the Ministry of Communications granted the renewal of Telefónica del Perú, S.A. s Concession Agreement for 2019-2023 (a total of four years and two months) and 2023-2027 (a total of four years and three months). In addition, OSIPTEL completed its review of interconnection charges on wireless networks, establishing a nearly 50% reduction in access charges and introduction interconnection by capacity, which will come into force as of April 1, 2010. This issue is currently the subject of an arbitration proceeding initiated by Telefónica del Perú, S.A. Finally, in the wireless business, number portability entered into force on January 1, 2010.

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SHARE PRICE PERFORMANCE

In 2009, Telefónica s share price resumed the bullish trend of 2003-2007, ending the year up 23.2% at 19.52 euros per share. This solid performance, underpinned by the overall recovery of equity markets in the year, solidifies the Company s unique profile, as it outperformed both its European benchmark, the DJ Stoxx Telecommunications index, which rose 11.2%, and the broader EStoxx-50 index, which gained 21.3%.

Telefónica s outperformance of its European peers Vodafone (+3.2%), BT (+1.5%), Deutsche Telekom (-4.3%), Telecom Italia S.p.A. (-5.4%) and France Telecom (-12.2%) reflects the advantages afforded by its highly diversified geographical and business mixes, its proven record in delivering amid ever-changing environments, its cash generative ability and its focus on shareholders. This focus on shareholders is clearly reflected in the operator s commitment to increasing shareholder returns via dividends. After announcing a 15% increase in the annual dividend to 1.15 euros per share in February 2009, Telefónica announced a 21.7% increase in the 2010 dividend at the Investor Conference held in October 2009 to 1.40 euros per share, along with a medium-term target of paying out a dividend of least 1.75 euros per share in 2012.

This takes the total return for Telefónica shares in 2009 to 29.5% including the dividends paid in 2009 (0.5 euros per share on May 12, and 0.5 euros per share on November 11, 2009).

This performance made Telefónica the world s third largest telecommunications company by market cap and one of the 50 largest companies in the world of any kind. Telefónica s market cap at year-end 2009 stood at 89,089 million euros.

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INFORMATION BY BUSINESS LINE

Telefónica Spain Operations

Telefónica Spain s total accesses decreased 1.2% to 46.8 million accesses at December 31, 2009 from 47.3 million accesses at December 31, 2008. Total accesses at December 31, 2009 included 23.5 million mobile accesses, 14.2 million fixed telephony accesses, 5.7 million Internet and data accesses and 0.7 million pay TV accesses. Additionally, it included 2.2 million unbundled local loop accesses and 0.4 million of wholesale ADSL accesses.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Spain:

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses	15,918.8	15,326.3	14,200.1
Internet and data accesses	5,321.8	5,670.0	5,722.5
Narrowband accesses	660.8	388.0	219.5
Broadband accesses	4,614.0	5,246.4	5,476.8
Other accesses	47.0	35.6	26.2
Mobile accesses	22,826.6	23,604.8	23,538.6
Pre-pay accesses	9,181.8	9,037.0	8,204.5
Pay TV accesses	511.1	612.5	703.0
Final clients accesses	**44,578.2**	**45,213.6**	**44,164.2**
Wholesale accesses	**1,855.5**	**2,136.1**	**2,614.0**
Total accesses	**46,433.6**	**47,349.7**	**46,778.2**

Telefónica Spain s revenues decreased 5.4% to 19,703 million in 2009 from 20,838 million in 2008.

Revenues from Telefónica Spain s fixed business decreased 3.3% to 12,167 million in 2009 from 12,581 million in 2008 principally due to the decrease in the revenues of traditional voice service and accesses.

Revenues from traditional accesses include all revenues from our customers for rental and connection to public switched telephone network (PSTN) lines (for basic telephony service), ISDN lines (for integration of voice, data and video services), corporate services, PUT, additional recharges and advertising in telephone booths. Revenues from traditional accesses decreased 5.2% to 2,792 million in 2009 compared to 2,944 million in 2008, as a result of the reduction in the number of accesses which was partially offset by revenues derived from recognizing receipt of the universal service.

Revenues from traditional voice services decreased 10.2% to 3,983 million in 2009 compared to 4,436 million in 2008. This evolution is mainly affected by lower fixed-to-mobile traffic, the decrease of international traffic and the increasing importance of traffic included in national flat tariff plans.

Revenues from Internet and broadband services decreased 1.9% to 2,960 million in 2009 compared to 3,017 million in 2008. Retail broadband service revenues decreased 1.7% in 2009 compared to 2008, due to the lower accesses growth and the ARPU reduction. Wholesale broadband service revenues increased 3.3% in 2009 compared to 2008 reflecting the customer base for unbundled local loop growth in 2009.

Revenues from data services grew 8.7% to 1,294 million in 2009 from 1,190 million in 2008, driven by increased revenues from leased circuits to mobile operators, mainly Telefónica Móviles España, as a result of the rapid growth in mobile broadband.

Revenues from information technology services grew 14.7% to 508 million in 2009 from 443 million in 2008.

Revenues from Telefónica Spain s mobile business decreased 7.4% to 8,965 million in 2009 from 9,684 million in 2008, due to lower consumption by customers. Customer revenues decreased 5.4% to 6,571 million in 2009 from 6,943 million in 2008 due to lower usage patterns. Interconnection revenues decreased 19.5% to 1,001 million in 2009 from 1,243 million in 2008, due primarily to regulated interconnection price cuts. Roaming-in revenues fell 22.8% to 153 million in 2009 from 198 million in 2008 due to the downward trend in roaming consumption and wholesale prices. Revenues from handset sales decreased 7.3% to 1,137 million from 1,227 million in 2008.

Regarding expenses, Telefónica Spain s total expenses decreased 4.2% to 10,443 million in 2009 from 10,901 million in 2008 principally due to lower supplies expenses, as described below.

Supplies decreased 6.7% to 4,293 million in 2009 from 4,604 million in 2008, mainly due to lower interconnection expenses.

Personnel expenses decreased 3.0% to 2,305 million in 2009 from 2,375 million in 2008, principally due to the revision of the estimates of redundancy program provision accounts made in previous years, which resulted in lower expenses of 90 million.

Other expenses decreased 2.0% to 3,845 million in 2009 from 3,922 million in 2008, principally due to 3.4% decrease in external expenses to 3,102 million in 2009 from 3,212 million in 2008, as a result of containment in commercial expenses. This decrease was partially offset by an increase in other expenses in 2009 due to expenses related to the universal service.

In the fixed business, total expenses decreased 3.4% to 6,567 million in 2009 from 6,799 million in 2008 principally due to lower expenses across categories, as described below.

Supplies decreased 6.0% to 2,786 million in 2009 from 2,962 million in 2008 mainly due to lower interconnection expenses according to a lower fixed to mobile traffic usage and to a reduction in mobile termination rates.

Personnel expenses decreased 0.9% to 2,052 million in 2009 from 2,071 million in 2008, mainly due to the revision of redundancy program provision accounts made in previous years, which resulted in lower expenses of 58 million. The average number of employees for the fixed business in 2009 was 31,111, a 0.4% reduction in comparison with the average number of employees in 2008.

Other expenses decreased 2.1% to 1,729 million in 2009 from 1,766 million in 2008, principally due to a 2.7% decrease in external expenses to 1,300 million in 2009 from 1,336 million in 2008. This decrease was partially offset by an increase in expenses related to the universal service.

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Telefónica Spain s total expenses related to its mobile business decreased 4.0% to 5,281 million in 2009 from 5,502 million in 2008 principally due to lower supplies expenses, as described below.

Supplies decreased 8.9% to 2,430 million in 2009 from 2,667 million in 2008 due to decreases in interconnection and roaming expenses as result of lower traffic usage and to a reduction in mobile termination rates.

Personnel expenses decreased 16.3% to 250 million in 2009 from 299 million in 2008, mainly due to the revision of redundancy program provision accounts made in previous years, which resulted in lower expenses of 32 million. The number of employees for the mobile business in the end of 2009 was 4,199, a 6.0% reduction in comparison with the average number of employees in 2008.

Other expenses increased 2.5% to 2,601 million in 2009 from 2,537 million in 2008 mainly due to higher customer management expenses and expenses related to the universal service in 2009.

As a result of the foregoing, Telefónica Spain s OIBDA decreased 5.1% to 9,757 million in 2009 from 10,285 million in 2008. Telefónica Spain s OIBDA, as a percentage of Telefónica Spain s revenues, was 49.5% in 2009 compared to 49.4% in 2008.

Regarding depreciation and amortization, Telefónica Spain s depreciation and amortization decreased 4.5% to 2,140 million in 2009 from 2,239 million in 2008, principally due to variation of the useful life of assets subject to depreciation in 2009 compared to 2008.

As a result of the foregoing, Telefónica Spain s operating income decreased 5.3% to 7,617 million in 2009 from 8,046 million in 2008.

Telefónica Spain Fixed business

Telefónica Spain provides fixed telephony services in Spain through the operator Telefónica de España.

The following table presents, at the dates indicated, selected statistical data relating to the operations of Telefónica de España:

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses (1)	15,918.8	15,326.3	14,200.1
Internet and data accesses	5,321.8	5,670.0	5,722.5
Narrowband accesses	660.8	388.0	219.5
Broadband accesses	4,614.0	5,246.4	5,476.8
Other accesses	47.0	35.6	26.2
Pay TV accesses	511.1	612.5	703.0
Final clients accesses	**21,751.6**	**21,608.8**	**20,625.6**
Wholesale line rental accesses		9.5	97.4
Unbundled local loop accesses	1,353.9	1,698.0	2,153.8
Shared UL accesses	776.4	602.3	447.7
Full UL accesses	577.6	1,095.7	1,706.1
Wholesale ADSL accesses	495.5	423.8	359.0
Other accesses	6.0	4.7	3.7
Wholesale accesses	**1,855.5**	**2,136.1**	**2,614.0**
Total accesses	**23,607.1**	**23,744.8**	**23,239.6**

(1)

It includes naked ADSL and VOIP accesses.

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In 2009, the Spanish market of fixed telephony accesses was affected by an unfavorable economic environment and showed an estimated decrease of 0.8% year-on-year based in number of accesses. During the same period, Telefónica Spain s fixed telephony accesses decreased by 7.3% to 14.2 million accesses at December 31, 2009, from 15.3 million accesses at December 31, 2008. Telefónica Spain had net fixed telephony accesses losses of 1.1 million in 2009, higher than the 0.6 million net fixed telephony accesses losses recorded in 2008.

Estimated net adds in the total Spanish broadband market decreased 47.9% to 0.6 million accesses in 2009 from 1.1 million in 2008. The total estimated Spanish broadband access market was 9.9 million accesses at December 31, 2009. Telefónica Spain s broadband accesses increased 4.4% to 5.5 million accesses at December 31, 2009 from 5.2 million accesses at December 31, 2008.

The estimated market share of unbundled local loops in the broadband access market in Spain increased to 21.1% at December 31, 2009 from almost 18.3% at December 31, 2008. Unbundled local loops at December 31, 2009 amounted to 2.2 million accesses, of which nearly 21% were shared access loops.

Telefónica Spain s total wholesale ADSL accesses were 0.4 million accesses at December 31, 2009 a decreased of 15.3% compared to the accesses at December 31, 2008, mainly because of the migration to unbundled local loops.

In 2009, Telefónica Spain continued to increase its presence in the pay TV market, achieving a customer base of 0.7 million accesses at December 31, 2009 from 0.6 million accesses at December 31, 2008.

Since 2005 Telefónica Spain has bundled ADSL products with other products in Duo bundles, which include voice services, and Trio bundles, which include voice and IPTV services. The total number of Duo and Trio bundles increased by 7.2% to 4.9 million units at December 31, 2009 from 4.5 million units at December 31, 2008. At December 31, 2009, 88% of Telefónica Spain s broadband accesses were included in Duo or Trio bundles compared to 85% at December 31, 2008.

Regarding marketing, one of our main priorities has been to satisfy customer needs and increase customer loyalty by improving the quality of our customer service and offering a wide range of integrated telecommunications services. We have reinforced our strategy of customer segmentation in order to tailor our services to best meet the specific needs of each customer segment.

In 2009 we marketed new products and promotions to strengthen our position in the market for fixed-mobile convergence, both for residential and business customers.

In 2009 we were also very active in capturing new fixed telephony customers (which, in many cases, included broadband customers as well) through free-connection fee campaigns. These campaigns stimulated new adds. At the same time, we improved the value of fixed lines creating for example *Línea 3*, a new product that offers our costumers free national calls to their three most called numbers.

During 2009 Telefónica Spain continued marketing bundled ADSL products, which included voice and IPTV services, and Quadruple bundles, which include fixed telephony, mobile telephony, broadband access and IPTV services, some of these new bundles include:

- *Banda ancha total*: bundle of fixed and mobile broadband; and
- *ADSL + voz móvil*: bundle of fixed broadband and free mobile traffic during the weekends.

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In September 2009, the CMT modified the regulatory framework for retail offers allowing Telefónica Spain to carry out promotions to its clients under certain conditions and simplifying the replicability analysis of the quadruple play.

In October 2009 Telefónica Spain launched *ADSL Libre*, a new product that allows customers to subscribe for a broadband connection without the monthly fixed line fee (Naked ADSL).

ADSL commercial campaigns carried out to capture new broadband customers were very intense during 2009. In particular, the *Semana Loca* campaigns introduced new promotions with more attractive prices that allowed Telefónica Spain to defend its market share.

In the business segment, we continued to promote our *Puesto de Trabajo* services, which is a package of services designed to meet the voice, data and IT needs for small- and medium-sized businesses.

The customer service model employed by Telefónica Spain, which is focused on achieving the highest degree of efficiency in customer service, has the following features:

- a 24-hour personal customer service line for purchasing any type of product and service and handling customer queries;
- Telefónica stores (*Tiendas Telefónica*) where customers can test and buy the products we market, including the opening in 2008 of our flagship store at the historic Telefónica headquarters building on the Gran Vía (Madrid), which is the largest telecommunications store in Spain;
- the Telefónica On Line Store, accessible by Internet (www.telefonica.es), which offers customers the ability to order and purchase online the majority of services and products we offer; and
- a customer service system for corporate customers, with a dedicated sales force.

Regarding competition, Telefónica Spain s main competitors in the fixed telephony market fall within three main categories:

- cable operators, such as Spanish nationwide cable operator ONO, which offers triple play, and regional cable operators (Euskaltel, Telecable and Grupo R);
- ULL operators, such as Orange, Jazztel and Vodafone; and
- large-business oriented operators, such as British Telecom and Colt, which offer voice and data Virtual Private Networks (VPNs).

Telefónica Spain s estimated market share at December 31, 2009 was as follows:

- fixed telephony accesses market share amounted to approximately 72% of retail accesses (down from approximately 77% at December 31, 2008),
- broadband market share amounted to approximately 56% of retail accesses (down from approximately 57% at December 31, 2008); and
- pay TV market share amounted to approximately 17% of the market in terms of accesses (up from approximately 14% at December 31, 2008).

In November 2008, the CMT approved Wholesale Access for Telephone Lines , or AMLT, a new product that allows operators to resell telephone lines to their final customers. During 2009 this product has shown a very slow growth.

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Regarding network and technology, Telefónica Spain has made significant investments to develop its broadband access business through ADSL/VDSL technology, as well as in capacity and security of its aggregation, transport and data network.

Telefónica Spain Mobile business (Spain)

Telefónica Spain provides mobile services in Spain through the operator Telefónica Móviles España S.A.U..

The Spanish mobile market exceeded 55.4 million accesses at September 30, 2009, which represented a penetration rate of 121%, an increase of more than 5 percentage points from December 31, 2008. The Spanish mobile market showed growth as a result of data services development based in the transmission.

The following table presents, at the dates or for the periods indicated, selected statistical data relating to Telefónica Spain s mobile business.

	At or for the year ended December 31,		
	2007	**2008**	**2009**
Total mobile accesses (in thousands)	**22,826.6**	**23,604.8**	**23,538.6**
Pre-pay accesses (in thousands)	**9,181.8**	**9,037.0**	**8,204.5**
MOU (minutes)	161	156	n.a.
Traffic (million of minutes)	n.a.	43,568	42,039
ARPU (in euros)	32.3	30.4	27.5

Traffic is defined as minutes used by the Company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. Traffic volume is not rounded.

In order to avoid the distortion on MoU of the strong growth of mobile devices which mostly use data services (M2M and mobile broadband devices), the Company has decided to publish the traffic evolution in absolute terms (million minutes).

Our mobile customer base in Spain, measured in terms of accesses, stood at 23.5 million accesses at December 31, 2009, a decrease of 0.3% from 23.6 million at December 31, 2008. This evolution was primarily driven by a 9.2% decrease in accesses in the prepaid segment. We must take into account that in December we proceeded to disconnect 715 thousand prepaid accesses from the customer base as a consequence of lower activity level, without an impact in the economic result.

In the context of an increasingly competitive market, with strong competition in number portability and pressure on pricing, Telefónica Móviles España s main commercial objective was to maintain its market leadership in revenue share, based on its competitive tariff scheme, strong focus on high value customers and effective marketing and advertising strategies. Telefónica Spain s mobile business achieved negative net adds of 66 thousands accesses in 2009, compared to positive net adds of 0.8 million accesses in 2008, with a noteworthy number of net accesses gains in the contract segment, 0.8 million accesses in 2009, down from 0.9 million in 2008.

In terms of portability, which is customers transferring their number to Telefónica Móviles España from a competitor, Telefónica Móviles España s total net adds was a negative figure of 0.2 million lines in 2009. However, by continuing to focus on the higher value customer segments, net portability adds of contract lines was a positive figure of 8.1 thousand lines in 2009.

At December 31, 2009, approximately 65% of our mobile accesses in Spain were contract, which represents an increase of 3.4 percentage points from December 31, 2008.

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ARPU for Telefónica Spain s mobile business decreased 9.7% to 27.5 in 2009 from 30.4 in 2008. The decrease was driven by a decrease in voice ARPU of 12.4% to 22.1 in 2009 from 25.2 in 2008 as a result of increased competition, interconnection price cuts, roaming-out regulation and less usage. Outgoing voice ARPU also decreased 10.3% to 19.0 in 2009 from 21.2 in 2008. These decreases were partially offset by an increase in data ARPU of 3.0% to 5.4 in 2009 from 5.2 in 2008, with outgoing data ARPU growing 3.4% to 4.8 in 2009 from 4.7 in 2008.

Traffic carried in 2009 decreased 3.5% to 42,039 million minutes compared to 43,568 million minutes in 2008 mainly due to a lower voice usage.

At December 31, 2009, Telefónica Spain s customers held more than 8.9 million UMTS/HSDPA handsets, representing a penetration of 40% of our accesses base, an increase of 12 percentage points from December 31, 2008.

Regarding marketing, Telefónica Spain is focused on key initiatives to preserve its position as a leading mobile operator in the market, leading it to increase commercial efforts with measures including:

- in-depth market segmentation, with a focus on customer value;
- programs to promote customer loyalty; and
- pricing policies to stimulate usage, including launching segmented packages and innovative tariff options.

Since Telefónica Spain began providing mobile services in Spain, its sales and marketing strategy has been to generate increased brand awareness and customer satisfaction to achieve customer growth and increased revenues. Telefónica Spain utilizes several types of marketing channels, including television, radio, exterior billboards, telemarketing, direct mail and Internet advertising. Telefónica Spain also sponsors several cultural and sporting events in order to increase its brand recognition.

During 2009 Telefónica Spain s main marketing campaigns focused on boosting demand for mobile broadband, with the launch of data flat rates for browsing the web by a handset or small screen (contents, music, television,etc) as well as browsing the web by a laptops or big screen, developing new concepts and campaigns try and buy . In addition, Telefónica Spain offers access mobile broadband services with HSPA technology. These favorable data rates and mobile broadband capable devices have been bundled by Telefónica Spain in order to promote an increase in the number of accesses and level of use of mobile broadband services in Spain. In order to help achieve this goal:

- In June 2009, Telefónica launched mobile broadband services for prepaid customers.
- In September 2009, Telefónica launched *mstore* with a catalogue of more than 1,000 mobile telephony applications and services, available to all Movistar customers, and ready to download to mobile phones and computers.
- Also, in November 2009, Telefónica launched HSPA+ services and tariffs which allow downloading at peak speeds of 21Mbs.

Regarding competition, Telefónica Spain s main competitors in the Spanish market for mobile communications service are: Vodafone España, a subsidiary of Vodafone plc, Orange, which is the trade name of France Telecom España S.A., Yoigo, whose principal shareholder is TeliaSonera, and other MVNO operators.

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Telefónica Spain s estimated market share in Spain in terms of mobile accesses was approximately 43% at September 30, 2009 (down from approximately 44% at December 31, 2008).

Regarding network and technology, Telefónica Spain s digital network in Spain is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica Spain s international roaming agreements, enable its mobile customers to make and receive calls in more than 200 countries worldwide. Telefónica Spain s GSM/UMTS based network provides its customers with access to many of the most advanced mobile handsets and a full range of services and products

In 2009, Telefónica Spain invested in building out and enhancing its networks in Spain and developing its technological platforms and information systems. At December 31, 2009, Telefónica Spain s GSM/GPRS digital network in Spain, which consisted of approximately 22,293 base stations of 2G. In 2009, Telefónica Spain accelerated the expansion of its UMTS network with 1,547 new base stations with a total of more than 10,820 UMTS base stations installed at the end of the year.

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INFORMATION BY BUSINESS LINE

Telefónica Latin America

Telefónica Latin America provides fixed and mobile telephony, Internet and data services and pay TV services through the operators described in the following sections in the main Latin American markets. In addition, Telefónica Latin America s other members include: Telefónica Empresas, Telefónica International Wholesale Services (TIWS), the business unit responsible for other telecommunications operators and for managing our international services and the network which supports these services, and Terra Networks Latin América.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Latin America.

	At December 31,		
	2007 (1)	2008 (1)(2)	2009
	(in thousands)		
Fixed telephony accesses	25,381.0	25,644.5	24,578.3
Internet and data accesses	6,954.8	7,629.8	7,605.2
Narrowband accesses	1,815.6	1,445.8	1,070.6
Broadband accesses	5,035.9	6,067.0	6,426.8
Other accesses	103.4	117.0	107.8
Mobile accesses (3)	100,542.2	123,385.2	134,698.9
Pay TV accesses	1,163.8	1,540.5	1,648.6
Final clients accesses	**134,041.8**	**158,200.1**	**168,531.1**
Wholesale accesses	**62.6**	**59.0**	**56.1**
Total accesses	**134,104.4**	**158,259.0**	**168,587.2**

(1) At January 1, 2007, Group accesses have been reclassified, including fixed wireless accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed telephony accesses.

(2)

At January 1, 2008, fixed wireless public use telephony accesses are included under the caption fixed telephony accesses .

(3) Includes accesses of Telemig from April 2008.

Telefónica Latin America s total accesses increased 6.5% to 168.6 million accesses at December 31, 2009 from 158.3 million accesses at December 31, 2008. Total accesses at December 31, 2009 include 134.7 million mobile accesses, 24.6 million fixed telephony accesses, 7.6 million Internet and data accesses and 1.6 million pay TV accesses. Additionally, it includes 56 thousand wholesale accesses.

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The following table sets forth certain information at December 31, 2009 regarding the principal Latin American operating companies of Telefónica Latin America.

Country	Company	Population (in millions)	Interest (%)
Brazil	Telecomunicações de São Paulo, S.A. Telesp	41.26(*)	87.95
	Brasilcel, N.V.(1)	192.3	50.00
Mexico	Telefónica Móviles México, S.A. de C.V.	110.6	100.00
Panama	Telefónica Móviles Panamá, S.A.	3.5	100.00
Nicaragua	Telefónica Móviles Nicaragua, S.A.	5.5	100.00
Guatemala	Telefónica Móviles Guatemala, S.A.	13.7	99.98
El Salvador	Telefónica Móviles El Salvador, S.A. de C.V.	5.9	99.08
Venezuela	Telcel, S.A.	28.4	100.00
Colombia	Colombia Telecomunicaciones, S.A. ESP.	45.2	52.03
	Telefónica Móviles Colombia, S.A.		100.00
Peru	Telefónica del Perú, S.A.A.	28.2	98.34
	Telefónica Móviles Perú, S.A.C.		100.00
Ecuador	Otecel, S.A.	14.1	100.00
Argentina	Telefónica de Argentina, S.A.	40.1	100.00
	Telefónica Móviles Argentina S.A.		100.00
Chile	Telefónica Chile, S.A.	16.7	97.89
	Telefónica Móviles Chile, S.A.		100.00
Uruguay	Telefónica Móviles Uruguay, S.A.	3.4	100.00

(*) Concession area only.

(1)

Jointly controlled and managed by Telefónica and Portugal Telecom. Brasilcel is the holding company which controls the mobile operating company Vivo, S.A. or Vivo.

Revenues at Telefónica Latin America increased 3.7% to 22,983 million in 2009 from 22,174 million in 2008 (an increase of 5.6% on a constant euro basis and excluding Venezuela as a hyperinflationary economy). On a constant euro basis and excluding Venezuela as a hyperinflationary economy, the countries contributing most to this revenue growth were Venezuela (2.5 percentage points), Argentina (1.7 percentage points) and Mexico (0.7 percentage points).

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In 2009, Brazil continued to make the largest contribution to Telefónica Latin America s revenues (36.4%) followed by Venezuela (16.4%) and Argentina (11.4%).

Telefónica Latin America revenues from Brazil decreased to 8,376 million in 2009 from 8,606 million in 2008 (an increase of 0.9% in local currency), due to mobile businesses and broadband and pay TV business growth. With respect to Vivo, Telefónica Latin America s mobile business in Brazil, revenues increased to 3,036 million in 2009 from 2,932 million in 2008 (an increase of 7.4% in local currency), driven by growth in the customer base, increasing outgoing revenues focused on on-net tariffs, and data business. With respect to Telesp, Telefónica Latin America s fixed line business in Brazil, revenues decreased to 5,766 million in 2009 from 6,085 million in 2008 (a decrease of 1.8% in local currency). This decrease was due to lower traditional business revenues that were not offset by the growth of new services. Broadband, pay TV and data/IT services revenues increased as a percentage of total revenues (19.2% in 2009 compared to 16.3% in 2008). Traditional fixed line revenues decreased (5.9% in local currency), mainly driven by lower local and long distance traffic that was not compensated by higher interconnection traffic revenues coming primarily from mobile networks. Telesp s performance was conditioned by the decision of Anatel, the Brazilian regulator, which suspended the commercialization of Speedy, Telesp s broadband service, from June 22nd, 2009 to Augusts 27th, 2009 as a result of quality problems.

Telefónica Latin America s revenues from Venezuela increased to 3,773 million in 2009 from 2,769 million in 2008 (an increase of 20.4% in local currency and excluding Venezuela as a hyperinflationary economy), primarily driven by higher growth in service revenues in 2009 (an increase of 24.2% in local currency and excluding Venezuela as a hyperinflationary economy). This growth in local currency was due mainly to an integrated telecommunication offer (mobile, fixed, pay TV and broadband) and tariff increases.

Telefónica Latin America revenues from Argentina increased to 2,609 million in 2009 from 2,527 million in 2008 (an increase of 15.3% in local currency) with both fixed and mobile business contributing. Of this, Telefónica Móviles Argentina s revenues increased to 1,643 million in 2009 from 1,585 million in 2008 (an increase of 15.8% in local currency). This increase was primarily driven by an increase of 5.7% in service revenues in 2009 (an increase of 18.1% in local currency). This growth in local currency was mainly due to data revenue growth and tariff increases. Revenues in the fixed line business increased to 1,047 million in 2009 from 1,027 million in 2008 (an increase of 13.9% in local currency), with the traditional fixed line business contributing 3.9 percentage points to this growth, the Internet business contributing 6.7 percentage points and data and IT businesses contributing 2.8 percentage points.

Telefónica Latin America s revenues from Chile decreased to 1,831 million in 2009 from 1,936 million in 2008 (a decrease of 3.3% in local currency) as a result of the reduction of tariffs as a consequence of the regulatory decree within interconnection rates, which became into effect at January 23, 2009 for mobile termination (an average tariff decrease of 44.6%), while on May 7 the decree governing wireline accesses/operator charges was also enacted. This entailed an additional reduction in wireline termination rates. With respect to Telefónica Móviles Chile, Telefónica Latin America s mobile business in Chile, revenues decreased to 1,010 million in 2009 from 1,051 million in 2008 (a decrease of 1.8% in local currency) largely due to tariff decree established from January 23, 2009. Service revenues decreased 5.3% in 2009 (a decrease of 3.2% in local currency), because of the tariff decree. With respect to Telefónica Chile, Telefónica Latin America s fixed line business in Chile, revenues in 2009 decreased to 893 million in 2009 from 974 million in 2008 (a decrease of 6.3% in local currency). Broadband, pay TV, data and IT businesses growth did not offset the decrease in revenues from the traditional fixed telephony business.

Telefónica Latin America s revenues from Mexico decreased to 1,552 million in 2009 from 1,631 million in 2008 (an increase of 10.0% in local currency). This growth in local currency was underpinned by service revenues growth of 17.8% in 2009 as a result of the customer base increase and new tariff plans. This increase in local currency was greater than the 14.7% rate of growth in the customer base over the same period.

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Telefónica Latin America s revenues from Peru increased to 1,716 million in 2009 from 1,627 million in 2008 (an increase of 3.0% in local currency). Revenue growth was primarily driven by outgoing revenues in the pre-pay segment of the mobile business and broadband services and pay TV and IT services in the fixed line business. With respect to Telefónica Móviles Perú, Telefónica Latin America s mobile business in Peru, revenues increased to 840 million in 2009 from 773 million in 2008 (an increase of 6.1% in local currency), driven primarily by revenue growth in the pre-pay segment as a result of the increase of accesses and higher consumption. Service revenues increased 5.4% in 2009 (an increase of 3.0% in local currency). With respect to Telefónica del Perú, Telefónica Latin America s fixed line business in Peru, revenues increased to 1,006 million in 2009 from 977 million in 2008 (an increase of 0.6% in local currency). This increase was primarily due to broadband and pay TV businesses revenues growth (6.2% and 9.2% in local currency, respectively). Also revenues of public telephony business increased by 2.3% in local currency in 2009 principally due to an increase in usage caused by tariff reductions, especially to fixed phones.

Telefónica Latin America s revenues from Colombia decreased to 1,269 million in 2009 from 1,490 million in 2008 (a decrease of 11.6% in local currency). This evolution is the consequence of a highly competitive environment both in mobile and fixed telephony. With respect to Telefónica Móviles Colombia, Telefónica Latin America s mobile business in Colombia, revenues decreased to 685 million in 2009 from 815 million in 2008 (a decrease of 12.7% in local currency), losing 1.0 million mobile accesses. Service revenues decreased 13.6% in 2009 (a decrease of 10.3% in local currency). With respect to Colombia Telecomunicaciones, Telefónica Latin America s fixed line telephony business in Colombia, revenues decreased to 615 million in 2009 from 710 million in 2008 (a decrease of 10.0% in local currency) primarily due to the lower revenues from traditional fixed telephony services as of result of lower accesses and a decrease in traffic, not compensated by the increased broadband and pay TV revenues.

Telefónica Latin America s revenues from Central America decreased to 565 million in 2009 from 568 million in 2008, (a decrease of 2.5% in constant euro terms). This decrease in constant euro terms was mainly due to a highly competitive environment. Service revenues decrease 1.4% in constant euro terms in 2009 compared to 2008.

Telefónica Latin America s revenues from Ecuador increased to 337 million in 2009 from 318 million in 2008 (an increase of 0.6% in local currency). Service revenues increased 14.2% in 2009 (an increase of 9.5% in local currency).

Regarding expenses, Telefónica Latin America s total expenses increased 1.0% in 2009 to 14,486 million from 14,338 million in 2008 (an increase of 3.1% on a constant euro basis and excluding Venezuela as a hyperinflationary economy).

Supplies decreased 2.9% to 6,188 million in 2009 from 6,371 million in 2008 (a decrease of 1.4% on a constant euro basis and excluding Venezuela as a hyperinflationary economy), mainly due to a decrease in Chile, Mexico and Colombia, who compensated the increase in Venezuela, as described below.

Supplies for Telefónica Latin America in Brazil decreased to 2,440 million in 2009 from 2,479 in 2008 (an increase of 2.0% in local currency), principally due to higher interconnection costs.

Supplies for Telefónica Latin America in Venezuela increased to 978 million in 2009 from 770 million in 2008 (an increase of 6.6% in local currency and excluding Venezuela as a hyperinflationary economy), principally due to higher content providers and value added services such as RIM Licences, TV Licences and mobile SMS premium applications affected by higher exchange rate.

Supplies for Telefónica Latin America in Argentina decreased to 613 million in 2009 from 650 million in 2008 (an increase of 5.3% in local currency). This increase in local currency was principally due to higher interconnection costs at fixed line business, as a result of higher traffic and capacity needs, and equipment costs at mobile business.

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Supplies for Telefónica Latin America in Chile decreased to 416 million in 2009 from 503 million in 2008 (a decrease of 15.5% in local currency), principally due to lower mobile interconnection cost caused by the tariff decree.
Supplies for Telefónica Latin America in Mexico decreased to 584 million in 2009 from 716 million in 2008 (a decrease of 5.8% in local currency). This decrease in local currency was primarily driven by lower equipment cost as a consequence of a lower commercial activity.
Supplies for Telefónica Latin America in Peru increased to 414 million in 2009 from 413 million in 2008 (a decrease of 2.0% in local currency). This decrease in local currency was primarily driven by a reduction in equipment costs in the mobile business as a consequence of a lower commercial activity.
Supplies for Telefónica Latin America in Colombia decreased to 298 million in 2009 from 394 million in 2008 (a decrease of 21.4% in local currency), principally due to, in the mobile business, a lower equipment cost as a consequence of a lower commercial activity, and a lower interconnection costs in both fixed and mobile businesses.
Supplies for Telefónica Latin America in Central America reached 178 million in 2009.
Supplies for Telefónica Latin America in Ecuador decreased to 101 million in 2009 from 112 million in 2008 (a decrease of 14.6% in local currency), due to lower equipment cost as a consequence of a lower commercial activity and to lower interconnection costs.

Personnel expenses for Telefónica Latin America increased 3.1% to 1,789 million in 2009 from 1,735 million in 2008, (an increase of 5.8% on a constant euro basis and excluding Venezuela as a hyperinflationary economy), principally due to the increase in Venezuela and Argentina by the effect of higher inflation on wages as described below.

Personnel expenses for Telefónica Latin America in Brazil decreased to 439 million in 2009 from 513 million in 2008 (a decrease of 11.3% in local currency), primarily as a result of a decrease in the fixed line business average number of employees, after 2008 restructuring program, and the revision of contingencies related to employees.
Personnel expenses for Telefónica Latin America in Venezuela increased to 203 million in 2009 from 131 million in 2008 (an increase of 36.8% in local currency and excluding Venezuela as a hyperinflationary economy). This increase in local currency was principally due to the effects of higher inflation on wages.
Personnel expenses for Telefónica Latin America in Argentina increased to 321 million in 2009 from 303 million in 2008 (an increase of 18.4% in local currency). This increase in local currency was principally due to the effects of higher inflation on wages.
Personnel expenses for Telefónica Latin America in Chile stood at 182 million in 2009 from 182 million in 2008 (an increase of 1.8% in local currency). This evolution in local currency was primarily driven by the increase of compensation expenses due to the integration of fixed-mobile structures.

Personnel expenses for Telefónica Latin America in Mexico decreased to 82 million in 2009 from 96 million in 2008 (a decrease of 1.3% in local currency) principally due to a lower average number of employees and wages containment.

Personnel expenses for Telefónica Latin America in Peru increased to 171 million in 2009 from 159 million in 2008 (an increase of 4.9% in local currency), mainly due to the increase in the variable remuneration associated with both, fixed and mobile businesses financial performance.

Personnel expenses for Telefónica Latin America in Colombia decreased to 115 million in 2009 from 122 million in 2008 (a decreased of 1.5% in local currency), primarily driven by a lower average number of employees at the fixed line business.

Personnel expenses for Telefónica Latin America in Central America reached 41 million in 2009.

Personnel expenses for Telefónica Latin America in Ecuador increased to 30 million in 2009 from 26 million in 2008 (an increase of 8.7% in local currency), principally due to an increase in the average number of employees.

Other expenses for Telefónica Latin America increased 4.4% to 6,508 million in 2009 from 6,232 million in 2008 (an increase of 6.9% on a constant euro basis and excluding Venezuela as a hyperinflationary economy), mainly due to Venezuela and to a lesser extend to Brazil, as described below.

Other expenses for Telefónica Latin America in Brazil increased to 2,628 million in 2009 from 2,543 million in 2008 (an increase of 7.1% in local currency). This increase in local currency was primarily driven by higher sales and commissions in the mobile business due to commercial activity and higher FISTEL (a regulatory tax linked to net adds of customers) costs due to customer base growth in Vivo. Other expenses also increased in the fixed line business mainly due to higher call center and maintenance expenses, primarily as a result of the action plan put in place in the second semester of the year to deal with network quality problems.

Other expenses for Telefónica Latin America in Venezuela increased to 787 million in 2009 from 553 million in 2008 (an increase of 23.8% in local currency and excluding Venezuela as a hyperinflationary economy), driven primarily by increased network expenses and higher operational taxes.

Other expenses for Telefónica Latin America in Argentina increased to 715 million in 2009 from 678 million in 2008 (an increase of 17.9% in local currency), principally as a result of higher inflation affecting external services.

Other expenses for Telefónica Latin America in Chile decreased to 516 million in 2009 from 556 million in 2008 (a decrease of 5.2% in local currency). This decrease in local currency was principally due to costs containment, particularly network maintenance, and lower commissions.

Other expenses for Telefónica Latin America in Mexico decreased to 381 million in 2009 from 430 in 2008 (an increase of 2.4% in local currency). This increase in local currency was principally due to higher commissions and customer services costs.

Other expenses for Telefónica Latin America in Peru decreased to 459 million in 2009 from 467 million in 2008 (a decrease of 4.1% in local currency). This decrease in local currency was principally due to costs containment.

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Other expenses for Telefónica Latin America in Colombia increased to 531 million in 2009 from 515 million in 2008 (an increase of 7.1% in local currency), principally due to higher bad debt provisions in both mobile and fixed businesses.

Other expenses for Telefónica Latin America in Central America reached 126 million in 2009.

Other expenses for Telefónica Latin America in Ecuador increased to 114 million in 2009 from 93 million in 2008 (an increase of 17.1% in local currency), principally due to higher commission costs driven by the increase of top ups.

As a result of the foregoing, Telefónica Latin America s OIBDA, increased 8.3% to 9,143 million in 2009 from 8,445 million in 2008 (an increase of 10.3% on a constant euro basis and excluding Venezuela as a hyperinflationary economy). By country, (on a constant euro basis and excluding Venezuela as a hyperinflationary economy), Venezuela contributed most to OIBDA growth (4.0 percentage points), followed by Mexico (2.7 percentage points) and Argentina (2.2 percentage points). In absolute terms, in 2009 Brazil was the largest contributor to Telefónica Latin America s OIBDA, accounting for 34.3% of the total, followed by Venezuela at 20.0%, Argentina at 10.8% and Mexico at 6.2%.

Telefónica Latin America s OIBDA in 2009 as a percentage of Telefónica Latin America s revenues for the same period was 39.8%, 1.7 percentage points higher than in 2008.

- Telefónica Latin America s OIBDA in Brazil decreased to 3,139 million in 2009 from 3,359 million in 2008 (a decrease of 3.1% in local currency).
- Telefónica Latin America s OIBDA in Venezuela increased to 1,818 million in 2009 from 1,328 million in 2008 (an increase of 25.4% in local currency and excluding Venezuela as a hyperinflationary economy).
- Telefónica Latin America s OIBDA in Argentina increased to 986 million in 2009 from 919 million in 2008 (an increase of 19.9% in local currency).
- Telefónica Latin America s OIBDA in Chile increased to 763 million in 2009 from 740 million in 2008 (an increase of 5.5% in local currency).
- Telefónica Latin America s OIBDA in Mexico increased to 564 million in 2009 from 420 million in 2008 (an increase of 55.2% in local currency).
- Telefónica Latin America s OIBDA in Peru increased to 712 million in 2009 from 621 million in 2008 (an increase of 12.0% in local currency).
- Telefónica Latin America s OIBDA in Colombia decreased to 397 million in 2009 from 515 million in 2008 (a decrease of 20.0% in local currency).
- Telefónica Latin America s OIBDA in Central America increased to 241 million in 2009 from 217 million in 2008 (an increase of 9.0% on a constant euro basis).
- Telefónica Latin America s OIBDA in Ecuador increased to 100 million in 2009 from 92 million in 2008 (an increase of 3.0% in local currency).

Regarding depreciation and amortization, Telefónica Latin America s depreciation and amortization increased 4.1% to 3,793 million in 2009 from 3,645 million in 2008, (an increase of 5.3% on a constant euro basis and excluding Venezuela as a hyperinflationary economy).

As a result of the foregoing, Telefónica Latin America s operating income increased 11.5% to 5,350 million in 2009 from 4,800 million in 2008, (an increase of 14.1% on a constant euro basis and excluding Venezuela as a hyperinflationary economy).

Brazil

The following table presents, at the dates indicated, selected statistical data relating to our operations in Brazil.

	At December 31,		
	2007	2008	2009
		(in thousands)	
Fixed telephony accesses	11,960.0	11,661.9	11,253.8
Internet and data accesses	3,288.6	3,625.8	3,440.2
Narrowband accesses	1,155.9	996.4	723.1
Broadband accesses	2,069.6	2,557.8	2,638.4
Other accesses	63.1	71.6	78.7
Mobile accesses(1)	33,483.5	44,945.0	51,744.4
Pre-pay accesses	27,236.4	36,384.0	41,960.7
Pay TV accesses	230.9	472.2	487.2
Final clients accesses	**48,963.1**	**60,704.9**	**66,925.7**
Wholesale accesses	**37.4**	**34.1**	**34.2**
Total accesses	**49,000.5**	**60,739.1**	**66,959.8**

(1) Includes accesses of Telemig from April 2008.

Telefónica Latin America s accesses in Brazil increased 10.2% to 67.0 million accesses at December 31, 2009 from 60.7 million accesses at December 31, 2008. This growth reflects a 15.1% year-on-year increase in Vivo s (Telefónica Latin America s jointly-controlled Brazilian mobile business) customer base and, to a lesser extent, the expansion of Telesp s (Telefónica Latin America s Brazilian fixed line business) broadband and pay TV businesses. These increases were offset by a reduction in the number of fixed telephony accesses at Telesp and a decrease in narrowband Internet accesses primarily as a result of a strong migration to broadband accesses.

Brazil Fixed Business Telecomunicações de São Paulo, S.A. Telesp

Telesp provides fixed telephony and other telecommunications services in the Brazilian state of São Paulo under concessions and licenses from Brazil s federal government.

Telesp s fixed telephony, Internet and data and pay TV accesses decreased 3.7% to 15.2 million accesses at December 31, 2009 from 15.8 million accesses at December 31, 2008 primarily due to the reduction in the number of fixed telephony accesses, within the context of increased fixed-to-mobile substitution as a result of the growth in Brazil s mobile sector, and a decrease in narrowband Internet accesses, as a result of migration to broadband solutions, that was not compensated by broadband accesses increase. Telesp s fixed telephony accesses decreased 3.5% to 11.3 million accesses at December 31, 2009 from 11.7 million accesses at December 31, 2008. Of these, 25.8% were pre-pay accesses or accesses with consumption limits.

The Brazilian broadband market continued to grow in 2009. Telesp increased its broadband customer base by 3.2% to 2.6 million accesses at December 31, 2009. This increase was affected by Anatel s decision, the Brazilian telecom regulator, to suspend the sell of the broadband products from June 22nd to August 27th as a result of several technical problems on our network. Telesp offers pay TV mainly through a DTH solution and, since the fourth quarter of 2007 after the acquisition of Navy Tree, also offers MMDS technology, reaching 0.5 million accesses at December 31, 2009, 15 thousand accesses more than at December 31, 2008.

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Telesp s voice traffic decreased by 5.0% in 2009 compared to 2008, mainly due to lower local and long distance traffic that was not compensated by higher interconnection traffic coming primarily from mobile networks. Fixed local traffic decreased 7.4% due to lower fixed telephony accesses, and the implementation of flat rates and minutes bundles. Fixed-to-mobile traffic, measured in minutes, fell 7.9% in 2009 compared to 2008 as a result of a migration of traffic to mobile networks.

Regarding marketing, in Brazil, we employ a differentiated approach to marketing whereby we use a mix of human and technological resources (a specialized team and business intelligence tools, respectively), in addition to specific studies that allow us to target various market segments according to the relevant needs of the customers in each segment. We continuously monitor market trends in an effort to develop new products and services that may address the future needs of our customers.

Telefónica Latin America employs the following strategies to deliver fixed telephony and other telecommunications solutions to residential, small and medium enterprises, or SMEs, and corporate customers in Brazil:

- person-to-person sales: customized sales services to achieve and preserve customer loyalty, customized consulting telecommunication services and technical and commercial support;
- telesales: a telemarketing channel;
- indirect channels: outsourced sales by certified companies in the telecommunications and data processing segments to provide an adequately sized network for our products and services;
- Internet: the Telefónica website;
- virtual shop for corporate clients: a gateway for our corporate customers to acquaint themselves with our portfolio through the Internet; and
- door-to-door: door-to-door sales of services by consultants in the State of São Paulo in order to approach more SMEs to convert them into *Telefónica Negocios* clients.

We offer bundled products, which include both local and long-distance traffic and minutes bundled with broadband responding to the increase demand from our customers. We believe that the trend towards bundled offers in Brazil will continue to grow, and that further developing such offers will be important to maintaining our competitiveness in the market. Also, in 2009 Telesp launched its X-treme products, based on FTTX technology, and its IPTV services as well.

In terms of competition, our fixed telephony business in Brazil currently faces strong competition in the corporate and premium residential segments in respect of several types of services. In the corporate segment, there is strong competition in both voice services (local and long distance) and data transmission, resulting in greater retention costs to maintain client relationships.

Our main competitors in the corporate fixed telephony line segment are Oi, Intelig and Embratel, a subsidiary of Telmex International. In the high-income residential service segment, we compete for long-distance customers with Embratel and for broadband customers with cable TV providers, mainly NET Serviços de Comunicação S.A., or Net. For the local voice and high-income segments, we also face increasing competition from mobile telecommunications services, which have lower rates for certain types of calls, such as mobile-to-mobile calls. Such competition increases our advertising and marketing costs. We are taking several steps to defend ourselves from increasing competition. We are focused on improving our broadband products, by offering bundled services that include voice, broadband and television, and by increasing the access speed offered to our clients. In addition, we are improving our market segmentation and developing more competitive products intended to defend our client base from our competitors product offerings and to defend our market share.

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In the low-income, local fixed telecommunications segment, we face less direct competition due to the low profitability of this market. The most significant competition is from pre-pay mobile telecommunications providers. Telesp had an estimated market share in the fixed telephony market in the State of São Paulo of approximately 74.4% at December 31, 2009 based on the number of fixed telephony accesses, down from approximately 83.5% at December 31, 2008. This decrease is mainly due to intense competition from Net, which offers its Net Phone service as part of its offer of pay TV and broadband.

Regarding network, during the first half of 2009, Telesp had some problems with its network that affected the quality of the service of some products. In order to guarantee the stability of the service, Anatel suspended the sell of Speedy, our broadband product, on June, 22nd. That suspension was temporary and subject to the implementation by Telesp of an action plan to improve the service. Telesp presented its action plan that included capital expenditure and customer care and network expenses. As a result of this, the suspension was revoked on August, 27th. In addition, Telesp continued through 2009 to develop its ADSL network as long as the deployment of the fibre access network as a pilot project.

Brazil mobile business Brasilcel (Vivo)

With 174 million mobile accesses, Brazil ranked first in Latin America in terms of number of mobile accesses at December 31, 2009. At December 31, 2009, Brazil had an estimated mobile market penetration rate of 90.5% compared to 79% at December 31 2008.

Telefónica and Portugal Telecom are 50:50 shareholders in Brasilcel, a joint venture which combines Telefónica s and Portugal Telecom s mobile businesses in Brazil. This joint venture is the leading mobile operator in Brazil in terms of number of mobile accesses at December 31, 2009. All of the operating companies participating in the joint venture have been operating under the brand name Vivo since April 2003. The licensed areas of Brasilcel include 20 states in Brazil with an aggregate population of approximately 192.3 million people.

Vivo s customer base, in terms of number of accesses, increased 15.1% to 51.7 million accesses at December 31, 2009 from 44.9 million accesses at December 31, 2008. Of these, 9.8 million were contract accesses. The primary factors contributing to this growth include the increasing importance of the new mobile broadband accesses, the wider range of handsets available, Vivo s leadership in terms of brand and distribution chain, ongoing marketing campaigns for pre-pay traffic and an improved capacity to attract contract accesses first with *Vivo Escolha* plans and with *Vivo Voçe*. Vivo Voçe, launched to improve *Vivo Escolha* plans, started to be commercialized at the end of November. These plans, which are customized plans that allow customers to choose the mix of services with an extra bunch of free voice minutes, messaging, or mobile Internet access. Vivo Voçe also helped to increase customer loyalty by encouraging increased minute consumption and maintaining the perception on the market of Vivo s lower prices than its competitors. These plans are divided into different categories depending on the number of minutes included as well as additional upgrade features, such as extra SMS, extra minutes of long distance calls and extra MMS, with the improvement of being able to choose two of this upgrades instead of one as in the previous plans and a 3G Internet upgrade option added.

	Year ended December 31,		
	2007	**2008**	**2009**
Traffic (million of minutes)	n.a.	40,547	52,134
ARPU (in euros)	11.9	11.2	9.9

Traffic is defined as minutes used by the Company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. Traffic volume is not rounded.

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Traffic carried in 2009 increased 28.6% to 52,134 million minutes compared to 40,547 million minutes in 2008 due to the characteristic of the promotion that VIVO offered in 2009, focusing on pre-pay and control segments (minimum of consumption, when extinguished a prepaid recharge must be done).

ARPU was 9.9 in 2009 compared to 11.2 in 2008 (a decrease of 8.6% in local currency), reflecting the increased proportion of SIM only accesses in the pre-pay customer base and control accesses in the contract customer base, despite of the growth in data consumption.

Regarding marketing, Brasilcel actively manages its distribution channels, which consisted of approximately 12,070 points of sale at December 31, 2009. Also, pre-pay customers have access to a wide range of recharge points. Credit recharges can also be made by electronic transfers through the commercial banking network. At December 31, 2009, approximately 18.9% of Brasilcel s customer base were contract accesses and the remaining 81.1% were pre-pay accesses. Contract accesses growth was driven by customer acquisition and retention campaigns focused on high-value customers, with an emphasis on the *Vivo Escolha* and *Vivo Voçe* plans.

In terms of competition, Vivo was the leading mobile operator in Brazil in terms of number of accesses at December 31, 2009. The growth of the Brazilian market was considerable during the past years while being accompanied by an increase in competition due to the introduction of new competitors in the regions in which Vivo operates. Vivo s major competitors are subsidiaries of Telecom Italia, America Móvil and Oi.

Vivo s market share in terms of mobile accesses in the Brazilian mobile markets in which it operates was 29.7% at December 31, 2009, down from approximately 30.0% market share shown at December 31, 2008.

Regarding network and technology, the licenses granted to the companies integrated under the Vivo brand allow operations over the WCDMA, GSM, CDMA, CDMA 1XRTT, CDMA EVDO and TDMA systems. Vivo offers both analog and digital services in the bands of 800 MHz, 1900 MHz and 2100 MHz. In 2009 migration from the CDMA to the GSM network continued. Vivo s GSM customer base at December 31, 2009 amounted to 40.7 million accesses, 78.7% of its total customer base.

Venezuela

Venezuela mobile business Telcel, S.A. Telcel

The following table presents, at the dates indicated, selected statistical data relating to our operations in Venezuela:

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Total mobile accesses	**9,434.0**	**10,584.0**	**10,531.4**
Pre-pay accesses	8,900.3	9,970.7	9,891.1
Fixed wireless accesses	995.9	1,312.8	1,214.3
Pay TV		8.5	62.8
Total accesses	**10,429.9**	**11,905.3**	**11,808.5**

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The mobile penetration rate in Venezuela stood at an estimated 100.6% at December 31, 2009, an increase of 0.5 percentage points from December 31, 2008.

Telefónica Latin America operates in Venezuela through Telcel, S.A., or Telcel, whose accesses decreased 0.8% to 11.8 million accesses at December 31, 2009 from 12.0 million accesses at December 31, 2008, mainly due to intense competition.

	Year ended December 31,		
	2007	**2008**	**2009**
Traffic (million of minutes)	n.a.	14,993	14,951
ARPU (in euros)	16.3	16.9	21.2

Traffic carried in 2009 decreased 0.3% to 14,951 million minutes from 14,993 million minutes in 2008, due to inferior pre-pay accesses and lower contract accesses usage.

ARPU for 2009 was 21.2 compared to 16.9 in 2008 (an increase of 19.2% in local currency and excluding Venezuela as a hyperinflationary economy), reflecting the increased proportion of contract accesses in the customer base, the continued growth in data revenues and the increase in tariffs.

Regarding marketing, in Venezuela, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products. At December 31, 2009, 6.1% of our mobile accesses in Venezuela were contract accesses, while approximately 93.9% were pre-pay.

In 2009 the company continued implementing its strategy of offering a wider range of exclusive handsets, including the launch of several Blackberry models.

In terms of competition, the major competitors in the Venezuela mobile business are Movilnet and Digitel. Movilnet is a mobile services communication provider owned by the public operator CANTV. Movilnet currently uses CDMA and GSM technologies. In late December, it launched 3.5G service. Digitel is a mobile communications provider that uses GSM technology and focuses its strategy on mobile internet services based on 3G.

According to the *Comisión Nacional de Telecomunicaciones de la República Bolivariana de Venezuela*, or CONATEL, CANTV is the incumbent operator in Venezuela with a 46% share of the mobile market (through Movilnet) as of December 31, 2009. CANTV is controlled by the government of Venezuela.

Telefónica s estimated market share in the Venezuelan mobile market, in terms of mobile accesses, was 36.9% at December 31, 2009, in terms of number of mobile accesses.

With respect to network and technology, in Venezuela, we operate in digital network. Our digital network is based on the CDMA and GSM standard. In 2009, we deployed an overlay based in UMTS /HSDPA. At December 31, 2009, approximately 66.2% of accesses in Venezuela were based on the GSM network and the UMTS subscribers counted 0.2 million accesses. Also, we offer HSUPA technology that offers higher speed to upload data to the web, especially while loading images, e-mails, videos, etc.

Argentina

The following table presents, at the dates indicated, selected statistical data relating to our operations in Argentina:

	At December 31,		
	2007	2008	2009
	(in thousands)		
Fixed telephony accesses	4,682.5	4,603.1	4,607.7
Fixed wireless accesses	104.3	22.4	36.2
Internet and data accesses	1,149.9	1,284.3	1,351.0
Narrowband accesses	312.2	182.8	112.7
Broadband accesses	819.3	1,082.0	1,238.3
Other accesses	18.4	19.5	
Mobile accesses	13,629.7	14,829.6	15,931.9
Pre-pay accesses	8,836.0	9,687.6	10,736.8
Final clients accesses	**19,462.1**	**20,717.0**	**21.890,7**
Wholesale accesses	**9.3**	**10.0**	**9.3**
Total accesses	**19,471.4**	**20,726.9**	**21,900.0**

Telefónica Latin America managed a total of 21.9 million accesses in Argentina at December 31, 2009, an increase of 5.7% from December 31, 2008. This increase was underpinned by growth in mobile accesses, which increased by 7.4% to 15.9 million accesses at December 31, 2009 from 14.8 million accesses at December 31, 2008, and in the number of broadband accesses, which increased by 14.4% to 1.2 million accesses at December 31, 2009 from 1.1 million accesses at December 31, 2008.

Argentina fixed business Telefónica de Argentina, S.A.

Telefónica Latin America conducts its Argentine fixed business through Telefónica de Argentina, S.A., or Telefónica de Argentina, the leading provider of fixed telephony services in Argentina in 2009 based on number of accesses, according to information provided by its competitors and regulatory authorities.

Telefónica de Argentina s accesses increased 1.2% to 6.0 million accesses at December 31, 2009 from 5.9 million accesses at December 31, 2008. This modest growth was primarily driven by a 14.4% increase in broadband accesses to 1.2 million accesses at December 31, 2009 from 1.1 million accesses at December 31, 2008. The growth in broadband accesses was accompanied by a slight increase in fixed telephony accesses of 0.1% to 4.6 million accesses at December 31, 2009 from 4.6 million accesses at December 31, 2008.

Total voice traffic (measured in minutes) remained almost stable during 2009 as compared to 2008 despite the sharp growth of mobile-to-fixed traffic. Local and interconnection fixed-to-fixed traffic (measured in minutes) decreased 5.9% and 4.5%, respectively, in the year ended December 31, 2009 compared to the year ended December 31, 2008. Public use telephony traffic (measured in minutes) in 2009 decreased by 18.4% compared to the year ended December 31, 2008.

Regarding marketing, in Argentina, Telefónica de Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its fixed telephony products and services. Telefónica de Argentina continued answering customers needs through the development of its broadband business and by providing them new value added services. Telefónica de Argentina also focused its product strategy on bundles, and packages supported by commercial offerings like flat-rate plans (*tarifa plana*). In 2009, we continued commercializing long distance flat-rate plans. The flat-rate plan was primarily sold with the bundling of broadband access together with a local traffic plan. At December 31, 2009 approximately 67.0% of the broadband customer base subscribed to broadband through a bundled package.

In terms of competition, Telefónica de Argentina is the incumbent provider of fixed telephony services in the southern region of Argentina. However, other licensees currently providing fixed telephony services include Telecom

Argentina, S.A., Telmex Argentina, S.A., Impsat S.A. (acquired by Global Crossing in May 2007) and Port-Hable (Hutchison Telecommunications Argentina S.A.). Claro, a mobile phone company owned by America Móvil, also competes in the fixed telephony market.

Telefónica de Argentina is using its expanded fiber-optic network in the northern region of Argentina to carry long-distance traffic and a multiservice network to provide local service in the three most important cities in the northern region of Argentina where Telecom Argentina, S.A. is the incumbent provider. Telefónica de Argentina expanded and improved its network capacity by the construction of fixed wireless networks and the activation of new lines.

Telefónica de Argentina also competes with Grupo Clarín, a company with a growing broadband and TV businesses as a result of the merger of its affiliate Cablevisión with Multicanal in 2007.

Telefónica had an estimated market share in the Argentine fixed telephony market of approximately 47.8% at December 31, 2009 based on number of fixed telephony accesses, down from approximately 48.1% at December 31, 2008.

Regarding network, Telefónica de Argentina invested in 2009 to develop its broadband access business through ADSL technology, increasing the network coverage and capacity.

Argentina mobile business Telefónica Móviles Argentina, S.A.

The Argentine mobile market continued to grow at a strong pace in 2009, with an increase in its penetration to 120.3% at December 31, 2009, from 109.8% at December 31, 2008, based on number of mobile accesses.

Telefónica Latin America conducts its Argentine mobile business through Telefónica Móviles Argentina, S.A., or Telefónica Móviles Argentina, whose accesses increased 7.4% to 15.9 million accesses at December 31, 2009 from 14.8 million accesses at December 31, 2008. Telefónica Móviles Argentina also increased its number of contract accesses by 1.0% to 5.2 million accesses at December 31, 2009 from 5.1 million accesses at December 31, 2008.

	Year ended December 31,		
	2007	**2008**	**2009**
Traffic (million of minutes)	n.a.	12,941	15,562
ARPU (in euros)	8.5	8.7	8.6

Traffic reached 15,562 million minutes in 2009, an increase of 20.2% compared to 12,941 million minutes in 2008, mainly driven by the growth in on-net traffic.

ARPU was 8.6 in 2009 compared to 8.7 in 2008 (an increase of 10.7% in local currency), reflecting customer adoption of new products and services (upgrades and more consumption), tariff increases and the continued growth in data revenues.

Regarding marketing, in Argentina, Telefónica Móviles Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2009, approximately 32.6% of our accesses in Argentina were contract accesses. Telefónica Móviles Argentina during 2009 offered the Internet Mobile service with plans with limited or unlimited usage.

In terms of competition, we currently have three competitors in the Argentine market for mobile communications services, each of which provides services on a nationwide basis: Telecom Personal, which is controlled by Telecom Italia through Telecom Argentina; Claro, controlled by América Móvil; and Nextel, owned by NII Holdings Inc.

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Telefónica Móviles Argentina s estimated market share in the Argentine mobile market in terms of mobile accesses was approximately 33.0% at December 31, 2009, down from approximately 34.0% at December 31, 2008.
With respect to network and technology, in Argentina we operate on digital networks based upon GSM and UMTS technology. At December 31, 2009, GSM accesses represented 98.6% of Telefónica Móviles Argentina s accesses. Also, Telefónica Móviles Argentina developed its mobile broadband business through UMTS technology by increasing coverage.

Chile

The following table presents, at the dates indicated, selected statistical data relating to our operations in Chile:

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses	2,172.4	2,121.0	2,028.0
Internet and data accesses	686.8	743.8	807.2
Narrowband accesses	31.8	18.7	15.9
Broadband accesses	646.0	716.6	783.2
Other accesses	8.9	8.6	8.1
Mobile accesses	6,282.7	6,875.0	7,524.7
Pre-pay accesses	4,742.2	4,956.0	5,435.9
Pay TV accesses	219.9	263.0	285.1
Final clients accesses	**9,361.7**	**10,002.7**	**10,645.0**
Wholesale accesses	**15.4**	**11.5**	**8.9**
Total accesses	**9,377.2**	**10,014.3**	**10,653.8**

At December 31, 2009 Telefónica Latin America managed a total of 10.7 million accesses in Chile, 6.4% more than at December 31, 2008, underpinned by growth in mobile accesses, which increased by 9.5% to 7.5 million accesses at December 31, 2009 from 6.9 million accesses at December 31, 2008. Growth was also driven by a 9.3% increase in broadband accesses to 0.8 million accesses at December 31, 2009 and 8.4% increase in pay TV accesses to 0.3 million accesses at December 31, 2009. Fixed telephony accesses decreased 4.4% to 2.0 million accesses at December 31, 2009 from 2.1 million accesses at December 31, 2008.

Chilean fixed business Telefónica Chile, S.A.

Telefónica Latin America conducts its Chilean fixed business through Telefónica Chile S.A., or Telefónica Chile (formerly Compañía de Telecomunicaciones de Chile, or CTC Chile), the leading fixed line telecommunications operator in Chile based on number of accesses, according to information provided by its competitors and regulatory authorities. Telefónica Chile s accesses decreased 0.3% to 3.1 million accesses at December 31, 2009.
Telefónica Chile s fixed telephony accesses decreased by 4.4% from December 31, 2008 to 2.0 million accesses at December 31, 2009. Broadband and pay TV accesses continued to grow in 2009, and Telefónica Chile managed 0.8 million broadband accesses at December 31, 2009 compared to 0.7 million at December 31, 2008.
Telefónica Chile s pay TV business grew to 0.3 million accesses at December 31, 2009. Telefónica Chile established itself as the third pay TV operator in Chile, by number of accesses.
Regarding marketing, one of our main priorities is to satisfy customer needs by improving the quality of our customer service. We continued our strategy of segmenting our customers in order to tailor our services to best meet the specific needs of each customer segment. With respect to broadband, Telefónica Chile launched bundle services of broadband and voice to satisfy our customers demand. Also double and triple play bundles represented one of the drivers of revenue growth.

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The customer service model developed by Telefónica Chile, which is aimed at achieving the highest degree of efficiency in customer service, features the following:

- personal customer service lines for purchasing any type of product and service and handling customer queries;
- Telefónica stores (*Tiendas Telefónica*) where customers can test and buy products marketed by Telefónica;
- Telefónica s virtual store, accessible by Internet, which offers customers the ability to order and purchase online the majority of services and products offered by Telefónica; and
- a sophisticated customer service system for corporate clients, ranging from a telephone help line for small and medium-sized businesses to the assignment of sales managers to address the needs of larger corporate clients.

From October 25^{th} 2009, all fixed and/or mobile businesses products and services are marketed under the brand Movistar, formerly used exclusively by the mobile business.

In terms of competition, the competitive landscape in fixed telephony in Chile is marked by a significant fixed-to-mobile substitution effect. The increased sales of Duo and Trio bundles is the cornerstone of Telefónica Chile s strategic focus, which aims to increase the number of revenue generating units per customer and, accordingly, revenue per customer. VTR is our principal competitor in the Chilean fixed telephony market,

Telefónica Chile s estimated market share at December 31, 2009 was as follows:

- 47.1% of retail broadband accesses, down from approximately 49.4% at December 31, 2008;
- fixed telephony accesses market share amounted to approximately 58.4% of retail fixed telephony accesses, down from approximately 62.1% at December 31, 2008; and
- pay TV market share amounted to approximately 16.6% of the market by number of pay TV accesses, down from 17,5% at December 31, 2008.

Regarding network and technology, Telefónica Chile made improvements on its network to support broadband and TV accesses growth, while updating it, as to be ready for the development of the fibre access network, or FTTX.

Chilean mobile business Telefónica Móviles Chile, S.A.

The mobile penetration rate in Chile stood at an estimated 105.6% at December 31, 2009, an increase of 9.0 percentage points from December 31, 2008, compared with an estimated 96.6% at December 31 2008.

Telefónica Latin America conducts its Chilean mobile business through Telefónica Móviles Chile, S.A., or Telefónica Móviles Chile, whose customer base increased 9.5% to 7.5 million accesses at December 31, 2009. The number of contract accesses rose by 8.8% to 2.1 million accesses at December 31, 2009 from 1.9 million accesses at December 31, 2008.

	Year ended December 31,		
	2007	2008	2009
Traffic (million of minutes)	n.a.	9,703	10,521
ARPU (in euros)	12.0	12.3	10.7

Traffic carried in 2009 increased 8.4% to 10,521 million minutes at December 31, 2009 from 9,703 million minutes at December 31, 2008, mainly driven by outgoing traffic, primarily on-net.

ARPU was 10.7 in 2009 compared to 12.3 in 2008 (a decrease of 10.7% in local currency). The decrease in local currency was largely due to the reduction of tariffs as a consequence of the regulatory decree within interconnection rates, which became into effect at January 23, 2009 for mobile termination (an average tariff decrease of 44.6%).

Regarding marketing, in Chile, Telefónica Móviles offered promotional campaigns associated with recharge and prepaid sell while developing mobile broadband service.

In terms of competition, we currently have three primary competitors in the Chilean market for mobile telephony, each of which provides services on a nationwide basis: Entel, Claro and Nextel.

Telefónica Móviles Chile s estimated market share in the Chilean mobile sector in terms of mobile accesses was approximately 42.8% at December 31, 2009, down from 43.3% at December 31, 2008.

With respect to network and technology, in Chile, Telefónica Móviles Chile operates with GSM and 3G network, launched in December 2007.

Mexico

Mexico mobile business Telefónica Móviles México, S.A. de C.V.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Mexico:

	At December 31,		
	2007	2008	2009
		(in thousands)	
Total mobile accesses	**12,534.1**	**15,330.6**	**17,400.5**
Pre-pay accesses	11,833.7	14,432.4	16,328.3
Fixed wireless accesses	3.6	133.6	334.3
Total accesses	**12,537.6**	**15,464.2**	**17,734.8**

The mobile penetration rate in Mexico was approximately 75.2% at December 31, 2009 an increase of 3.6 percentage points from December 31, 2008.

Telefónica Móviles México, S.A. de C.V. s, or Telefónica Móviles México s, customer base increased 14.7% to 17.7 million accesses at December 31, 2009 from 15.5 million accesses at December 31, 2008. This increase was mainly the result of a 13.1% increase of pre-pay accesses in 2009 compared to 2008. At December 31, 2009, approximately 93.8% of our mobile customers in Mexico were pre-pay accesses while 6.2% were contract accesses.

	Year ended December 31,		
	2007	2008	2009
Traffic (million of minutes)	n.a.	22,431	23,186
ARPU (in euros)	9.3	8.2	6.9

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Traffic carried in 2009 increased 3.4% to 23,186 million minutes compared to 22,431 million minutes in 2008. This increase was mainly due to commercial promotions focusing on fee-per call (tariff per call instead of minutes) that improved usage.

ARPU declined to 6.9 in 2009 compared to 8.2 in 2008 (a decrease of 3.3% in local currency), because the increase of the customer base was motivated by lower tariff plans that reduced the average consumption.

Regarding marketing, during 2009, Telefónica Latin America, through Telefónica Móviles México launched innovative products to maintain current customers and attract additional ones. In addition, Telefónica Móviles México focused on commercial activity and profitability while improving the quality of its network, which enabled the company to maintain robust customer growth during that year.

In Mexico, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products and services.

Telefónica Móviles México s offer was completed with Plan pagamenos Xtra in the pre-pay segment, based on a price-per-call offer. This plan has lower prices but generates a positive elasticity in terms of consumption.

In terms of competition, Telefónica Móviles México is the second largest mobile operator in Mexico based on the number of mobile accesses, and competes with various mobile operators at the national level. Telefónica Móviles México s principal competitor is Telcel, a subsidiary of América Móvil. Other significant competitors are Nextel and Iusacell.

Telefónica Móviles México s estimated market share in the Mexican mobile market in terms of mobile accesses was approximately 20.8% at December 31, 2009, up from approximately 19.5% at December 31, 2008.

Regarding network, Telefónica Móviles México has 100% of its accesses on its GSM network. Also, Telefónica Móviles México provides UMTS services but spectrum constraints their expansion.

Peru

The following table presents, at the dates indicated, selected statistical data relating to our operations in Peru:

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses	2,843.4	2,986.5	2,971.2
Fixed wireless accesses	290.0	485.5	582.7
Internet and data accesses	623.1	728.9	800.6
Narrowband accesses	40.3	17.7	16.9
Broadband accesses	572.1	698.4	768.0
Other accesses	10.7	12.8	15.6
Mobile accesses	8,067.3	10,612.7	11,458.2
Pre-pay accesses	7,238.1	9,575.2	10,214.2
Pay TV accesses	640.0	654.5	686.3
Final clients accesses	**12,173.8**	**14,982.6**	**15,916.3**
Wholesale accesses	**0.5**	**0.4**	**0.5**
Total accesses	**12,174.3**	**14,983,0**	**15,916.8**

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At December 31, 2009, Telefónica Latin America had 15.9 million accesses in Peru, which represents an increase of 6.2% from December 31, 2008. This growth in accesses was primarily driven by 8.0% increase in mobile accesses from December 31, 2008 to 11.5 million mobile accesses at December 31, 2009, mostly in the pre-pay segment. The IRIS project, collaboration between fixed telephony operators and mobile operators in Peru, which was launched in March 2007 with the aim of increasing fixed telephony and broadband penetration, also contributed to the overall growth in accesses.

Peruvian fixed business Telefónica del Perú, S.A.A.

Telefónica Latin America conducts its Peruvian fixed telephony business through Telefónica del Perú, S.A.A., or Telefónica del Perú, which at December 31, 2009 was the leading fixed line telecommunications operator in Peru based on number of fixed telephony accesses.

Telefónica del Perú had total accesses of 4.5 million at December 31, 2009, an increase of 2.0% from December 31, 2008, due primarily to increases in fixed wireless telephony and broadband accesses. Fixed telephony accesses decreased 0.5% from December 31, 2008 to 3.0 million accesses at December 31, 2009. Broadband accesses grew by 10.0% from December 31, 2008 to 0.8 million at December 31, 2009. In addition, pay TV accesses totaled 0.7 million accesses at December 31, 2009 recording growth of 4.9% from December 31, 2008 primarily due to increased cable pay TV subscriptions.

Regarding marketing, Telefónica del Perú s commercial strategy is based on achieving and maintaining high levels of market penetration by offering customized services to different customer segments, with marketing campaigns focused on maintaining customer loyalty and increasing the options available to potential customers. The primary products offered by Telefónica del Perú include fixed telephony, broadband, pay TV, data and IT services.

Telefónica del Perú focuses its commercial strategy focused on penetration trough its offers targeting each market segment, commercializing Duos and Trios and leveraging on its customer retention campaign.

In terms of competition, in 2009, Telmex and Americatel, Telefónica del Perú s two primary competitors, focused on offering bundled products (local and long distance telephony together with broadband).

Telmex implemented an aggressive strategy to enter the residential market by offering a triple play service. The response from Telefónica del Perú consisted of increasing Trio bundle options at lower prices.

Telefónica had an estimated market share in the Peruvian fixed telephony market of approximately 93.8% at December 31, 2009, based on number of fixed telephony accesses, down from approximately 94.0% at December 31, 2008.

Regarding network, Telefónica del Peru invested to develop its broadband business through ADSL technology by increasing coverage and speed. Additionally, it began deploying a new fiber access network, called FTTX, which currently is offered on a limited basis to large customers.

Peruvian mobile business Telefónica Móviles Perú, S.A.C.

The estimated Peruvian mobile penetration rate reached 64.5% approximately at December 31, 2009, an increase of 3.9 percentage points compared to December 31, 2008.

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Telefónica Latin America conducts its Peruvian mobile business through Telefónica Móviles Perú, S.A.C., or Telefónica Móviles Perú, whose customer base increased 8.0% from December 31, 2008 to 11.5 million accesses at December 31, 2009. This increase was primarily driven by a 6.7 % increase in the number of pre-pay accesses from December 31, 2008 to December 31, 2009.

	Year ended December 31,		
	2007	**2008**	**2009**
Traffic (million of minutes)	n.a.	10,039	11,460
ARPU (in euros)	7.3	6.0	5.5

Traffic carried in 2009 increased 14.1% to 11,460 million minutes compared to 10,039 million minutes in 2008, primarily due to on-net traffic, in line with the strategy of offering better tariffs to this type of traffic as a benefit from belonging to the largest mobile network of the country.

ARPU was 5.5 in 2009 compared to 6.0 in 2008 (a decrease of 11.5% in local currency), as a consequence of reductions in both contract and pre-pay tariffs.

Telefónica Móviles Perú uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2009, approximately 89.1% of Telefónica Móviles Perú s mobile accesses were pre-pay accesses, while approximately 10.9% were contract accesses.

Telefónica Móviles Perú focused its marketing efforts pushing migrations from pre-pay to contract. In May 2009, it started to commercialize mobile broadband and in September 2009 push to talk (this service allows instant communications from a mobile device). Since November 2009, pre-pay commercial offer was changed, focusing on evolving from massive to focused on each of the pre-pay clusters (defined by recharge frequency & money spent) in order to avoid revenues cannibalization.

In terms of competition, Telefónica Móviles Perú currently has two primary competitors in the Peruvian market for mobile telephony services: Claro, owned by América Móvil, and Nextel Perú.

Telefónica s estimated market share in the Peruvian mobile market in terms of mobile accesses was approximately 62.9% at December 31, 2009, up from approximately 62.6% at December 31, 2008.

With respect to network and technology, at December 31, 2009 Telefónica Móviles Perú operated both GSM and CDMA technology. Its digital network is based upon the CDMA/CDMA 1XRTT standard. Telefónica Móviles Perú continued the migration to GSM technology, and at December 31, 2009, GSM accesses accounted for 93.4 % of its total customer base, which represents an increase of 3.8 percentage points from December 31, 2008.

Colombia

The following table presents, at the dates indicated, selected statistical data related to our operations in Colombia.

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses	2,328.5	2,299.2	1,639.8
Internet and data accesses	200.3	395.9	428.4
Narrowband accesses		0.3	5.9
Broadband accesses	200.3	393.9	420.3
Other accesses		1.7	2.2
Mobile accesses	8,372.1	9,963.1	8,964.6
Pre-pay accesses	6,612.9	8,327.3	7,203.2
Pay TV accesses	72.9	142.3	127.2
Final clients accesses	**10,973.8**	**12,800.5**	**11,159.9**
Wholesale accesses		**2.9**	**3.3**

Total accesses	**10,973.8**	**12,803.4**	**11,163.2**

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Telefónica Latin America managed a total of 11.2 million accesses in Colombia at December 31, 2009, a decrease of 12.8% from December 31, 2008. This decrease was underpinned by the drop in mobile accesses, which decreased 10.0% to 9.0 million accesses at December 31, 2009 from 10.0 million accesses at December 31, 2008, and by the 28.7% decrease in fixed telephony accesses from 2009 to 2008, not compensated by the 6.7% increase of broadband accesses to reach 0.4 million accesses at December 31, 2009 from 0.4 million accesses at December 31, 2008.

Colombian fixed business Colombia Telecomunicaciones, S.A. ESP

Telefónica Latin America conducts its Colombian fixed telephony business through Colombia Telecomunicaciones, S.A. ESP, or Colombia Telecom, which is present in approximately 1,000 municipalities in Colombia. In April 2006, Telefónica Internacional, S.A., acquired 50% plus one share of Colombia Telecom for approximately 289 million pursuant to an auction process. In December, 2006 Colombia Telecom merged with Telefónica Data Colombia, S.A. As a result of the merger, Telefónica Internacional, S.A. s stake increased to 52.03%.

Colombia Telecom reached 2.2 million accesses at December 31, 2009, which represents a decrease of 22.6% from 2.8 million accesses at December 31, 2008, primarily due to the decrease of 28.7% in fixed telephony accesses from December 31, 2008 to 1.6 million accesses at December 31, 2009, as a consequence of intense competition and customer base clean up. Broadband accesses increased 6.7% to 0.4 million accesses at December 31, 2009 from 0.4 million accesses at December 31, 2008.

Colombia Telecom also launched a pay TV product using satellite technology at the beginning of 2007, allowing it to begin offering Trio bundles (voice, broadband and pay TV). As of December 31, 2009, Colombia Telecom had 0.1 million pay TV accesses, a 10.6% decrease compared to December 31, 2008.

Colombia Telecom has a finance lease agreement with PARAPAT. PARAPAT is the consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia Telecom and regulates the operation of assets, goods and rights relating to the provision of telecommunications services by Colombia Telecom. This finance lease agreement includes the lease of the telecommunications assets and the transfer of these assets to Colombia Telecom once the last installment of the lease has been paid which, in accordance with the payment schedule, is expected to be in 2022.

Regarding marketing, in Colombia, Colombia Telecom uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. Additionally, Colombia Telecom is currently pursuing a strategy to increase market penetration, by restructuring distribution and communication channels, and by offering bundled products such as Trio Telefónica . Also, it restructured the commercial offer to strengthen the quality and quantity of television channels and improving broadband capability.

In terms of competition, Colombia Telecom s principal competitors in the Colombian market are Telmex and ETB. Colombia Telecom had an estimated market share in the Colombian fixed telephony market of approximately 22.4% at December 31, 2009 based on number of fixed telephony accesses, down from approximately 29.2% at December 31, 2008. This decrease was mainly driven by a customer base clean up and intense competition.

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Regarding network and technology, Colombia Telecom continued expanding and upgrading the network to support a broader range of product and services in 2009.

Colombian mobile business Telefónica Móviles Colombia, S.A.

At December 31, 2009 the Colombian mobile market had an estimated penetration rate of 92.9%, an increase of 1.8 percentage points from December 31, 2008.

Telefónica Latin America conducts its Colombian mobile business through Telefónica Móviles Colombia, S.A., or Telefónica Móviles Colombia, whose customer base decreased by 10.0% from December 31, 2008 to 9.0 million accesses at December 31, 2009. At December 31, 2009, approximately 19.6% of our mobile accesses in Colombia were contract accesses, compared to 16.4% at December 31, 2008.

	Year ended December 31,		
	2007	**2008**	**2009**
Traffic (million of minutes)	n.a.	13,568	13,665
ARPU (in euros)	8.8	6.8	5.9

Traffic carried in 2009 increased 0.7% to 13,665 million minutes compared to 2008, even though mobile customer base reduction.

ARPU was 5.9 in 2009 compared to 6.8 in 2008 (a decrease of 10.2% in local currency), due to interconnection tariffs reduction and pressure on tariffs.

Regarding marketing, Telefónica Móviles Colombia uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products.

Telefónica Móviles Colombia implemented, in the contract segment, commercial promotions to increase customer loyalty, and launched new tariff plans focused on a single tariff to any destination with lower basic charges and other tariff plans with preferential on net prices to attract customers. Additionally, it launched the project Tecnoferias (specific sales in strategic areas of major cities, for example: Cartagena, Santa Marta, Barranquilla, Cali, Ibague, Cucuta and Valledupar) to improve commercial activity and to re-position Movistar brand.

In terms of competition, Telefónica Móviles Colombia currently has two primary competitors in the Colombian market for mobile communications services: Comcel, which is owned by América Móvil, and Colombia Móvil, who operates under the brand Tigo and is owned by Millicom.

Telefónica Móviles Colombia s estimated market share in the Colombian mobile market in terms of mobile accesses was approximately 21.3% at December 31, 2009, down from approximately 24.5% at December 31, 2008.

Regarding network, TDMA was switched off during 2008 and CDMA network was still working in 2009. The UMTS network experienced an increase in terms of coverage by installing 504 new GSM sites, accounting for a total of 2,573 sites installed and representing coverage of 83% of the Colombian municipalities.

Central America

Telefónica Central America includes Panama, Guatemala, El Salvador and Nicaragua. At the end of 2009, the mobile penetration rate of the Central American market, where Telefónica operates, was 89.7%, which represents an increase of 9.3 percentage points from December 31, 2008.

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The following table presents, at the dates indicated, selected statistical data related to our operations in Central America.

	At December 31,		
	2007	2008	2009
		(in thousands)	
Fixed telephony accesses	393.4	437.2	444.5
Internet and data accesses	22.0	18.4	14.7
Broadband accesses	19.8	16.5	12.6
Pay TV accesses			
Mobile accesses	5,009.9	5,702.0	5,806.5
Total accesses	**5,425.3**	**6,157.6**	**6,265.8**

Telefónica Central América s customer base increased by 1.8% from December 31, 2008 to 6.3 million accesses at December 31, 2009, mainly due to an increase in mobile accesses in 2009 compared to 2008.

	Year ended December 31,		
	2007	2008	2009
Traffic (million of minutes)	n.a.	7,174	6,868
ARPU (in euros)	9.7	7.4	6.9

Traffic decreased by 4.3% compared to 2008 reaching 6,868 million minutes in 2009. This decrease was due primarily to lower usage caused by intense competition

ARPU was 6.9 in 2009 compared to 7.4 in 2008 (a decrease of 8.7% on a constant euro basis), as a result of lower consumption.

Ecuador

Ecuadorian mobile business Otecel, S.A.

The Ecuadorian mobile penetration rate reached 92.8% at December 31, 2009, an increase of 12.2 percentage points from December 31, 2008.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Ecuador:

	At December 31,		
	2007	2008	2009
		(in thousands)	
Total mobile accesses	**2,581.1**	**3,122.5**	**3,721.8**
Pre-pay accesses	2,177.5	2,650.5	3,193.9
Fixed wireless accesses	1.3	89.4	84.7
Total accesses	**2,582.4**	**3,211.9**	**3,806.4**

Telefónica Latin America conducts its Ecuadorian mobile business through Otecel, S.A., or Otecel, which had a customer base of 3.8 million accesses at December 31, 2009 an increase of 18.5% from 3.2 million accesses at December 31, 2008. At December 31, 2009, approximately 85.8% of our mobile accesses in Ecuador were pre-pay accesses, while approximately 14.2% were contract accesses.

	Year ended December 31,		
	2007	2008	2009
Traffic (million of minutes)	n.a.	2,800	3,744
ARPU (in euros)	6.6	6.7	6.8

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Traffic carried in 2009 increased by 33.7% to 3,744 million minutes compared to 2008 mainly due to the increase in the number of both pre-pay and contract accesses.

ARPU was 6.8 in 2009 compared to 6.7 in 2008 (a decrease of 3.8% in local currency), as a result of lower consumption.

Regarding marketing, in Ecuador, Otecel uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market their products. In April launched Total Plan was launched for on-net calls for contract segment. In the pre-pay segment, Otecel continued offering doubling and tripling volume in each top-up, along with the campaign Multicolor for off-net calls. The commercialization of mobile broadband and the service push to talk (Movitalk) were launched in June and September respectively.

In terms of competition, Otecel currently has two primary competitors in market for mobile communications services in Ecuador, Porta (América Móvil) and Alegro.

Telefónica s estimated market share in the Ecuadorian mobile market in terms of mobile accesses was approximately 28.4% at December 31, 2009, up from approximately 26.6% at December 31, 2008.

With respect to network and technology, Otecel operates both analog and digital networks. Its digital network is based upon the GSM standard and CDMA standard. GSM accesses reached 91.8% of the total customer base, representing an increase of 8.7 percentage points from December 31, 2008.

INFORMATION BY BUSINESS LINE

TelefonicaEurope

Telefónica Europe s principal activities are the provision of fixed and mobile telephony services, Internet and data services in the United Kingdom, Germany, the Czech Republic and the Isle of Man, mobile telecommunications services in Ireland and Slovakia and pay TV in Czech Republic.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Europe.

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses (1)	2,130.0	1,952.7	1,827.5
Internet and data accesses	880.0	1,354.5	1,754.7
Narrowband accesses	202.4	163.4	137.3
Broadband accesses	670.3	1,158.7	1,589.1
Other accesses	7.3	32.4	28.3
Mobile accesses (2)	38,263.8	41,401.8	44,095.0
Pay TV accesses	73.2	114.5	137.6
Final clients accesses	**41,347.0**	**44,823.5**	**47,814.9**
Wholesale accesses	**706.2**	**1,237.9**	**1,425.2**
Total accesses	**42,053.2**	**46,061.4**	**49,240.1**

(1) VoIP and Naked ADSL accesses are included

(2) As of 1 January 2008, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses. In

addition, the accounting criteria for prepaid access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

Telefónica Europe s total accesses increased 6.9% to 49.2 million accesses at December 31, 2009 from 46.1 million accesses at December 31, 2008. Total accesses at December 31, 2009 included 44.1 million mobile accesses, 1.8 million fixed telephony accesses, 1.8 million Internet and data accesses and 0.1 million pay TV accesses. Additionally, it included 1.4 million ADSL wholesale accesses.

Telefónica Europe s revenues decreased 5.4% to 13,533 million in 2009 from 14,309 million in 2008. Telefónica Europe s 2009 revenue were negatively affected by lower mobile termination rates (MTRs) (which impacted both our revenues and supplies expenses), the adverse economic environment and the decline of the average pound sterling to euro exchange rate.

Revenues derived from Telefónica O2 UK decreased to 6,512 million in 2009 from 7,052 million in 2008 (an increase of 3.5% in local currency). The local currency increase in revenue was primarily driven by an increase in Telefónica O2 UK s customer base and partially offset by a decrease in ARPU.

Revenues derived from Telefónica O2 Germany increased 4.2% to 3,746 million in 2009 from 3,595 million in 2008. The positive evolution was mainly the result of an increase in the customer base due to new offerings (O2o, My O2 Handy and broadband), but was adversely impacted by lower MTRs.

Revenues derived from Telefónica O2 Czech Republic, including Slovakia operations, decreased by 12.4% to 2,260 million in 2009 from 2,581 million in 2008 (a decrease of 7.3% in local currency). Slovakia continued to grow mobile revenues while Czech revenues from fixed and mobile services decreased (9.3% and 6.3% in local currency respectively) due to MTR cuts, customers reducing spending and fixed to mobile substitution.

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- Revenues derived from Telefónica O2 Ireland decreased 5.5% to 905 million in 2009 compared to 957 million in 2008. The decrease was mainly the result of lower customer spending and lower usage in terms of minutes.

Regarding expenses, Telefónica Europe s total expenses decreased 6.3% to 9,857 million in 2009 from 10,523 million in 2008.

- Supplies decreased 6.4% to 6,189 million in 2009 from 6,611 million in 2008, mainly due to the decline of the pound sterling to euro exchange rate over the period and lower MTRs.
- Personnel expenses decreased 2.6% to 1,304 million in 2009 from 1,340 million in 2008 despite increased expenses associated with restructuring programs in Telefónica O2 UK and Telefónica O2 Germany.
- Other expenses decreased 8.1% to 2,364 million in 2009 from 2,573 million in 2008, mainly due to the decrease in external services as a result of cost efficiencies.

As a result of the foregoing, Telefónica Europe s OIBDA decreased 6.4% to 3,910 million in 2009 from 4,180 million in 2008. OIBDA in 2008 included 174 million as the result of the release in 2008 of provisions made in respect of potential contingencies which were not realized once these risks had dissipated.

- OIBDA in Telefónica O2 UK decreased 8.7% to 1,680 million in 2009 from 1,839 million in 2008 (an increase of 2.3% in local currency).
- OIBDA in Telefónica O2 Germany increased 19.3% to 918 million in 2009 from 770 million in 2008.
- OIBDA in Telefónica O2 Czech Republic, including Slovakia operations, decreased 9.2% to 1,053 million in 2009 from 1,159 million in 2008 (a decrease of 3.8% in local currency).
- OIBDA in Telefónica O2 Ireland increased 0.3% to 302 million in 2009 from 301 million in 2008.

Telefónica Europe s depreciation and amortization decreased 4.6% to 2,895 million in 2009 from 3,035 million in 2008 mainly due to the decline of the average pound sterling to euro exchange rate.

As a result of the foregoing, Telefónica Europe s operating income decreased 11.3% to 1,015 million in 2009 from 1,145 million in 2008. The decrease was the result of the 6.4% decrease in OIBDA which was not offset by the lower decrease (4.6%) in depreciation and amortization.

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United Kingdom Telefónica O2 UK

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in the United Kingdom.

	At December 31,		
	2007	2008	2009
	(in thousands)		
Internet and data accesses	70.7	340.9	591.5
Broadband accesses	70.7	340.9	591.5
Mobile accesses (1)	18,382.1	20,274.7	21,299.3
Pre-pay accesses	11,573.4	11,862.5	11,740.3
Final clients accesses	**18,452.8**	**20,615.6**	**21,890.8**
Total accesses	**18,452.8**	**20,615.6**	**21,890.8**

(1) As of 1 January 2008, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses.

	Year ended December 31,		
	2007	2008	2009
MOU (minutes)	190	207	n.a.
Traffic (million of minutes)	n.a.	46,585	53,856
ARPU (in euros)	34.4	29.0	24.7

Traffic is defined as minutes used by the Company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. Traffic volume is not rounded.

In order to avoid the distortion on MOU of the strong growth of mobile devices which mostly use data services (M2M and mobile broadband devices), the Company has decided to publish the traffic evolution in absolute terms.

The mobile penetration rate in the United Kingdom was 123% at September 30, 2009, similar to the penetration rate at December 31, 2008

Total accesses increased 6.2% to 21.9 million accesses at December 31, 2009 compared to 20.6 million accesses at December 31, 2008 (excluding the Tesco mobile customer base, which is the result of a *joint venture* in which Telefónica O2 UK holds a 50% stake and whose customers use the Telefónica O2 UK network). Telefónica O2 UK, Telefónica Europe s operating company in the United Kingdom, had total net additions of 1.3 million accesses in 2009, 41.0% less than its net additions in 2008.

Telefónica O2 UK added 1.1 million mobile contract accesses in 2009, bringing the total at December 31, 2009 to 9.6 million mobile contract accesses, an increase of 13.6% from December 31, 2008. Pre-pay mobile accesses decreased from 11.9 million accesses from December 31, 2008 to 11.7 million accesses at December 31, 2009. At December 31, 2009 mobile contract accesses made up 44.9% of Telefónica O2 UK s mobile customer base, compared to 41.5% at December 31, 2008. At December 31, 2009 Telefónica O2 UK had 0.6 million broadband accesses compared to 0.3 million broadband accesses at December 31, 2008.

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Contract ARPU decreased to 40.8 in 2009 from 48.6 in 2008 (a decrease of 5.9% in local currency). Pre-pay ARPU decreased to 12.3 in 2009 from 15.5 in 2008 (a decrease of 11.0% in local currency). ARPU was 24.7 in 2009 down from 29.0 in 2008 (a decrease of 4.4% in local currency). This decrease in local currency ARPU was caused by MTR regulation (which resulted in an average rate decrease of 11% year-on-year approximately) and customers usage optimization. Traffic carried in 2009 increased 15.6% to 53,856 million minutes compared to 46,585 million minutes in 2008.

Regarding marketing, in the United Kingdom, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail, internet advertising and sponsorship to market Telefónica O2 UK s products and services.

In 2009, Telefónica O2 UK continued its focus on high-value customers across various segments and offered a wide range of Smartphones such as the iPhone 3GS and the Palm Pre, in addition to mobile and fixed broadband representing one of the key drivers of revenue growth in 2009.

In 2009 Telefónica O2 UK was voted Best Network for the second consecutive year at Mobile Awards 2009.

In terms of competition, Telefónica O2 UK s estimated market share was approximately 26.4% at September 30, 2009 compared with approximately 25.9% at December 31, 2008, based on the number of mobile accesses.

In addition to Telefónica O2 UK, there are currently four other network operators in the UK mobile telecommunications market: Vodafone UK, a subsidiary of Vodafone plc, T-Mobile UK, a subsidiary of Deutsche Telecom AG, Orange, owned by France Telecom, and 3, owned by Hutchison Whampoa. MVNOs operating in the UK market include Virgin Mobile and Talk-Talk, owned by Virgin Media and The Carphone Warehouse Group respectively, which respectively use the T-Mobile UK and Vodafone network, and Tesco Mobile, a *joint venture* in which Telefónica O2 UK holds a 50% stake, and which uses the Telefónica O2 UK network.

A proposed *joint venture* between France Telecom and Deutsche Telekom s UK operators (Orange UK and T-Mobile UK, respectively) is currently being scrutinized by regulators.

As of December 31, 2009, Telefónica O2 UK also provides the network infrastructure for LycaMobile, a Mobile Virtual Network Operator (MVNO) that pays Telefónica O2 UK to use its network.

With respect to network and technology, Telefónica O2 UK s digital network in the United Kingdom is based upon the GSM/GPRS standard. The prevalence of the GSM standard, together with Telefónica O2 UK s international roaming agreements, enables Telefónica O2 UK s customers to make and receive calls in more than 200 countries worldwide. At December 31, 2009, Telefónica O2 UK s GSM/GPRS digital network consisted of approximately 11,817 base stations.

Telefónica O2 UK had rolled out ULL capabilities to 1,245 exchanges by the end of 2009, giving its broadband network population coverage of 67.2% in terms of the UK population.

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Germany Telefónica O2 Germany

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in Germany.

	At December 31,		
	2007	2008	2009
	(in thousands)		
Internet and data accesses	74.7	214.8	285.1
Broadband accesses	74.7	214.8	285.1
Mobile accesses	12,471.5	14,198.5	15,507.4
Pre-pay accesses	6,235.0	7,231.5	7,807.0
Final clients accesses	**12,546.2**	**14,413.3**	**15,792.5**
Wholesale accesses	**596.0**	**1,128.4**	**1,316.8**
Total accesses	**13,142.3**	**15,541.7**	**17,109.3**

	Year ended December 31,		
	2007	2008	2009
MOU (minutes)	131	138	n.a.
Traffic (million of minutes)	n.a.	22,313	23,257
ARPU (in euros)	20.4	17.4	15.6

The mobile penetration rate in Germany decreased to 131% at September 30, 2009, a decrease of 1 percentage point compared to the penetration rate at December 31, 2008.

Telefónica O2 Germany s total customer base increased by 1.6 million accesses from December 31, 2008 to 17.1 million accesses at December 31, 2009. Telefónica O2 Germany s *joint venture* with Tchibo Mobile was responsible for 0.1 million of this increase in accesses from December 31, 2008 to 1.4 million accesses at December 31, 2009, while Telefónica O2 Germany s Fonic low-cost brand, added 0.6 million accesses from December 31, 2008, giving it a customer base of 1.3 million accesses at December 31, 2009.

Telefónica O2 Germany had net adds of 0.7 million mobile contract accesses and 0.6 million mobile pre-pay accesses in 2009, bringing the contract and pre-pay customer base at December 31, 2009 to 7.7 million accesses and 7.8 million accesses respectively.

At December 31, 2009 Telefónica O2 Germany had a customer base of 0.3 million broadband accesses. Telefónica O2 Germany reported 1.3 million ULL lines at December 31, 2009, an increase of 16.7% from 1.1 million ULL lines at December 31, 2008.

ARPU continued to decline in 2009, decreasing 9.9% to 15.6 in 2009 from 17.4 in 2008, partly as a result of an approximately 14% regulated cut in MTRs in April 2009 and the fierce level of competition in the German market. Contract ARPU decreased 10.0% to 26.1 in 2009 from 29.0 in 2008. Pre-pay ARPU decreased 4.4% to 5.7 in 2009 from 5.9 in 2008. Traffic carried in 2009 increased 4.2% to 23,257 million minutes compared to 22,313 million minutes in 2008.

Regarding marketing, during 2009 Telefónica O2 Germany revised its commercial model, replacing existing tariffs such as Genion S/M/L/XL , with the new and innovative O2o proposition, where customers have contracts with no minimum spend, and a monthly cap for voice and SMS. As a result of this new commercial proposition My Handy has been introduced which separates the handset from the traditional subsidized mobile phone contract, with customers acquiring a separate contract for a handset. The Inklusivpaket plan continues to be marketed as a data tariff.

Telefónica O2 Germany continued to build on its core strategy of increasing its distribution network, which was broadly in line with target at 940 shops at year end.

In terms of competition, Telefónica O2 Germany s estimated market share in Germany was approximately 14.5% at September 30, 2009 compared to approximately 13.5% at December 31, 2008, based on number of mobile accesses.

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Telefónica O2 Germany competes primarily with three other companies in the German market for mobile telecommunications. These are Vodafone Germany, which is owned by Vodafone plc. , T-Mobile, a subsidiary of Deutsche Telecom AG, and E-Plus, which is owned by KPN. Telefónica O2 Germany also competes with several MVNOs.

With respect to network and technology, Telefónica O2 Germany s digital network in Germany is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Germany s international roaming agreements, enables Telefónica O2 Germany customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2009, Telefónica O2 Germany s GSM/UMTS digital network consisted of approximately 17,210 base stations.

Czech Republic and Slovakia Telefónica O2 Czech Republic and Telefónica O2 Slovakia

Telefónica Europe provides fixed, mobile telephony and pay TV services in the Czech Republic and mobile telephony services in Slovakia, where it launched operations during the first quarter of 2007.

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in the Czech Republic (data excludes Slovakia).

	At December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Fixed telephony accesses (1)	2,069.2	1,893.4	1,770.6
Internet and data accesses	719.1	779.5	848.7
Narrowband accesses	202.4	163.4	137.6
Broadband accesses	509.4	583.7	683.2
Other accesses	7.3	32.4	28.3
Mobile accesses	5,125.4	4,802.1	4,944.6
Pre-Pay accesses (2)	2,881.5	2,282.8	2,130.2
Pay TV accesses	73.2	114.5	137.6
Final clients accesses	**7,986.8**	**7,589.5**	**7,701.5**
Wholesale accesses	**110.2**	**109.5**	**108.4**
Total accesses	**8,097.0**	**7,698.9**	**7,810.0**

(1) VOIP and naked ADSL accesses are included.

(2) As of 1 January 2008, the accounting criteria for Pre-Pay access in the Czech Republic and Slovakia have been modified to align them,

changing from
13 months
(registered) to
three months
(active).

	Year ended December 31,		
	2007	**2008**	**2009**
MOU (minutes)	117	121	n.a.
Traffic (million of minutes)	n.a.	7,420	8,232
ARPU (in euros)	18.9	22.8	19.3

The mobile penetration rate in the Czech Republic based on registered customers increased to 133% at September 30, 2009, 2 percentage points higher than the penetration rate at December 31, 2008.

Telefónica O2 Czech Republic s fixed telephony accesses decreased by 6.5% to 1.8 million accesses at December 31, 2009 from 1.9 million accesses at December 31, 2008, mainly as the result of fixed-to-mobile substitution.

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Telefónica O2 Czech Republic s broadband accesses increased 17.0% compared to December 31, 2008 to 0.7 million accesses at December 31, 2009. The IPTV customer base increased 20.2% to 0.1 million accesses at December 31, 2009. These increases are primarily as a result of increased demand for these services in the Czech Republic.

Telefónica O2 Czech Republic s mobile accesses increased 3.0% to 4.9 million accesses at December 31, 2009, from 4.8 million accesses at December 31, 2008. Contract accesses accounted for 56.9% of these accesses at December 31, 2009, up from 52.5% at December 31, 2008. The number of pre-pay accesses decreased to 43.1%, to 2.1 million accesses at December 31, 2009 from 2.3 million accesses at December 31, 2008.

ARPU decreased to 19.3 in 2009 from 22.8 in 2008 (a reduction of 10.5% in local currency). Pre-pay ARPU decreased to 8.5 in 2009 from 11.4 in 2008 (a reduction of 21.9% in local currency), primarily due to customers optimizing their tariffs and calling patterns. Contract ARPU decreased to 28.2 in 2009 from 33.5 in 2008 (a decrease of 12.0% in local currency), primarily due to MTR cuts (22.7% year-on-year approximately) and customers optimizing their spending. Traffic carried in 2009 increased 11.0% to 8,232 million minutes compared to 7,420 million minutes in 2008.

Regarding marketing, during 2009 the dominant mobile proposition of Telefónica O2 Czech Republic remained the O2 Neon tariffs launched in 2008, which are designed to stimulate traffic through a simplified, flat tariff structure. In 2009 a new concept was launched in fixed segment, called O2 Home , where subscribers can purchase DSL packages without the need to have a fixed line. Within the O2 Home offering are options to subscribe for bundled products, including mobile broadband, mobile tariffs and IPTV at more advantageous prices.

In terms of competition, there are currently two other primary competitors in the Czech Republic mobile telecommunications market, Vodafone Czech Republic, which is owned by Vodafone plc, and T-Mobile, which is part of Deutsche Telecom AG.

Telefónica O2 Czech Republic had an estimated mobile market share of approximately 38.9% at September 30, 2009 compared to approximately 38.6% at December 31, 2008, based on number of mobile accesses.

The fixed telephony market in the Czech Republic consists of six large operators and a number of other smaller providers. In voice the major competitors are U:fon, UPC and other cable operators which also provide integrated voice, Internet and pay TV offers. Internet service is offered by all major mobile operators as well as a large volume of WiFi providers. Pay TV is dominated by a number of cable and satellite companies, the biggest being UPC.

In respect to network and technology, Telefónica O2 Czech Republic s digital network in the Czech Republic is based upon the GSM/GPRS standard. The prevalence of the GSM standard, together with Telefónica O2 Czech Republic s international roaming agreements, enables its customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2009, Telefónica O2 Czech Republic s GSM/UMTS digital network consisted of 4,786 base stations.

Slovakia

At December 31, 2009, Telefónica O2 Slovakia s total number of mobile accesses amounted to 0.6 million accesses, an increase of 69.9% compared to December 31, 2008. Contract accesses accounted for 35.4% of these accesses at December 31, 2009 compared to 30.4% at December 31, 2008. Throughout 2009 Telefónica O2 Slovakia continued with O2 Fér plan, a simple tariff which unifies pre-pay and contract rates and offers SIM-only products without a handset subsidy.

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In 2009, Telefónica O2 Slovakia continued to roll out its own network infrastructure, and by December 31, 2009 the company had 917 base stations, which fulfilled its license conditions.

Ireland Telefónica O2 Ireland

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in Ireland:

	At December 31,		
	2007	2008	2009
	(in thousands)		
Total mobile accesses	**1,646.1**	**1,727.7**	**1,714.3**
Pre-pay accesses	1,090.9	1,084.6	1,022.5

	Year ended December 31,		
	2007	2008	2009
MOU (minutes)	248	245	n.a.
Traffic (million of minutes)	n.a.	4,867	4,672
ARPU (in euros)	45.9	43.2	39.6

The mobile penetration rate in Ireland decreased to 117% at September 30, 2009, 4 percentage points lower than the penetration rate at December 31, 2008.

Telefónica O2 Ireland had net losses of 13 thousand mobile accesses in 2009. Telefónica O2 Ireland s customer base, in terms of mobile accesses, decreased 0.8% from December 31, 2008 to 1.7 million mobile accesses at December 31, 2009.

Telefónica O2 Ireland had net adds of 49 thousand contract accesses in its mobile business in 2009, a decrease of 44.6% on December 31, 2008.

ARPU decreased by 8.3% in 2009 to 39.6 from 43.2 in 2008. Contract ARPU decreased 14.6% to 62.0 in 2009 from 72.5 in 2008 due to a different price plan mix. Pre-pay ARPU decreased by 5.7% in 2009 to 25.5 in 2009 from 27.0 in 2008. Traffic carried in 2009 decreased 4.0% to 4,672 million minutes compared to 4,867 million minutes in 2008 primarily due to voice to text substitution.

Regarding the market, during 2009, Telefónica O2 Ireland continued to be the exclusive provider of the iPhone, with the new version 3G having been launched in June. The second half of the year saw the launch of the new Telefónica O2 Ireland exclusive Palm Pre phone, and pre-pay mobile internet.

In terms of competition, there are currently three other primary competitors in the Irish mobile telecommunications market: Vodafone Ireland, which is part of Vodafone plc, Meteor, which is part of Eircom, and 3 Ireland, which is part of Hutchison Wampoa.

Telefónica O2 Ireland had an estimated market share of the Irish mobile market of approximately 33.0% at September 30, 2009 compared to approximately 32.5% at December 31, 2008 based on number of mobile accesses.

With respect to network and technology, Telefónica O2 Ireland s digital network in Ireland is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Ireland s international roaming agreements, enables Telefónica O2 Ireland customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2009, Telefónica O2 Ireland s GSM/UMTS digital network consisted of approximately 1,692 base stations.

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INFORMATION BY BUSINESS LINE

Other companies

Atento   Call Center Business

Atento offers integrated telephone assistance services as well as sophisticated customer relationship management services, such as the development and implementation of customer loyalty programs, telemarketing services and market research. In addition, Atento rents call centers and provides staff for such centers to third parties. Atento has sought to diversify its client base and serves companies in the financial, consumer and energy sectors, as well as public institutions. At December 31, 2009, Atento operated more than 100 call centers and had 132,256 call center personnel in 15 countries on three continents, including Europe (Spain and Czech Republic), America (Latin America) and Africa (Morocco).

Atento s revenues increased by 1.6% to 1,321 million in 2009 from 1,301 million in 2008. The increase in revenues was primarily driven by an increase in the activity of our main customers, Telefónica and BBVA, and in the activity of the financial sector in Brazil.

Regarding expenses, Atento s expenses increased 4.4% to 1,169 million in 2009 from 1,120 million in 2008 primarily due to the increase in structural costs from the leasing of capacity associated with revenues and the increase of personnel expenses in many Latin American countries, where the majority of Atento s employees are allocated.

As a result of the foregoing, Atento s OIBDA decreased 17.4% to 154 million in 2009 from 186 million in 2008, due to margin shrinkage and higher personnel expenses.

Finally, Atento s operating income decreased 20.9% to 122 million in 2009 from 154 million in 2008.

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RESEARCH, DEVELOPMENT AND INNOVATION

Telefónica remains firmly committed to technological innovation as a core means to generating sustainable competitive advantages, anticipating market trends and the differentiation of our products. Through the introduction of new technologies and the development of new products and business processes, we see to become a more effective, efficient and customer-oriented Group.

Telefónica has developed an open innovation model for the management of technological innovation that helps to improve the application of the results of technical research in the commercial services, focusing on certain applied research activities aligned with Telefónica s strategy. This model fosters open innovation initiatives such as the creation of a venture capital fund, business collaboration forums, etc. It also promotes the use of knowledge developed at technology centers, universities and start-ups, for example, and encourages innovation in collaboration with other agents that will become technology partners, including customers, universities, public administrations, suppliers, content providers and other companies.

We believe that we cannot rely solely on acquired technology in our quest to differentiate our products from those of our competitors and to improve our market positioning. We also believe that it is important to encourage research and development initiatives in an effort to achieve the desired level of differentiation and to foster other innovation activities. Our R&D policy is designed to:

- develop new products and services in order to win market share;
- boost customer loyalty;
- drive revenue growth;
- enhance management;
- improve business practices; and
- increase the quality of our infrastructure services to improve customer service and reduce costs.

In 2009, the technological innovation projects undertaken were focused on profitable innovation, process efficiency, customer satisfaction, consolidation of new markets and technological leadership. Our technological innovation activities were closely integrated, especially in our strategy of creating value through broadband, IP networks, wireless communication networks and new generation fiber optic networks and services.

In 2009, projects were undertaken to promote the information society, new services focused on new internet business models, advanced user interfaces, mobile television and other broadband services. These lines of initiative, among others, were built on the basis of rapid identification of emerging technologies that could have a relevant impact on our businesses, and the testing of these technologies in new services, applications and platform prototypes.

In 2009, we developed new operational and business support systems and improved existing systems.

Most of our R&D activities are carried out by our subsidiary Telefónica Investigación y Desarrollo, S.A.U., (Telefónica I+D), which works principally to benefit the businesses. In performing its duties, Telefónica I+D receives the assistance of other companies and universities. Telefónica I+D s mission is centered on enhancing the Company s competitive positioning by leveraging technological innovation and product development. Telefónica I+D undertakes experimental and applied research and new product development with the overriding goal of broadening the range of services offered and reducing operating costs. Telefónica I+D provides technical assistance to all the Group s businesses in Latin America and Europe. Telefónica I + D s activities include:

- development of new fixed telephony products and services, with special emphasis on the value added services such as broadband, the digital home, mobile communications and internet services for the general public, corporate customers and the mobile television and the multimedia sectors;
- development of new communication tools for communities, telemedicine, remote home/business monitoring and new infrastructure for the provision of these services, such as IP protocols and new generation networks such as fiber optic;
- development of innovative solutions for the real-time provisioning of network, and the operation and billing of our networks and services. This activity includes the management systems designed to strengthen the infrastructure and its quality level;
- development of business support systems, including customer profiling to provide innovative and tailor-made solutions;
- applied research to undertake, understand and develop the opportunities presented by emerging technologies for our various businesses.

In 2009, approximately 41% of Telefónica I+D s initiatives benefited businesses located in Spain, 33% for Latin American businesses, 13% for Telefónica (essentially the corporate innovation plan including projects co-sponsored by two or more business units with a medium to long term horizon), 6% was dedicated to Telefónica Europe and 7% to Telefónica s external customers.

At December 31, 2009, Telefónica I+D had 1,221 employees. Qualified professionals from 84 companies and over 50 universities also collaborated on its projects.

Our research and development costs amounted to 594 million, 668 million and 693 million euros in 2007, 2008 and 2009, respectively, representing 1.1%, 1.2% and 1.2% of our consolidated revenue in these three years, respectively. These figures were calculated using OECD measurement guidelines. These guidelines include R&D costs that, due to the timing of projects and/or accounting classification criteria, are not included in their entirety in the consolidated statement of financial position.

Telefónica registered 57 patents in 2009, of which 48 were registered with the Spanish patent office and the remaining nine with patent offices in Europe or the US.

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FINANCING

The main financing transactions undertaken in 2009 are the following:

On February 13, 2009, Telefónica, S.A. executed, with a group of participating banks in the 6,000 million euro syndicated line of credit dated June 28, 2005 maturing on June 28, 2011, an extension of 4,000 million euros, rescheduling 2,000 million euros for 2012 and another 2,000 million euros for 2013.

Under Telefónica Emisiones, S.A.U. s European Medium Term Note (EMTN), Telefónica, S.A. guaranteed the issues of debt instruments for a global amount equivalent to 6,482 million euros, with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
02-03-09	02-03-14	2,000,000,000	EUR	5.431%
04-01-09	04-01-16	1,000,000,000	EUR	5.496%
06-03-09	04-01-16	500,000,000	EUR	5.496%
06-02-09	06-02-15	400,000, 000	EUR	3-month Euribor + 1.825%
11-10-09	11-11-19	1,750,000,000	EUR	4.693%
12-10-09	12-09-22	650,000,000	GBP	5.289%
12-23-09	12-23-14	100,000,000	EUR	3-month Euribor + 0.70%

Under Telefónica Emisiones, S.A.U. s debt issue program registered with the United States Securities Exchange Commission (SEC), Telefónica, S.A. guaranteed the issues of debt instruments for a global amount equivalent to 2,250 million US dollars (equivalent to approximately 1,562 million euros), with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
07-06-09	07-15-19	1,000,000,000	USD	5.877%
07-06-09	01-15-15	1,250,000,000	USD	4.949%

On April 15, 2009, Telefónica Chile issued bonds worth 5 million Chilean UF (equivalent to approximately 143 million euros), with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
04-15-09	04-01-14	5,000,000	UFC	3.50%

On October 15, 2009, Vivo Participações, S.A issued debentures for a global amount of 320 million Brazilian reais (equivalent to 128 million euros), with the following features:

Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
10-15-09	10-15-19	320,000,0000	BRL	112% CDI until 10/15/13 (1)

(1) Date of renegotiation of certain conditions

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RATING AGENCIES

Rating agency	Long-term debt	Short-term debt	Outlook	Date of latest review
JCR	A		Stable	December 17, 2008
Standard & Poor s	A-	A-2	Stable	December 2, 2008
Fitch	A-	F-2	Stable	November 25, 2008
Moody s	Baa1	P-2	Positive	February 17, 2009

At December 31, 2009, Telefónica, S.A. s long-term debt was rated A-/stable outlook by Fitch, A/stable outlook by JCR, Baa1/positive outlook by Moody s and A-/stable outlook by Standard & Poor s.

The main changes in Telefónica s long-term credit ratings and outlook in 2009 were as follows:

On February 17, 2009, Moody s affirmed Telefónica, S.A. s long-term Baa1 rating and changed the outlook to positive from stable, reflecting the agency s expectation that, going forward, Telefónica would sustain an improved financial risk profile, in line with Telefónica Group management s publicly stated targets.

On December 17, 2008, Japanese rating agency JCR upgraded its credit rating for Telefónica, S.A. to A/stable outlook, due to the operator s lower leverage, underpinned by its strong profitability and cash flow generation ability, in turn a reflection of its prominent position in its home market and healthy revenue growth in Latin America.

On December 2, 2008, Standard & Poor s upgraded its rating of Telefónica, S.A. from BBB+/positive outlook to A-/stable outlook. The upgrade reflected ongoing deleveraging in recent years, Telefónica s robust and well-diversified revenue mix and its sustained capacity for significant cash flow generation.

On November 25, 2008, Fitch upgraded its rating from BBB+/positive outlook to A-/stable outlook. The upgrade was warranted by the Telefónica Group s financial and operating profile which, in the opinion of Fitch, placed the operator comfortably within the A- notch, due to the Group s scale, diversification, revenue growth profile and free cash flow generation, which compared favorably with the equivalent parameters of Deutsche Telekom and France Telecom, the two similarly rated European incumbents that are most comparable to Telefónica. Telefónica, S.A. s leverage (net debt plus financial commitments/OIBDA), which stood at 2.0x at September 30, 2008, at the lower end of the targeted range of 2.0x to 2.5x, was key to the rating upgrade.

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TRANSACTIONS WITH TREASURY SHARES

At December 31, 2009, 2008 and 2007, Telefónica Group companies held the following shares in the Telefónica, S.A. parent company:

		Euros per share		Market Value	
	No. of shares	Acquisition price	Trading price	Millions of euros	%
Treasury shares at 12/31/09	**6,329,530**	**16.81**	**19.52**	**124**	**0.13868%**
Treasury shares at 12/31/08	**125,561,011**	**16.68**	**15.85**	**1,990**	**2.66867%**
Treasury shares at 12/31/07	**64,471,368**	**16.67**	**22.22**	**1,433**	**1.35061%**

Telefónica S.A. owns the only treasury shares in the Group. No other Group company owns any Telefónica treasury shares.

In 2009, 2008 and 2007 the following transactions involving treasury shares were carried out:

	No. of shares
Treasury shares at 12/31/06	**75,632,559**
Acquisitions	149,099,044
Disposals	(12,621,573)
Lycos and Endemol employee share option plans	(4,750)
Exchange of Telefónica, S.A. shares for Telefónica Móviles, S.A. shares	(147,633,912)
Treasury shares at 12/31/07	**64,471,368**
Acquisitions	129,658,402
Disposals	(68,759)
Share cancellation	(68,500,000)
Treasury shares at 12/31/08	**125,561,011**
Acquisitions	65,809,222
Exchange of Telefónica, S.A. shares for China Unicom shares	(40,730,735)
Employee share option plan	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	**6,329,530**

The amount paid to acquire treasury shares in 2009 was 1,005 million euros (2,225 million and 2,324 million euros in 2008 and 2007, respectively).

At December 31, 2009, the Group held call options on 150 million treasury shares, and at December 31, 2008, put options on 6 million treasury shares.

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RISKS AND UNCERTAINTIES FACING THE COMPANY

The Telefónica Group s business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The risks described below are the most important, but not the only ones we face.

Group related risks

Country risk (investments in Latin America). At December 31, 2009, approximately 35.7% of the Group s assets were located in Latin America. In addition, around 40.6% of its revenues from operations for 2009 were derived from its Latin American operations. The Group s investments and operations in Latin America (including the revenues generated by these operations, their market value, and the dividends and management fees expected to be received from them) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly and negatively affect the economic conditions or business environment in which it operates, and, therefore our interests in such countries;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation or currency depreciation may lead certain of its subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;
- governments may expropriate or nationalize assets or increase their participation in the economy and companies;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the economic conditions and business environment in which it operates; and
- economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group s operations in such countries.

For instance, throughout 2009 and in the early part of 2010, certain factors affecting the Venezuelan economy have had an impact on the accounting treatment applied with respect to the Group s subsidiaries in that country, notably the level of inflation reached in 2009, the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and the devaluation of the Bolivar fuerte on January 8, 2010. As a result, in accordance with IFRS, Venezuela had to be considered a hyperinflationary economy in 2009, which has had a series of impacts on the Group s consolidated financial statements for 2009 and will on 2010. A more detailed description of this issue is included in Note 2 to the Telefónica Group s 2009 financial statements.

In addition, the Telefónica Group s operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which it operates in these countries.

Management of foreign currency and interest rate risk. The Telefónica Group s business is exposed to various types of market risk in the normal course of its business, including the impact of changes in interest rates or foreign currency exchange rates, as well as the impact of changes of credit risk in its treasury operations or in some structured financed transactions it enters. The Telefónica Group employs risk management strategies to manage this risk, in part through the use of financial derivatives, such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group s risk management purposes, or if it cannot enter into arrangements of the type and for the amounts necessary to limit its exposure to currency exchange-rate and interest-rate fluctuations, or if its banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect its financial position, results of operations and cash flow. Also, Telefónica s other risk management strategies may not be successful, which could adversely affect its financial position, results or operations and cash flow. Finally, if the rating of its counterparties in treasury investments or in its structured financed transactions deteriorates significantly or if these counterparties fail to meet their obligations to the Company, the Telefónica Group may suffer loss of value in its investments, incur in unexpected losses and/or assume additional financial obligations under these transactions. Such failure could adversely affect the Telefónica Group s financial position, results of operations and cash flow.

Current global economic situation. The Telefónica Group s business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse global economic situation and uncertainty about the economic recovery may negatively affect the level of demand of existing and prospective customers, as customers may no longer deem critical the services offered by the Group. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other macroeconomic factors. Specifically, in this respect the continuation of recession in Spain, according to the forecasts contained in the Spanish economic ministry s Stability Program for 2009-2013, could have an adverse affect on the Telefónica Group s results in Spain.

In addition, there could be other possible follow-on effects from the economic crisis on the Group s business, including insolvency of key customers or suppliers. A loss of customers or a reduction in purchases by its current customers decline in sales could have an adverse effect on the Telefónica Group s financial position, results of operations and cash flow and may therefore negatively affect its ability to meet its growth targets.

Dependence on external sources of financing. The performance, expansion and improvement of networks, as well as the development and distribution of the Telefónica Group s services and products require a substantial amount of financing. Moverover, the Telefónica Group s liquidity and capital resource requirements may increase if the Company participates in other fixed line or wireless license award processes or makes acquisitions. There are also other major capital recourse requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If its ability to generate cash flow were to decrease, whether due to the ongoing economic and financial crisis or otherwise, the Telefónica Group may need to incur additional debt or raise other forms of capital to support its liquidity and recourses requirements for the sustained development and expansion of its business.

The current situation of financial markets in terms of liquidity, cost of credit and volatility has improved since the second half of 2008 and during 2009. However, there are still uncertainties surrounding the pace of the economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning deficits of some governments, etc. which could affect the normal development of financial markets. Worsening conditions in international financial markets due to any of these factors may make it more difficult and expensive for the Telefónica Group to refinance its debt or take on additional debt if necessary.

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In addition, its capacity to raise capital in the international capital markets would be impaired if its credit ratings were downgraded, whether due to decreases in its cash flow or otherwise. Further, current market conditions make it more challenging to renew unused bilateral credit facilities.

The current financial crisis could also make it more difficult and costly for the Company s current shareholders to launch rights issues or ask key investors for equity investments, even if further funds were needed for the Company to pursue its business plans.

Risks associated with relationships with venturers. Telefónica s mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, N.V., which is jointly controlled by the Group and Portugal Telecom, SGPS, S.A. (Portugal Telecom). Since it has less than a controlling interest in this joint venture, Telefónica does not have absolute control over the venture s operations. As a result, there is an inherent risk for management or operational disruptions whenever an agreement between the Company and its partners arises in terms of a deadlock of the management or the possible operations.

Therefore, Telefónica must cooperate with Portugal Telecom to implement and expand its business strategies and to finance and management the operations of the venture. If Telefónica does not manage to obtain the cooperation of Portugal Telecom or if a disagreement or deadlock arises it may not achieve the expected benefits from its interest in this joint venture, such as economies of scale and opportunities to achieve potential synergies and cost savings.

Risks related to our industry

Highly competitive markets. The Telefónica Group faces significant competition in all of the markets in which it operates. Therefore, it is subject to the effects of actions by competitors in these markets. These competitors could:

- offer lower prices, more attractive discount plans or better services or features;
- develop and deploy more rapidly new or improved technologies, services and products;
- launch bundle offerings of one type of service with others;
- in the case of the mobile industry, subsidize handset procurement; or
- expand and extend their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

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To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors, changes in consumer preferences and in general economic, political and social conditions. The Telefónica Group s inability to effectively compete could result in price reductions, lower revenues, under-utilization of the Group s services, reduced operating margins and loss of market share. Any of these circumstances could negatively affect the Telefónica Group s financial position, results of operations and cash flow.

Highly regulated markets. As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services and in which supranational (e.g. the European Union), national, state, regional local authorities intervene to varying degrees and as appropriate. Depending on whether the Company has a dominant position or not in these markets, the regulations in some countries are particularly strict. In this respect, the regulatory authorities regularly intervene in both the wholesale and retail offering and pricing of the Telefónica Group s products and services.

Furthermore, they could also adopt regulations or take other actions that could adversely affect the Telefónica Group, including revocation of or failure to renew any of its licenses, changes in the spectrum allocation or the grant of new licenses, authorizations or concessions to competitors to offer services in a particular market. They could also adopt, among others, measures or additional requirements to reduce roaming prices and fixed mobile termination rates, force Telefónica to provide third-party access to its networks and impose economic fines for serious breaches. Such regulatory actions or measures could place significant competitive and pricing pressure on the Group s operations, and could have a material adverse effect on the Telefónica Group s financial position, results of operations and cash flow.

In addition, since the Telefónica Group holds a leading market share in many of the countries where itit operates, the Group could be affected by regulatory actions of antitrust or competition authorities. These authorities could prohibit certain actions, such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and/ or in harm to future growth of certain businesses.

Specifically, the regulatory landscape in Europe will change as a consequence of the recent approval of the European Union s new common regulatory framework, which must be transposed into national law by Member States by June 2011. The regulatory principles established for Europe suggest that the new frameworks in each Member State could result in increased regulatory pressure on the local competitive environment.

This framework supports the adoption of measures by national regulators, in specific cases and under exceptional conditions, establishing the functional separation between the wholesale and retail businesses of operators with significant market power and vertically integrated operators, whereby they would be required to offer equal wholesale terms to third-part operators that are not integrated. The new framework is also likely to strengthen consumer protection, network integrity and data privacy measures. The Company may also face new regulatory initiatives in the area of mobile termination rates and the provision of audiovisual content and services.

In some European countries, the Telefónica Group may also face increased pressure from regulatory initiatives aimed at reallocating spectrum rights of use and changing the policies regarding spectrum allocation which could lead to new procedures for awarding spectrum in Europe.

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Finally, the recommendation on the application of the European regulatory policy to next-generation broadband networks being drawn up by the European Commission could play a key role in the incentives for operators to invest in net fixed broadband networks in the short and medium term, thus affecting the outlook for the business and competition in this market segment.

Services are provided under licenses or concessions. Most of Telefónica s operating companies require licenses, authorizations or concessions from the governmental authorities of the various countries. These licenses, authorizations and concessions specify the types of services Telefónica is permitted to offer under each circumstance. The terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to possible interpretation, modification of termination by these authorities. Moreover, authorizations, licenses and concessions, as well as their renewal terms and conditions, may be directly affected by political and regulatory factors.

The terms of these licenses, authorization and concessions and the conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, which is usually related to the fulfillment of the commitments that were assumed by the grantee. As licenses, authorizations and concessions approach the end of their terms, the Telefónica Group intends to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, though the Group cannot guarantee that it will always complete this process successfully.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group s operating companies require them to meet specified network build-out requirements and schedules. In particular, Telefónica s existing licenses, authorizations and concessions typically require it to satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession. In addition, the need to meet scheduled deadlines may require Telefónica Group operators to expend more resources than otherwise budgeted for a particular network build-out.

Markets subject to constant technological development. The Telefónica Group s future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. New products and technologies are constantly emerging, while existing products and services continue to develop. This need for constant technological innovation can render obsolete the products and services the Telefónica Group offers and the technology it uses, and may consequently reduce the revenue margins obtained and require investment in the development of new products, technology and services. In addition, the Company may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for the Telefónica Group to develop the products and technology it needs in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect the Telefónica Group s financial position, results of operations and cash flow.

The Telefónica Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets, to enhance its financial performance and to satisfy regulatory requirements. Among other things, the Telefónica Group could be required to upgrade the functionality of its networks to achieve greater service customization, to increase coverage of some of its markets, or expand and maintain customer service, network management and administrative systems.

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Many of these tasks are not entirely under the Telefónica Group s control and could be constrained by applicable regulation. If the Telefónica Group fails to execute these tasks efficiently, its services and products may become less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect the Telefónica Group s financial position, results of operations and cash flow.

Limitations on spectrum capacity could curtail growth. Telefónica s mobile operations in a number of countries may rely on the availability of spectrum. The Company s failure to obtain sufficient or appropriate capacity and spectrum coverage, and, albeit to a lesser extent, the related cost of obtaining this capacity could have an adverse impact on the quality of our services and on its ability to provide new services, adversely affecting its business, financial position, results of operations and cash flow.

Supplier failures. The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Further, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, this could have an adverse impact on the Telefónica Group s businesses and the results of its operations. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group s ability to satisfy its license terms and requirements.

Risks associated with unforeseen network interruptions. Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group s service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, fines or other types of measures imposed by regulatory authorities and could harm the Telefónica Group s reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and it is not possible to foresee every incident or action that could damage or interrupt the Telefónica Group s networks. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.

Certain studies suggest that electromagnetic radio emissions are harmful. Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization, have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

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Whether or not other research or studies conclude there is a link between radiofrequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group s mobile companies and consequently on its financial position, results of operations and cash flow. While the Telefónica Group is not aware of any evidence confirming a link between radio-frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

Risk of asset impairment. The Telefónica Group reviews on an annual basis, or more frequently where the circumstances require, the value of each of its assets and subsidiaries, to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected, including, in some cases synergies included in acquisition cost. The current economic environment and its development in the short and medium term, as well as changes in the regulatory, business or political environment may result in the need to introduce impairment changes in its goodwill, intangible assets or fixed assets. Though the recognition of impairments of items of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the Telefónica Group s results of operations.

Other risks

Litigation and other legal proceedings. The Telefónica Group is party to lawsuits and other legal proceedings in the ordinary course of its business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs and may have a material adverse effect on the Telefónica Group s business, financial position, results of operations and cash flow.

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TREND EVOLUTION

We are an integrated diversified telecommunications group that offers a wide range of services, mainly in Spain, Europe, and Latin America. Our activity is based upon providing fixed and mobile services, Internet and data, pay TV and value added services, among others. In addition, our holdings in China Unicom and Telecom Italia create opportunities for strategic alliances that reinforce our competitive position, scale and efficiency.

Our business is impacted by general economic conditions and other similar factors in each of the countries in which we operate. The continuing recession in Spain, according to Spanish Ministry of Finance stability program 2009-13, and uncertainty about an economic recovery elsewhere may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers.

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. We can expect the regulatory landscape to change in Europe as a consequence of the revised regulations resulting from the implementation of the review of the common regulatory framework currently in place in the European Union. In addition, we may also face pressure from regulatory initiatives in some European countries regarding tariffs, the reform of rights of spectrum use and allocation, issues related to the quality of service, and the regulatory treatment of new broadband infrastructure deployments.

Our mobile operations in a number of countries may rely on spectrum availability. Failure to obtain sufficient or adequate spectrum coverage or at all could have a material adverse impact on the quality of our services and on our ability to provide new services, adversely affecting our business, financial condition, results of operations and cash flow.

We face intense competition in most of our markets, and we are therefore subject to the effects of actions taken by our competitors. The intensity of the competition may deepen, having an impact on tariff structures, consumption, market share and commercial activity, which could result in decreases in current and potential customers, revenues and profitability.

However, we are in a strong competitive position in most of the markets where we operate. We intend to continue to seek and take advantage of growth opportunities, such as by boosting both fixed and mobile broadband services and by furthering the development of services beyond connectivity, information technology services and related businesses. We seek to lead the industry by anticipating trends in the new digital environment.

We will continue transforming our operating model to increase our operational efficiency and capture the synergies arising from our integrated approach to businesses, processes and technologies and will maintain a regional approach to tackle this transformation more efficiently. At the same time, we will continue to be strongly committed to technological innovation as a key tool for achieving sustainable competitive advantages, anticipating market trends and differentiating our products. We continually seek to become a more efficient and customer-oriented Group, by introducing new technologies and developing new products and business processes.

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In Spain, we will continue to intensify our commercial focus on offering higher quality services, by increasing the effectiveness of our sales channels and further improving our networks to increase customer satisfaction. We will seek to strengthen relations with our customers through targeted commercial offerings. We will boost mobile and fixed broadband growth and bundling services more effectively, taking into account the different geographical areas. Efficiency will continue to play a very important role in all areas of management, both in commercial and operational areas, including systems, networks and processes.

In Latin America, our strategy is based on a regional model that captures growth and efficiency of scale without losing sight of the local management of the client. The mobile business will continue to play a fundamental role as an engine of regional growth. That is why we continue to further improve the capacity and coverage of our networks, adapting our distribution network to enhance the quality of our offer both in voice and data in order to keep and attract high value customers. With regard to the fixed telephony business, we will encourage the increase of broadband speed and expand the supply of bundled services. We will further advance efficiency, in operational and commercial terms, and attempt to achieve further synergies by implementing global, regional and local projects.

In Europe, customers will remain at the center of our strategy and management priorities in the region. With the objective of offering our customers the best value, we will boost the mobile and fixed broadband services to strengthen our market position. Various initiatives will be implemented to improve our operating efficiency.

In summary, in the context of continued economic uncertainty, intense competition and regulatory pressure on pricing, Telefónica will continue strengthening its business model to make it more efficient and capture the synergies arising from the integrated approach of businesses, processes and technologies, while focusing even more on the client.

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EVENTS AFTER THE REPORTING PERIOD

Significant events affecting Telefónica taking place from December 31, 2009 to the date of preparation of these consolidated financial statements include:

Financing

a) Maturity of debentures and bonds

On January 25, 2010, Telefónica Emisiones, S.A.U. repaid at maturity the bonds issued on July 25, 2006 under the bond issuance program (EMTN) registered with the London Stock Exchange for an aggregate amount of 1,250 million euros.

b) Voluntary early redemptions:

The following issues were redeemed voluntarily before maturity in the early months of 2010:

On January 29, 2010, Telefónica, S.A. made a voluntarily repayment ahead of schedule of 500 million euros on the 6,000 million euro syndicated loan arranged on June 28, 2005 and amended on February 13, 2009 to extend the maturity of 4,000 million euros from June 28, 2011 by one year for 2,000 million euros and two years for the other 2,000 million euros.

Similarly, on February 11, 2010, Telefónica, S.A. made a voluntary repayment of 500 million euros on the same loan.

c) Financing of Telco

On January 11, 2010, Telco S.p.A. (Telco) arranged a 1,300 million euro loan with Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A., Société Générale, S.p.A. and Unicredito, S.p.A. maturing on May 31, 2012, part of which is secured with Telecom Italia S.p.A. shares. The lending banks have granted Telco shareholders a call option on the Telecom Italia S.p.A. shares that they may be entitled to receive as a result of the potential execution of the pledge.

In line with the commitments assumed by Telco shareholders, on December 22, 2009, the rest of Telco s financing needs with respect to debt maturities were met with a bridge loan granted by shareholders Telefónica, Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for approximately 902 million euros, and a bank bridge loan granted by Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for the remaining 398 million euros.

The financing from the bridge loans was substituted with a bond subscribed by Telco s shareholder groups, on a pro-rate basis in accordance with their interests in the company, on February 19, 2010 for 1,300 million euros.

d) Financing of ECAs

On February 12, 2010, Telefónica, S.A. arranged long-term financing for an amount of 472 million US dollars at fixed rates with a guarantee of the Swedish Export Agency (EKN) to acquire network equipment from a Swedish service provider. This financing entailed three tranches: tranche A, for 232 million US dollars maturing on November 30, 2018, tranche B, for 164 million US dollars maturing on April 30, 2019, and tranche C, for 76 million US dollars maturing on November 30, 2019.

Devaluation of the Venezuelan Bolivar fuerte

Regarding the devaluation of the Venezuelan Bolivar fuerte on January 8, 2010 (see Note 2), the two main factors to consider with respect to the Telefónica Group s 2010 financial statements will be:

- The decrease in the Telefónica Group s net assets in Venezuela as a result of the new exchange rate, with a balancing entry in equity of the Group. This effect is estimated at approximately 1,810 million euros.
- The translation of results and cash flows from Venezuela at the new devalued closing exchange rate.

Finally, on January 19, the Venezuelan authorities announced that they would grant a preferential rate of 2.60 Bolivar fuerte per dollar for new items, among which payment of dividends is included, as long as the request for Authorization of Acquisition of Foreign Exchange was filed before January 8, 2010. To that date, the Company had in fact requested authorizations related to the distribution of dividends of prior years (see Note 16).

Fulfillment of commitments relating to the acquisition in Germany of HanseNet Telekommunikation GmbH by Telefónica Deutschland GmbH

On February 16, 2010, having complied with the terms established in the agreement dated December 3, 2009 by the parties, the Telefónica Group completed the acquisition of 100% of the shares of HanseNet. The final amount paid out was approximately 912 million euros.

Amendment to the agreements signed with Prisa and Sogecable following the purchase of a stake in Digital+ by Gestevisión Telecinco, S.A.

Following the signing on the agreement between Prisa and Gestevisión Telecinco, S.A. (Telecinco) for the sale by Prisa to Telecinco of a 22% stake in Digital+, on January 29, 2010, Telefónica and Prisa signed a new agreement raising the percentage stake to be acquired by Telefónica from 21% to 22%. Meanwhile, following the agreement reached between Prisa and Telecinco, Telefónica has undertaken to renegotiate the terms of the Shareholder Agreement to reflect the shareholder structure of Digital+ following the acquisition of a stake in the company by Telecinco.

The estimated total investment to be made by Telefónica, after deduction of the net debt, will be around 495 million euros, of which approximately 230 million euros will be covered by the assumption by the buyer of subordinated loan between Telefónica de Contenidos, S.A.U. (creditor) and Sogecable (debtor).

This acquisition is subject, among other conditions, to the obtainment of the appropriate regulatory authorizations.

Acquisition of JAJAH

In January 2010, the Telefónica Group, through its wholly owned subsidiary Telefónica Europe plc, acquired 100% of the shares of JAJAH, the leading communications innovator, for 145 million euros.

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DISCLOSURES REQUIRED UNDER ARTICLE 116.BIS OF THE SPANISH SECURITIES MARKET LAW

Disclosures required under Article 116.bis of the Spanish Securities Market Law:

a.- Capital structure.

At December 31, 2009, the share capital of Telefónica was 4,563,996,485 euros, represented by 4,563,996,485 fully paid ordinary shares of a single series, par value of 1 euro each, all recorded under the book-entry system.

At that date they were admitted to trading on the Spanish electronic trading system (the Continuous Markets) where they form part of the Ibex 35 index, on the four Spanish stock exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Tokyo, Buenos Aires, Sao Paulo and Lima stock exchanges.

All shares are ordinary, of a single series and confer the same rights and obligations on their shareholders.

At the time of writing, there were no securities in issue that are convertible into Telefónica shares.

b.- Restrictions on the transfer of securities.

Nothing in the Company Bylaws imposes any restriction or limitation on the free transfer of Telefónica shares.

c.- Significant shareholdings.

The table below lists shareholders who, at December 31, 2009, to the best of the Company s knowledge, had significant direct or indirect shareholdings in the Company as defined in Royal Decree 1362/2007 implementing the Spanish Securities Markets Law 24/1998 as it relates to the need for transparent information on issuers whose securities are listed for trading in an official secondary market or other regulated market of the European Union:

	Total		Direct shareholding		Indirect holding	
	%	Shares	%	Shares	%	Shares
BBVA (1)	5.54	252,999,646	5.54	252,999,646	0.00	0
la Caixa (2)	5.17	235,973,505	0.01	253,024	5.16	235,720,481
Capital Research and Management Company (3)	3.16	144,578,826	0	0	3.16	144,578,826
Blackrock, Inc. (4)	3.88	17,257,649	0	0	3.88	177,257,649

(1) Based on the information contained in Banco Bilbao Vizcaya Argentaria, S.A. s 2009 Annual Report on Corporate Governance at December 31, 2009.

(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, la Caixa as at

December 31, 2009 for the 2009 Annual Report on Corporate Governance. The 5.16% indirect shareholding in Telefónica is owned by Criteria CaixaCorp, S.A.

(3) According to notification sent to the Spanish national securities commission, the CNMV, dated May 20, 2009.

(4) According to notification sent to the Spanish national securities commission, the CNMV, dated February 4, 2010.

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d.- Restrictions on voting rights.

According to Article 21 of the Company s Bylaws, no shareholder can exercise votes in respect of more than 10 per cent of the total shares with voting rights outstanding at any time, irrespective of the number of shares they may own. This restriction on the maximum number of votes that each shareholder can cast refers solely to shares owned by the shareholder concerned and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The 10 per cent limit described above also applies to the number of votes that can be cast either jointly or separately by two or more legal entity shareholders belonging to the same corporate group and to the number of votes that may be cast altogether by an individual or legal entity shareholder and any entity or entities that they directly or indirectly control and which are also shareholders.

e.- Agreements between shareholders.

In accordance with the provisions of article 112, section 2 of the Securities Market Law 24/1988, of July 28, on October 22, 2009, the Company notified the CNMV in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per this article. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is effective, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertakes not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica s voting share capital (excluding intragroup transfers). At the same time, both parties have assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

f.- Rules governing the appointment and replacement of Directors and the amendment of the Company s Bylaws.

Appointment, reappointment and ratification.

Telefónica s Bylaws state that the Board of Directors shall have between five and twenty Directors who are appointed by shareholders at the Shareholders Meeting. The Board of Directors may, in accordance with Spanish Corporation Law and the Company Bylaws, provisionally co-opt Directors to fill any vacant seats.

The appointment of Directors to Telefónica is as a general rule submitted for approval to the Shareholders Meeting. Only in certain circumstances, when seats fall vacant after the conclusion of the General Meeting is it therefore necessary to co-opt Directors onto the board in accordance with the Spanish Corporation Law. Any such co-opted appointment is then ratified at the next Shareholders Meeting.

Also, in all cases, proposals to appoint Directors must follow the procedures set out in the Company s Board of Directors Regulations and be preceded by the appropriate favorable report by the Appointments, Compensation and Good Governance Committee and in the case of independent Directors, by the corresponding proposal by the committee.

Therefore, in exercise of the powers delegated to it, the Appointments, Compensation and Good Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

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As a result, in accordance with its Regulations, the Board of Directors, exercising the rights to co-opt and propose appointments to the Shareholders Meeting, shall ensure that external or non-executive Directors are in an ample majority over the executive Directors. Similarly, it shall ensure that independent Directors make up at least one third of the total Board members.

In all circumstances, where a Director is proposed to the Shareholders Meeting for reappointment or ratification, the report of the Appointments, Compensation and Good Governance Committee, or in the case of independent Directors the proposal of this committee, shall include an assessment of the Director s past work and diligence in the discharge of their duties during their period in office.

Also, both the Board of Directors and the Appointments, Compensation and Good Governance Committee shall ensure, in fulfilling their respective duties, that all those proposed for appointment as Directors should be persons of acknowledged solvency, competence and experience who are willing to devote the time and effort necessary to the discharge of their functions, with particular attention paid to the selection of independent Directors.

Directors are appointed for a period of five years, renewable for one or more subsequent five-year periods.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Appointments, Compensation and Good Governance Committee, and in the case of independent Directors, by the corresponding proposal by the committee.

Termination of appointment or removal

Directors appointments shall end at the expirations of the period for which they were appointed or when shareholders at the General Shareholders Meeting so decide in exercise of their powers under the law.

Also, in accordance with Article 12 of the Board Regulations, Directors must submit their resignation to the Board of Directors and formalize their resignation in the following circumstances:

a) If they leave the executive post by virtue of which they sat on the Board or when the reasons for which they were appointed cease to apply.

b) If their circumstances become incompatible with their continued service on the Board or prohibit them from serving on the Board for one of the reasons specified under Spanish law.

c) If they are severely reprimanded by the Appointments, Compensation and Good Governance Committee for failure to fulfill any of their duties as Director.

d) If their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company s interests.

The Board of Directors shall not propose the termination of the appointment of any independent Director before the expirations of their statutory term, except in the event of just cause, recognized by the Board on the basis of a prior report submitted by the Appointments, Compensation and Good Governance Committee. Just cause shall be specifically understood to include cases where the Director has failed to fulfill their duties as Board member.

The Board may also propose the termination of the appointment of independent Directors in the case of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company s capital.

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Amendments to the Company Bylaws.

The procedure for amending the Bylaws is governed by Article 144 of the Spanish Corporation Law and requires any change to be approved by shareholders at the Shareholders Meeting with the majorities stated in Article 103 of the same law. Article 14 of Telefónica s Bylaws upholds this principle.

g.- Powers of Directors and, specifically, powers to issue or buy back shares.

Powers of Directors.

The Chairman of the Company, as Executive Chairman, is delegated all powers by the Board of Directors except where such delegation is prohibited by Law, by the Company Bylaws or by the Regulations of the Board of Directors, whose Article 5.4 establishes the powers reserved to the Board of Directors. Specifically, the Board of Directors reserves the powers, inter alia, to: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Meanwhile, the Chief Operating Officer has been delegated all the Board s powers to conduct the business and act as the senior executive for all areas of the Company s business, except where such delegation is prohibited by law, by the Company Bylaws, or by the Regulations of the Board of Directors.

In addition, the other Executive Directors are delegated the usual powers of representation and administration appropriate to the nature and needs of their roles.

Powers to issue shares.

At the Ordinary Shareholders Meeting of Telefónica on June 21, 2006, the Board of Directors was authorized under Article 153.1.b) of the Spanish Corporation Law, to increase the Company s capital by up to 2,460 million euros, equivalent to half the Company s subscribed and paid share capital at that date, one or several times within a maximum of five years of that date. The Board of Directors has not exercised these delegated powers to date.

Also, at the General Shareholders Meeting of May 10, 2007, the Board of Directors was authorized under Articles 153.1.b) and 159.2 of the Spanish Corporation Law to issue bonds exchangeable for or convertible into shares in the Company, this power being exercisable one or several times within a maximum of five years of that date. The Board of Directors has not exercised this power to date.

Powers to buy back shares.

At the General Shareholders Meeting of Telefónica of June 23, 2009, the Board of Directors was authorized, in accordance with articles 75 and following of the Spanish Corporation Law, to buy back its own shares either directly or via companies belonging to the Group. This authorization was granted for 18 months from that date and includes the specific limitation that at no point may the nominal value of treasury shares acquired, added to those already held by Telefónica and those held by any of the subsidiaries that it controls, exceed the maximum legal percentage at any time (currently 10% of Telefónica s share capital).

h.- Significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

The Company has no significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

i.- Agreements between the Company and its directors, managers or employees that provide for compensation in the event of resignation or unfair dismissal or if the employment relationship should be terminated because of a Takeover Bid.

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In general, the contracts of Executive Directors and some managers of the steering committee include a clause giving them the right to receive the economic compensation indicated below in the event that their employment relationship is ended for reasons attributable to the Company and/or due to objective reasons such as a change of ownership. However, if the employment relationship is terminated for a breach attributable to the executive director or director, the director will not be entitled to any compensation whatsoever. That notwithstanding, in certain cases the severance benefit to be received by the Executive Director or Director, according to their contract, does not meet these general criteria, but rather are based on other circumstances of a personal or professional nature or on when the contract was signed. The agreed economic compensation for the termination of the employment relationship, where applicable, consists of three years of salary plus another year based on length of service at the Company. The annual salary on which the indemnity is based is the Director s last fixed salary and the average amount of the last two variable payments received by contract.

Meanwhile, contracts that tie employees to the Company under a common employment relationship do not include indemnity clauses for the termination of their employment. In these cases, the employee is entitled to any indemnity set forth in prevailing labor legislation. This notwithstanding, contracts of some Company employees, depending on their level and seniority, as well as their personal or professional circumstances or when they signed their contracts, establish their right to receive compensation in the same cases as in the preceding paragraph, generally consisting of a year and a half of salary. The annual salary on which the indemnity is based is the last fixed salary and the average amount of the last two variable payments received by contract.

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ANNUAL REPORT ON CORPORATE GOVERNANCE
LISTED LIMITED COMPANIES

ISSUERS S IDENTIFICATION DETAILS DATE OF FINANCIAL YEAR END: 12/31/09
TAX ID CODE: A28015865
Company name: TELEFÓNICA, S.A.

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ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED LIMITED COMPANIES

For a better understanding of the model and its subsequent preparation, please read the instructions provided at the end before filling it out.

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company s share capital.

Date of last modification	Share capital ( )	Number of shares	Number of voting rights
12/28/09	4,563,996,485.00	4,563,996,485	4,563,996,485

Indicate whether different types of shares exist with different associated rights.

No

A.2 List the direct and indirect holders of significant ownership interests in your organisation at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.	252,999,646	0	5.543
Caja de Ahorros y Pensiones de Barcelona, la Caixa	253,024	235,720,481	5.170
Capital Research and Management Company	0	144,578,826	3.168
Blackrock, Inc.	0	177,257,649	3.884

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Criteria CaixaCorp, S.A.	235,720,481	5.165
Blackrock, Inc.	Blackrock Investment Management (UK)	177,257,649	3.884

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Indicate the most significant movements in the shareholder structure during the year.

A.3 Fill in the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr. César Alierta Izuel	3,966,186	78,000	0.089
Mr. Isidro Fainé Casas	434,021	0	0.010
Mr. Vitalino Manuel Nafría Aznar	11,300	0	0.000
Mr. Julio Linares López	251,394	1,840	0.006
Mr. Alfonso Ferrari Herrero	571,364	18,999	0.013
Mr. Antonio Massanell Lavilla	2,286	0	0.000
Mr. Carlos Colomer Casellas	564	63,190	0.001
Mr. David Arculus	10,500	0	0.000
Mr. Francisco Javier de Paz Mancho	26,115	0	0.001
Mr. Gonzalo Hinojosa Fernández de Angulo	85,476	436,000	0.011
Mr. José Fernando de Almansa Moreno-Barreda	19,349	0	0.000
Mr. José María Abril Pérez	300	18,402	0.000
Mr. José María Álvarez-Pallete López	196,835	1,036	0.004
Mr. Luiz Fernando Furlán	4,100	0	0.000
Ms. María Eva Castillo Sanz	58,450	0	0.001
Mr. Pablo Isla Álvarez de Tejera	8,601	0	0.000
Mr. Peter Erskine	69,259	0	0.002

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% of total voting rights held by the Board of Directors 0.139

Complete the following tables on share options held by directors:

Name or Corporate name of director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total Voting rights
Mr. César Alierta Izuel	438,773	0	438,773	0.010
Mr. César Alierta Izuel 2	10,200,000	0	0	0.223
Mr. Julio Linares López	289,190	0	289,190	0.006
Mr. Alfonso Ferrari Herrero	485,000	0	0	0.011
Mr. Carlos Colomer Casellas	50,982	0	0	0.001
Mr. José María Álvarez- Pallete López	199,810	0	199,810	0.004

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of related party	Type of relationship	Brief description
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A. Joint shareholding with Telefónica, S.A. in Mobipay Internacional, S.A.

A.6 Indicate whether any shareholders agreements have been notified to the company pursuant to article 112 of the Securities Market Act (Ley del Mercado de Valores). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes

% of share capital affected:

0.87%

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Breif description of the agreement:

In accordance with the provisions of article 112, section 2 of the Securities Market Act 24/1988, of July 28, on October 22, 2009, the Company notified the Spanish national securities commission, the CNMV, in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per this article. By virtue of these clauses, Telefónica may not offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited, while the strategic alliance agreement is in force. In addition, China Unicom (Hong Kong) Limited undertakes not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica s voting share capital (excluding intragroup transfers). At the same time, both parties have assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

Members of the shareholder s agreement:

China Unicom (Hong Kong) Limited

Telefónica, S.A.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities Market Act. If so, identify:

No

A.8 Complete the following tables on the company s treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
6,329,530	0	0.139

(*) Through:

Total:	0

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Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date of notification	**Total number of direct shares acquired**	**Total number of indirect shares acquired**	**% of total share capital**
07/06/09	53,374,599	0	1.136

Gain/(loss) on treasury shares sold during the year (thousands of euros) 102

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting authorising the Board of Directors to purchase and/or transfer the treasury shares.

At the General Shareholders Meeting of Telefónica of June 23, 2009, shareholders renewed the authorization granted, by the General Shareholders s Meeting itself, on April 22, 2008 for the derivative acquisition of treasury shares, either directly or through Group companies, in the terms literally transcribed below:

To authorize, pursuant to the provisions of Section 75 et seq. and the first additional provision, paragraph 2, of the Spanish Companies Act [Ley de Sociedades Anónimas, or LSA for its initials in Spanish], the derivative acquisition by Telefónica, S.A. either directly or through any of the subsidiaries of which it is the controlling company- at any time and as many times as it deems appropriate, of its own fully-paid in shares through purchase and sale, exchange or any other legal transaction.

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

Such authorization is granted for a period of 18 months as from the date of this General Shareholders Meeting and is expressly subject to the limitation that the par value of the Company s own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company s own shares established by the regulatory Authorities of the market on which the shares of Telefónica, S.A. are traded shall also be observed.

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

To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; 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 expressly authorized by the Board of Directors for such purpose.

To deprive of effect, to the extent of the unused amount, the authorization granted under Item III on the Agenda by Ordinary General Shareholders Meeting of the Company on April 22, 2008.

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A.10 Indicate, as applicable, any restrictions imposed by Law or the company s bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital.

Indicate whether there are any legal restrictions on exercising voting rights:

No

Maximum percentage of legal restrictions on voting rights a shareholder can exercise	0

Indicate whether there are any restrictions included in the bylaws on exercising voting rights.

Yes

Maximum percentage of restrictions under the company s bylaws on voting rights a shareholder can exercise	10.000

Description of restrictions under law or the company s bylaws on exercising voting rights

In accordance with Article 21 of the Company By-Laws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

No

A.11 Indicate whether the General Shareholders Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

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B COMPANY MANAGEMENT STRUCTURE

B.1 Board of directors

B.1.1. List the maximum and minimum number of directors included in the bylaws.

Maximum number of directors	20
Minimum number of directors	5

B.1.2. Complete the following table with board members details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr. César Alierta Izuel		Chairman	01-29-1997	05-10-2007	Vote at General Shareholders Meeting
Mr. Isidro Fainé Casas		Vice Chairman	01-26-1994	06-21-2006	Vote at General Shareholders Meeting
Mr. Vitalino Manuel Nafría Aznar		Vice Chairman	12-21-2005	06-21-2006	Vote at General Shareholders Meeting
Mr. Julio Linares López		Chief Operating Officer	12-21-2005	06-21-2006	Vote at General Shareholders Meeting
Mr. Alfonso Ferrari Herrero		Director	03-28-2001	06-21-2006	Vote at General Shareholders Meeting
Mr. Antonio Massanell Lavilla		Director	04-21-1995	06-21-2006	Vote at General Shareholders Meeting
Mr. Carlos Colomer Casellas		Director	03-28-2001	06-21-2006	Vote at General Shareholders Meeting
Mr. David Arculus		Director	01-25-2006	06-21-2006	Vote at General Shareholders Meeting
Mr. Francisco Javier de Paz Mancho		Director	12-19-2007	04-22-2008	Vote at General Shareholders Meeting
Mr. Gonzalo Hinojosa Fernández de Angulo		Director	04-12-2002	05-10-2007	Vote at General Shareholders Meeting
Mr. José Fernando de Almansa Moreno-Barreda		Director	02-26-2003	04-22-2008	Vote at General Shareholders Meeting
Mr. José María Abril Pérez		Director	07-25-2007	04-22-2008	Vote at General Shareholders Meeting
Mr. José María Álvarez-Pallete López		Director	07-26-2006	05-10-2007	Vote at General Shareholders Meeting
Mr. Luiz Fernando Furlán		Director	01-23-2008	04-22-2008	Vote at General Shareholders Meeting
Ms. María Eva Castillo Sanz		Director	01-23-2008	04-22-2008	Vote at General Shareholders Meeting
Mr. Pablo Isla Álvarez de Tejera		Director	04-12-2002	05-10-2007	Vote at General Shareholders Meeting
Mr. Peter Erskine		Director	01-25-2006	06-21-2006	Vote at General Shareholders Meeting

Total number of directors	17

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Indicate any Board members who left during this period.

Name or corporate name of director	Status of the director at the time	Leaving date

B.1.3. Complete the following tables on Board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing appointment	Post held in the company
Mr. César Alierta Izuel	Nominating, Compensation and Corporate Governance Committee	Executive Chairman
Mr. Julio Linares López	Nominating, Compensation and Corporate Governance Committee	Chief Operating Officer (C.O.O.)
Mr. José María Álvarez-Pallete López	Nominating, Compensation and Corporate Governance Committee	Chairman Telefónica Latin America

Total number of executive directors	3
% of the board	17.647

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Mr. Isidro Fainé Casas	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, la Caixa
Mr. Vitalino Manuel Nafría Aznar	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Antonio Massanell Lavilla	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, la Caixa
Mr. José María Abril Pérez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.

Total number of proprietary directors	4
% of the board	23.529

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INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
Mr. Alfonso Ferrari Herrero	Industrial Engineer. Formerly Executive Chairman of Beta Capital, S.A. and senior manager at Banco Urquijo.
Mr. Carlos Colomer Casellas	Graduate in Economics. Chairman of the Colomer Group.
Mr. David Arculus	Graduate in Engineering and Economics. Director of Telefónica Europe, Plc. and Pearson, Plc. Chairman of Numis, Plc.
Mr. Francisco Javier de Paz Mancho	Graduate in Information and Advertising. Law Studies. IESE Business Management Program. Formerly Chairman of the State-owned company MERCASA.
Mr. Gonzalo Hinojosa Fernández de Angulo	Industrial Engineer. Formerly Chairman and CEO of Cortefiel Group.
Mr. Luiz Fernando Furlán	Degrees in chemical engineering and business administration, specializing in financial administration. From 2003 to 2007 he was Minister of Development, Industry and Foreign Trade of Brazil.
Ms. María Eva Castillo Sanz	Degrees in Business, Economics and Law. Previously Head of Merrill Lynch s Private Banking operations in Europe, the Middle East, & Africa (EMEA).
Mr. Pablo Isla Álvarez de Tejera	Law Graduate. Member of the Body of State Lawyers (on sabbatical). First Vice Chairman and CEO of Inditex, S.A.

Total number of independent directors	8
% of the board	47.059

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee proposing appointment
Mr. José Fernando de Almansa Moreno-Barreda	Nominating, Compensation and Corporate Governance Committee
Mr. Peter Erskine	Nominating, Compensation and Corporate Governance Committee

Total number of other external directors	2
% of the board	11.765

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List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Peter Erskine	On December 31, 2007, Peter Erskine resigned in the performance of his executive duties at Telefónica Group, and therefore went from being an Executive Director to being classified in the Other external Directors category.	Telefónica, S.A.
Mr. José Fernando de Almansa Moreno-Barreda	Mr. de Almansa was appointed a Member of the Board of Directors of Telefónica, S.A. with the qualification of independent Director, on February 26, 2003, following a favorable report from the Nominating, Compensation and Corporate Governance Committee. In accordance with the criteria established in the Unified Code on Good Governance with regard to the qualification of Directors and taking into account the concurrent circumstances in this specific case, the Company considers that Mr. Almansa belongs to the category of other external Directors , for the following reasons: He is an Alternate Director (independent and non-proprietary) of BBVA Bancomer México, S.A. de C.V., and has never had an executive role. He is the CEO of the Mexican company Servicios Externos de Apoyo Empresarial, S.A. de C.V., of Group BBVA.	BBVA Bancomer México, S.A. de C.V.

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous type	Current type

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B.1.4. Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

No

B.1.5. Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

No

B.1.6. Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Mr. **César Alierta Izuel Executive Chairman (Chief Executive Officer):**

The Chairman of the Company, as the Chief Executive Officer, has been expressly delegated all the powers of the Board of Directors, except those that cannot be delegated by Law, by the Company By-Laws, or by the Regulations of the Board of Directors which establishes, in Article 5.4, the competencies that the Board of Directors reserves itself, and may not delegate.

Article 5.4 specifically stipulates that the Board of Directors reserves the power to approve: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Mr. **Julio Linares López Chief Operating Officer:**

The Chief Operating Officer has been delegated those powers of the Board of Directors related with the management of the business and the performance of the highest executive functions over all the Company s business areas, except those which cannot be delegated by Law, by the Company By-Laws or by the Regulations of the Board of Directors.

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B.1.7. List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company s group:

Name or corporate name of director	Corporate name of the group company	Post
Mr. Julio Linares López	Telefónica de España, S.A.U.	Director
	Telefónica Europe, Plc.	Director
	Telefónica Móviles España, S.A.U.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles Chile, S.A.	Director
Mr. David Arculus	Telefónica Europe, Plc.	Director
Mr. Francisco Javier de Paz Mancho	Atento Inversiones y Teleservicios, S.A.U.	Non-executive Chairman
	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica de Argentina, S.A.	Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Director
	Telefónica Móviles México, S.A. de C.V.	Director
Mr. José María Álvarez-Pallete López	Brasilcel, N.V.	Chairman of Supervisory Board
	Colombia Telecomunicaciones, S.A. ESP	Director
	Telecomunicaçoes de Sao Paulo, S.A.	Director/Vice Chairman
	Telefónica Chile, S.A.	Acting Director
	Telefónica DataCorp, S.A.U.	Director
	Telefónica de Argentina, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
	Telefónica Internacional, S.A.U.	Executive Chairman
	Telefónica Larga Distancia de Puerto Rico, Inc.	Director
	Telefónica Móviles Chile, S.A.	Acting Director
	Telefónica Móviles Colombia, S.A.	Acting Director
	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman
Mr. Luiz Fernando Furlán	Telecomunicaçoes de Sao Paulo, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. Peter Erskine	Telefónica Europe, Plc.	Director

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B.1.8. List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Name or corporate name of director	Name of listed company	Post
Mr. Isidro Fainé Casas	Criteria CaixaCorp, S.A.	Chairman
	Abertis Infraestructuras, S.A.	Vice Chairman
	Repsol YPF, S.A.	2nd Vice Chairman
Mr. Vitalino Manuel Nafría Aznar	Metrovacesa, S.A.	Chairman
Mr. Carlos Colomer Casellas	Ahorro Bursátil, S.A. SICAV	Chairman
	Inversiones Mobiliarias Urquiola S.A. SICAV	Chairman
Mr. Pablo Isla Álvarez de Tejera	Inditex, S.A.	Vice Chairman-CEO

B.1.9 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes

Explanation of rules

The Nominating, Compensation and Corporate Governance Committee establishes as one of the obligations of the Directors (Article 29.2 of the Regulations of the Board of Directors) that Directors must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors.

In addition (Article 32.g of the Regulations of the Board of Directors), the Board of Directors, at the proposal of the Nominating, Compensation and Corporate Governance Committee, may forbid Directors from holding significant positions within entities that are competitors of the Company or of any of the companies in its Group.

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B.1.10 In relation with Recommendation 8 of the Unified Code, indicate the company s general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Investment and financing policy	**Yes**
Design of the structure of the corporate group	**Yes**
Corporate governance policy	**Yes**
Corporate social responsibility policy	**Yes**
The strategic or business plans, management targets and annual budgets	**Yes**
Remuneration and evaluation of senior officers	**Yes**
Risk control and management, and the periodic monitoring of internal information and control systems	**Yes**
Dividend policy, as well as the policies and limits applying to treasury stock	**Yes**

B.1.11 Complete the following tables on the aggregate remuneration paid to directors during the year:

a) In the reporting company:

Concept	**In thousand**
Fixed remuneration	8,685
Variable remuneration	6,930
Attendance fees	252
By-law stipulated remuneration	0
Share options and/or other financial instruments	3,417
Other	2,126
TOTAL	21,410

Other benefits	**In thousand**
Advances	0
Loans	0
Pension funds and plans: Contributions	18
Pension funds and plans: obligations	0
Life insurance premiums	81
Guarantees issued by the company in favour of directors	0

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b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept	**In thousand**
Fixed remuneration	3,135
Variable remuneration	1,128
Attendance fees	0
By-law stipulated remuneration	0
Shares options and/or other financial instruments	1,094
Other	358
TOTAL	5,715

Other benefits	**In thousand**
Advances	0
Loans	0
Pension funds and plans: Contributions	8
Pension funds and plans: obligations	0
Life insurance premiums	13
Guarantees issued by the company in favor of directors	0

c) Total remuneration by type of directorship:

Type of director	**By company**	**By group**
Executive	16,923	3,959
External proprietary	1,209	0
External independent	2,706	1,253
Other external	572	503
Total	21,410	5,715

d) Remuneration as percentage of profit attributable to the parent company:

Total remuneration received by directors (in thousand)	27,125
Total remuneration received by directors/profit attributable to parent company (%)	0.3

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B.1.12 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	Post
Mr. Santiago Fernández Valbuena	General Manager of Finance and Corporate Development
Mr. Luis Abril Pérez	Technical General Secretary to the Chairman
Mr. Ramiro Sánchez de Lerín García-Ovies	General Legal Secretary and of the Board of Directors
Mr. Calixto Ríos Pérez	Internal Auditing Manager
Mr. Guillermo Ansaldo Lutz	Chairman Telefónica Spain
Mr. Matthew Key	Chairman Telefónica Europe

Total remuneration received by senior management (in thousand)	16,372

B.1.13 Identify, in aggregate terms, any indemnity or golden parachute clauses that exist for members of the senior management (including executive directors) of the company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

Number of beneficiaries	9

	Board of Directors	General Shareholders Meeting
Body authorising clauses	**Yes**	**No**

Is the General Shareholders Meeting informed of such clauses?	**Yes**

B.1.14 Describe the procedures for establishing remuneration for Board members and the relevant provisions in the bylaws.

Process for establishing board members remuneration and any relevant clauses in the By-laws

Directors compensation shall consist of a fixed and specific monthly remuneration for belonging to the Board of Directors, the Steering Committee and the Board Advisory or Control Committees, and fees for attending meetings of the Board of Directors and the advisory or control committees thereof. The compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders Meeting, which amount shall remain unchanged until and unless the shareholders decide to modify it. To this effect, the General Shareholders Meeting held on April 11, 2003 fixed the maximum gross annual sum for remuneration of the Board of Directors at 6 million euros.

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The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the Directors.

In accordance with Article 35 of the Regulations of the Board of Directors, Directors shall be entitled to receive the compensation set by the Board of Directors in accordance with the By-Laws, within the limits approved by the General Shareholders Meeting, and following a report of the Nominating, Compensation and Corporate Governance Committee.

In accordance with article 5 of the same regulations, the Board of Directors expressly reserves the powers to approve both the compensation policy for Directors and decisions on the compensation of Directors.

The Nominating, Compensation and Corporate Governance Committee has the following powers and duties (article 22 of the Regulations of the Board of Directors):

> To propose to the Board of Directors, , the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them.
>
> To propose to the Board of Directors, , the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.
>
> To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

Additionally, apart from such compensation as is provided for under the previous section, other remuneration systems may be established that may either be indexed to the market value of the shares, or consist of shares or of shares options for Directors. The application of such compensation systems must be authorized by the General Shareholders Meeting, which shall fix the share value that is to be taken as the term of reference thereof, the number of shares to be given to each Director, the exercise price of the share options, the term of such compensation system and such other terms and conditions as deemed appropriate.

The remuneration systems set out in the preceding paragraphs, arising from membership of the Board of Directors, shall be deemed compatible with any and all other professional or work-based compensations to which the Directors may be entitled in consideration for whatever executive or advisory services they may provide for the Company other than such supervisory and decision-making duties as may pertain to their posts as Directors, which shall be subject to the applicable legal provisions.

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Indicate whether the board has reserved for plenary approval the following decisions:

At the proposal of the company s chief executive, the appointment and removal of senior officers, and their compensation clauses.	**Yes**
Directors remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.	**Yes**

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

Yes

The amount of the fixed components, itemised where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual payment they give rise to.	**Yes**
Variable components	**Yes**
The main characteristics of pension systems, including an estimate of their amount or annual equivalent cost.	**Yes**
The conditions that the contracts of executive directors exercising executive functions shall respect	**Yes**

B.1.16. Indicate whether the board submits a report on the directors remuneration policy to the advisory vote of the General Shareholders Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the board for forthcoming years, the most significant departures in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants:

No

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Role of the Remunerations Committee

To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors.

To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

The annual report regarding the Director compensation policy of Telefónica, S.A. deals with the following:

Objectives of the compensation policy

Detailed structure of compensation.

Scope of application and reference parameters for variable remuneration.

Relative importance of variable remuneration with regard to fixed remuneration.

Basic terms of the contracts of Executive Directors.

Trend of compensation.

Process for the preparation of the compensation policy.

Have external consultancy firms been used?	**Yes**
Identity of external consultants	**ODGERS BERNDTSON**

B.1.17 List any Board members who are likewise members of the boards of directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Post
Isidro Fainé Casas	Caja de Ahorros y Pensiones de Barcelona, la Caixa	Chairman of Criteria CaixaCorp, S.A. Chairman of Caja de Ahorros y Pensiones de Barcelona, la Caixa
Antonio Massanell Lavilla	Caja de Ahorros y Pensiones de Barcelona, la Caixa	Director of Bousorama, S.A. Executive Deputy General Manager of Caja de Ahorros y Pensiones de Barcelona, la Caixa Director of Caixa Capital Risc, S.G.E.C.R., S.A. Chairman of Port Aventura Entertainment, S.A. Director of e-la Caixa 1, S.A. Director of Mediterranea Beach & Golf Resort, S.L. Director of Serveis Informátics de la Caixa, S.A. (SILK)
José Fernando de Almansa Moreno-Barreda	Banco Bilbao Vizcaya Argentaria, S.A.	Alternate Director of BBVA Bancomer México, S.A. de C.V.

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List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

Name or company name of director with relationship	Name or company name of significant shareholder with relationship	Description of relationship
Mr. Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Retail Banking Manager for Spain and Portugal.
Mr. José María Abril Pérez	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Wholesale and Investment Banking Manager.

B.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

No

B.1.19 Indicate the procedures for appointing, re-electing, appraising and removing directors. List the competent bodies and the processes and criteria to be followed for each procedure.

Appointment

Telefónica s By-Laws state that the Board of Directors shall be composed of a minimum of five members and a maximum of twenty, to be appointed at the General Shareholders Meeting. The Board of Directors may, in accordance with the LSA and the Company By-Laws, provisionally co-opt Directors to fill any vacancies.

The Board of Directors shall have the power to fill, on an interim basis, any vacancies that may occur therein, by appointing, in such manner as is legally allowed, the persons who are to fill such vacancies until the holding of the next General Shareholders Meeting.

Also, in all cases, proposed appointments of Directors must follow the procedures set out in the Company s By-Laws and Regulations of the Board of Directors and be preceded by the appropriate favorable report by the Appointments, Compensation and Good Governance Committee and in the case of independent Directors, by the corresponding proposal by the committee.

Therefore, in exercise of the powers delegated to it, the Appointments, Compensation and Good Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

In line with the provisions of its Regulations, the Board of Directors, exercising the right to fill vacancies by interim appointment and to propose appointments to the shareholders at the General Shareholders Meeting, shall ensure that, in the composition of the Board of Directors, external or non-executive Directors represent an ample majority over executive Directors. It addition, the Board shall ensure that the total number of independent Directors represents at least one-third of the total number of members of the Board.

The nature of each Director shall be explained by the Board of Directors to the shareholders at the General Shareholders Meeting at which the appointment thereof must be made or ratified. Furthermore, such nature shall be reviewed annually by the Board after verification by the Nominating, Compensation and Corporate Governance Committee, and reported in the Annual Corporate Governance Report.

In any case, and in the event of re-election or ratification of Directors by the General Shareholders Meeting, the report of the Nominating, Compensation and Corporate Governance Committee, or, in the case of independent Directors, the proposal of said Committee, will contain an assessment of the work and effective time devoted to the post during the last period in which it was held by the proposed Director.

Lastly, both the Board of Directors and the Nominating, Compensation and Corporate Governance Committee will ensure, within the scope of their competencies, that the election of whoever has been proposed for the post of Director corresponds to people of recognized solvency, competence and experience, who are willing to devote the time and effort necessary to carrying out their functions, it being essential to be rigorous in the election of those people called to cover the posts of independent Directors.

Re-election

Directors shall hold office for a term of five years, and may be re-elected one or more times of equal terms of office.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Appointments, Compensation and Good Governance Committee, and in the case of independent Directors by the corresponding proposal by the committee.

Evaluation

In accordance with the Regulations of the Board of Directors, the latter reserves expressly the duty to approve on a regular basis its functioning and the functioning of its Committees, it being the duty of the Nominating, Compensation and Corporate Governance Committee to organize and coordinate, together with the Chairman of the Board of Directors, the regular assessment of said Body.

In accordance with the above, it should be noted that the Board of Directors and its Committees carry out a periodic evaluation of the operation of the Board of Directors and of the Committees thereof in order to determine the opinion of Directors regarding the workings of these bodies and to establish any proposals for improvements to ensure the optimum working of the company s governing bodies.

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Removal

Directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders Meeting in the exercise of the powers legally granted to them.

The Board of Directors shall not propose the removal of any independent Director prior to the end of the Bylaw-mandated period for which they have been appointed, unless there are due grounds therefore acknowledged by the Board alter a report from the Nominating, Compensation and Corporate Governance Committee. Specifically, due grounds shall be deemed to exist when the Director has failed to perform the duties inherent to his position.

The removal of independent Directors may also be proposed as a result of Public Tender Offers, mergers or other similar corporate transactions that entail a change in the company s capital structure.

B.1.20. Indicate the cases in which directors must resign.

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation in the following cases:

a) When they cease to hold the executive positions to which their appointment as Directors is linked, or when the reasons for which they were appointed no longer exist.

b) When they are affected by any of the cases of incompatibility or prohibition established by statute.

c) When they are severely reprimanded by the Nominating, Compensation and Corporate Governance Committee for having failed to fulfill any of their obligations as Directors.

d) When their remaining on the Board might affect the Company s credit or reputation in the market or otherwise jeopardizes its interests.

The conditions listed above under Recommendation Removal must also be taken into consideration.

B.1.21 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

Yes

Measures for reducing risk

Pursuant to the provisions of the Regulations of the Board of Directors, the actions of the Chairman must always act in accordance with the decisions and criteria established by the shareholders at the General Shareholders Meeting and by the Board of Directors and its Committees.

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Likewise, all agreements or decisions of particular significance for the Company must be previously submitted for the approval of the Board of Directors or the relevant Board Committee, as the case may be.

The Board of Directors reserves the power to approve: the general policies and strategies of the Company; the evaluation of the Board, its Committees and its Chairman; the appointment of senior executive officers, as well as the compensation policy for Directors and senior executive officers; and strategic investments.

In addition, reports and proposals from the different Board Committees are required for the adoption of certain resolutions.

It is important to note that the Chairman does not hold the casting vote within the Board of Directors.

The Board of Directors of the Company, at its meeting held on December 19, 2007, agreed to appoint Mr. Julio Linares López as the Chief Executive (Chief Operating Officer) of Telefónica, S.A., reporting directly to the Chairman and with responsibility over all of Telefónica Group s Business Units.

Indicate, and if necessary, explain whether rules have been established that enable any of the independent directors to convene Board Meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors.

No

B.1.22 Are qualified majorities, other than legal majorities, required for any type of decisions?

No

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Description of resolution	Quorum	Type of Majority
All resolutions	Personal or proxy attendance of one half plus one of all Directors (50.01%).	Resolutions shall be adopted by a majority of votes cast by the Directors present at the meeting in person or by proxy, except in those instances in which the Law requires the favorable vote of a greater number of Directors for the validity of specific resolutions and in particular for: (i) the appointment of Directors not holding a minimum of shares representing a nominal value of 3,000 euros, (Article 25 of the Company By-Laws) and (ii) for the appointment of Chairman, Vice Chairman, CEO or member of the Executive Committee, in accordance with the requirements explained in the following section.

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B.1.23 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

Yes

Description of requirements

In order for a Director to be appointed Chairman, such Direct have served on the Board for at least three years prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

B.1.24 Indicate whether the Chairman has the casting vote:

No

B.1.25 Indicate whether the Bylaws or the regulations of the Board of Directors establish an age limit for directors:

No

Age limit for Chairman	Age limit for CEO	Age limit for directors

B.1.26 Indicate whether the bylaws or the regulations of the Board of Directors set a limited term of office for independent directors:

No

Maximum number of years in office

B.1.27 If there are few or no female directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, María Eva Castillo Sanz as an Independent Member of the Board of Telefónica. This appointment was ratified by the Ordinary General Shareholders Meeting of Telefónica held on the April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a period of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of Telefónica.

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Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates (recognized caliber, qualifications and experience) and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of female directors, if, within the potential candidates, there are female candidates who meet the professional profile sought at each moment.

Indicate in particular whether the Appointments and Remunerations Committee has established procedures to ensure the selection processes are not subject to implicit bias that will make it difficult to select female directors, and make a conscious effort to search for female candidates who have the required profile:

Yes

Indicate the main procedures

In accordance with article 10.3 of the Board Regulations, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors .

B.1.28 Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

In accordance with Article 18 of the Regulations of the Board of Directors, Directors must attend meetings of the Board in person, and when unable to do so in exceptional cases, they shall endeavor to ensure that the proxy they grant to another member of the Board includes, as the extent practicable, appropriate instructions. Such proxies may be granted by letter or any other means that, in the Chairman s opinion, ensures the certainty and validity of the proxy granted.

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B.1.29 Indicate the number of Board meetings held during the year and how many times the board has met without the Chairman s attendance:

Number of Board meetings	13
Number of Board meetings held in the absence of its chairman	0

Indicate how many meetings of the various Board committees were held during the year.

Number of meetings of the Executive or Delegated Committee	18
Number of meetings of the Audit and Compliance Committee	10
Number of meetings of the Appointments and Remunerations Committee	9
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of Board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions:

Number of non-attendances by directors during the year	0
% of non-attendances of the total votes cast during the year	0.000

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the board are certified previously:

No

Indicate, if applicable, the person(s) who certified the company s individual and consolidated financial statements for preparation by the board:

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being submitted to the General Shareholders Meeting with a qualified Audit Report.

Through the Audit and Control Committee, the Board of Directors plays an essential role supervising the preparation of the Company financial information, controlling and coordinating the various players that participate in this process. In this respect, to achieve this objective the Audit and Control Committee s work addresses the following basic issues:

1. To know the process for gathering financial information and the internal control systems. With respect thereto:

- **a)** To supervise the process of preparation and the integrity of the financial information relating to the Company and the Group, reviewing compliance with regulatory requirements, the proper determination of the scope of consolidation, and the correct application of accounting standards, informing the Board of Directors thereof.

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b) To propose to the Board of Directors the risk management and control policy.

2. To ensure the independence of the External Auditor, supervising their work and acting as a channel of communication between the Board of Directors and the External Auditor, as well as between the External Auditor and the Company management team;

3. To supervise the internal audit services, in particular:

a) To ensure the independence and efficiency of the internal audit function;

b) To propose the selection, appointment and removal of the person responsible for internal audit;

c) To propose the budget for such service;

d) To review the annual internal audit work plan and the annual activities report;

e) To receive periodic information on its activities; and

f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

The Audit and Control Committee verifies both the periodical financial information and the Annual Financial Statements, ensuring that all financial information is drawn up according to the same professional principles and practices. To this effect, the Audit and Control Committee meets whenever appropriate, holding ten (10) meetings in 2009.

Furthermore, the External Auditor participates regularly in the Audit and Control Committee meetings, when called to do so by the Committee, to explain and clarify different aspects of the audit reports and other aspects of its work. Additionally, and on request from the Committee, other members of the management and the Company and its have also been called to Committee meetings to explain specific matters that are directly within their scope of competence. In particular, managers from the finance, planning and control areas, as well as those in charge of internal audit, have attended these meetings. The members of the Committee have held separate meetings with each of these when it was deemed necessary to closely monitor the preparation of the Company s financial information.

The above notwithstanding, Article 41 of the Regulations of the Board of Directors establishes that the Board of Directors shall endeavor to prepare the final financial statements in a manner that that will create no reason for qualifications from the Auditor. However, whenever the Board considers that it should maintain its standards, it shall publicly explain the contents and scope of the discrepancies.

B.1.33 Is the secretary of the Board also a director?

No

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B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating whether his/her appointment and removal have been notified by the Appointments Committee and approved by the board in plenary session.

Appointment and removal procedure

In accordance with article 15 of the Regulations of the Board of Directors, the Board of Directors, upon the proposal of the Chairman, and after a report from the Nominating, Compensation and Corporate Governance Committee, shall appoint a Secretary of the Board, and shall follow the same procedure for approving the removal thereof.

Does the Appointments Committee notify appointments?	Yes
Does the Appointments Committee advise on dismissals?	Yes
Do appointments have to be approved by the board in plenary session?	Yes
Do dismissals have to be approved by the board in plenary session?	Yes

Is the Secretary of the Board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes

Remarks

In any case, the Secretary of the Board shall attend to the formal and substantive legality of the Board s actions, the conformance thereof to the By-Laws, the Regulations for the General Shareholders Meeting and of the Board, and maintain in consideration the corporate governance recommendations assumed by the Company in effect from time to time (article 15 of the Regulations of the Board).

B.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

With regards to the independence of the external Auditor of the Company, Article 41 of the Regulations of the Board of Directors establishes that the Board shall, through the Audit and Control Committee, establish a stable and professional relationship with the Company s Auditor, strictly respecting the independence thereof. One of the fundamental duties of the Audit and Control Committee is to maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof.

In addition, in accordance with Article 21 of the Regulations of the Board of Directors, it is the Audit and Control Committee that proposes to the Board of Directors, for submission to the shareholders at the General Shareholders Meeting, the appointment of the Auditor as well as, where appropriate, appropriate terms of for the hiring thereof, the scope of its professional engagement and revocation or non-renewal of its appointment.

Likewise, the External Auditor has direct access to the Audit and Control Committee and participates regularly in its meetings, in the absence of the Company management team when this is deemed necessary. To this effect, and in keeping with United States legislation on this matter, the external Auditors must inform the Audit and Control Committee at least once a year on the most relevant generally accepted auditing policies and practices followed in the preparation of the Company s financial and accounting information that affect relevant elements in the financial statements which may have been discussed with the management team, and of all relevant communications between the Auditors and the Company management team.

In accordance with internal Company regulations and in line with the requirements imposed by US legislation, the engagement of any service from the external Company Auditors must always have the prior approval of the Audit and Control Committee. Moreover, the engagement of non-audit services must be done in strict compliance with the Accounts Audit Law (in its version established in Law 44/2002 of 22 November, on Financial System Reform Measures) and the Sarbanes-Oxley Act published in the United States and subsequent regulations. For this purpose, and prior to the engagement of the Auditors, the Audit and Control Committee studies the content of the work to be done, weighing the situations that may jeopardize independence of the Company Auditor and specifically supervises the percentage the fees paid for such services represent in the total revenue of the auditing firm. In this respect, the Company reports the fees paid to the external auditor, including those paid for non-audit services, in its Notes to the Financial Statements, in accordance with prevailing legislation.

B.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the new audit firm and the previous firm:

No

Outgoing auditor	Incoming auditor

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

B.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of other non-audit work (in thousand)	0	54	54
Amount from non-audit work as a % of total amount bill by audit firm	0.000	0.261	0.225

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B.1.38 Indicate whether the audit report on the previous year s financial statements is qualified of includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

B.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate how many years the current firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company	**Group**
Number of consecutive years	5	5

	Company	**Group**
Number of years audited by current audit firm/Number of years the company accounts have been audited (%)	18.5	26.3

B.1.40 List any equity holdings of the members of the company s Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of director	**Corporate name of the company in question**	**% share**	**Post or duties**
Mr. Isidro Fainé Casas	Abertis Infraestructuras, S.A.	0.008	Vice Chairman
Mr. David Arculus	BT Group Plc.	0.000	
	British Sky Broadcasting Group Plc.	0.000	

B.1.41 Indicate and give details of any procedures through which directors may receive external advice:

Yes

Details of procedure

Article 28 of the Regulations of the Board of Directors stipulates that in order to receive assistance in the performance of their duties, the Directors or any of the Committees of the Board may request that legal, accounting, financial or other experts be retained at the Company s expense. The engagement must necessarily be related to specific problems of a certain significance and complexity that arise in the performance of their office.

The decision to retain such services must be communicated to the Chairman of the Company and shall be implemented through the Secretary of the Board, unless the Board of Directors does not consider such engagement to be necessary or appropriate.

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B.1.42 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes

Details of procedure

The Company adopts the measures necessary to ensure that the Directors receive the necessary information, specially drawn up and geared to preparing the meetings of the Board and its Committees, sufficiently in advance. Under no circumstances shall such requirement not be fulfilled on the grounds of the importance or the confidential nature of the information except in absolutely exceptional cases.

In this regard, at the beginning of each year the Board of Directors and its Committees shall set the calendar of ordinary meetings to be held during the year. The calendar may be amended by resolution of the Board itself, or by decision of the Chairman, in which case the Directors shall be made aware of the amendment as soon as practicable.

Also, and in accordance with Recommendation 19 of the Unified Good Governance Code, at the beginning of the year the Board and its Committees shall prepare an Action Plan detailing the actions to be carried out and their timing for each year, as per their assigned powers and duties.

Likewise, all the meetings of the Board and the Board Committees have a pre-established Agenda, which is communicated at least three days prior to the date scheduled for the meeting together with the call for the session. For the same purpose, the Directors are sent the documentation related to the Agenda of the meetings sufficiently in advance. Such information is subsequently supplemented with the written documentation and presentations handed out to the Directors at the meeting.

To provide all the information and clarifications necessary in relation to certain points deliberated, the Group s senior executive officers attend nearly all the Board and committee meetings to explain the matters within their competencies.

Furthermore, and as a general rule, the Regulations of the Board of Directors expressly establish that Directors are granted the broadest powers to obtain information about all aspects of the Company, to examine its books, records, documents and other data regarding corporate transactions. The exercise of the right to receive information shall be channeled through the Chairman or Secretary of the Board of Directors, who shall respond to the requests made by the Directors, providing them with the requested information directly or offering them the proper contacts at the appropriate level of the organization.

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B.1.43 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation s name or reputation, tendering their resignation as the case may be:

Yes

Details of rules

In accordance with Article 12 of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and formalize such resignation when their remaining on the Board might affect the Company s credit or reputation in the market or otherwise jeopardizes its interests.

Likewise, article 32. h) of the Regulations establishes that Directors must report to the Board any circumstances related to them that might damage the credit or reputation of the Company as soon as possible.

B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences stated in article 124 of the Spanish Companies Act (LSA for its initials in Spanish):

Yes

Name of Director	**Criminal proceedings**	**Remarks**
Mr. César Alierta Izuel	Summary Proceedings 7721/2002 Magistrate s Court no. 32 of Madrid	Ruling dated July 17, 2009 by Section 17 of the Madrid Regional Court absolving César Alierta Izuel

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office.

Yes

Decision	**Explanation**
May continue	There have been no circumstances that merit the adoption of any action or decision in this regard.

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B.2. Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

Name	Post	Type
Mr. Alfonso Ferrari Herrero	Chairman	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

AUDIT AND CONTROL COMMITTEE

Name	Post	Type
Mr. Gonzalo Hinojosa Fernández de Angulo	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

HUMAN RESOURCES AND CORPORATE REPUTATION AND RESPONSIBILITY COMMITTEE

Name	Post	Type
Mr. Francisco Javier de Paz Mancho	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

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REGULATION COMMITTEE

Name	Post	Type
Mr. Pablo Isla Álvarez de Tejera	Chairman	Independent
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

SERVICE QUALITY AND CUSTOMER SERVICE COMMITTEE

Name	Post	Type
Mr. Antonio Massanell Lavilla	Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Ms. María Eva Castillo Sanz	Member	Independent
Mr. Pablo Isla Álvarez de Tejera	Member	Independent

INTERNATIONAL AFFAIRS COMMITTEE

Name	Post	Type
Mr. José Fernando de Almansa Moreno-Barreda	Chairman	Other external
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. David Arculus	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Luiz Fernando Furlán	Member	Independent
Mr. Vitalino Manuel Nafría Aznar	Member	Proprietary

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EXECUTIVE COMMISSION

Name	Post	Type
Mr. César Alierta Izuel	Chairman	Executive
Mr. Isidro Fainé Casas	Vice Chairman	Proprietary
Mr. Alfonso Ferrari Herrero	Member	Independent
Mr. Carlos Colomer Casellas	Member	Independent
Mr. Francisco Javier de Paz Mancho	Member	Independent
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José María Abril Pérez	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Peter Erskine	Member	Other external

STRATEGY COMMITTEE

Name	Post	Type
Mr. Peter Erskine	Chairman	Other external
Mr. Gonzalo Hinojosa Fernández de Angulo	Member	Independent
Mr. José Fernando de Almansa Moreno-Barreda	Member	Other external
Ms. María Eva Castillo Sanz	Member	Independent

INNOVATION COMMITTEE

Name	Post	Type
Mr. Carlos Colomer Casellas	Chairman	Independent
Mr. Antonio Massanell Lavilla	Member	Proprietary
Mr. Julio Linares López	Member	Executive
Mr. Pablo Isla Álvarez de Tejera	Member	Independent
Mr. Peter Erskine	Member	Other external

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B.2.2 Indicate whether the Audit Committee is responsible for the following:

To supervise the preparation process and monitoring the integrity of financial information on the company and, if applicable, the group, and revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	**Yes**
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	**Yes**
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit ; propose the department s budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	**Yes**
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	**Yes**
To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	**Yes**
To receive regular information from the external auditor on the progress and findings of the audit programme and check that senior management are acting on its recommendations.	**Yes**
To ensure the independence of the external auditor.	**Yes**
In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.	**Yes**

B.2.3 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

International Affairs Committee.

a) Composition

The International Affairs Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the International Affairs Committee shall be appointed from among its members.

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b) Duties

Notwithstanding any other duties that the Board of Directors may assign thereto, the primary mission of the International Affairs Committee shall be to strengthen and bring relevant international issues to the attention of the Board of Directors for the proper development of the Telefónica Group. In that regard, it shall have the following duties, among others:

(i) To pay special attention to institutional relations in the countries in which the companies of the Telefónica Group operate.

(ii) To review those matters of importance that affect it in international bodies and forums, or those of economic integration.

(iii) To review regulatory and competition issues and alliances.

(iv) To evaluate the programs and activities of the Company s various Foundations and the resources used to promote its image and international social presence.

c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the International Affairs Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the International Affairs Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Audit and Control Committee

Pursuant to the provisions set out in Article 31 bis of the Company Bylaws of Telefónica, S.A., Article 21 of the Regulations of the Board of Directors regulates the Audit and Control Committee in the following terms:

a) Composition

The Audit and Control Committee shall be comprised of a minimum of three and a maximum of five Directors appointed by the Board of Directors. All of the members of such Committee shall be external Directors. When appoint such members, the Board of Directors shall take into account the appointees knowledge and experience in matters of accounting, auditing and risk management.

The Chairman of the Audit and Control Committee, who shall in all events be an independent Director, shall be appointed from among its members, and shall be replaced every four years; he may be re-elected after the passage of one year from the date when he ceased to hold office.

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b) Duties

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Audit and Control Committee shall be to support the Board of Directors in its supervisory duties. Specifically, it shall have at least the following powers and duties:

1) To report, through its Chairman, to the General Shareholders Meeting on matters raised thereat by the shareholders that are within the purview of the Committee;

2) To propose to the Board of Directors, for submission to the General Shareholders Meeting, the appointment of the Auditor mentioned in Article 204 of the LSA, as well as, where appropriate, terms of the hiring thereof, the scope of its professional engagement and the revocation or non-renewal of such appointment;

3) To supervise the internal audit services and, in particular:

a) To ensure the independence and efficiency of the internal audit function;

b) To propose the selection, appointment and removal of the person responsible for the internal audit;

c) To propose the budget for such service;

d) To review the annual internal audit work plan and the annual activities report;

e) To receive periodic information on its activities; and

f) To verify that the senior executive officers take into account the conclusions and recommendations of its reports.

4) To know the process for gathering financial information and the internal control systems. With respect thereto:

a) To supervise the process of preparation and the integrity of the financial information related to the Company and the Group, reviewing compliance with the regulatory requirements, the proper determination of the scope of consolidation, and the correct application of the accounting standards, informing the Board of Directors thereof.

b) To propose to the Board of Directors the risk management and control policy.

5) To establish and supervise a mechanism that allows employees to confidentially and anonymously report potentially significant irregularities, particularly any financial and accounting irregularities detected within the Company.

6) To maintain relations with the Auditor in order to receive information on all matters that could jeopardize the independence thereof, as well as any other matters relating to the audit procedure, and to receive information from and maintain the communications with the Auditor provided for in auditing legislation and in technical auditing regulations.

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c) Operation

The Audit and Control Committee shall meet at least once every quarter and as often as appropriate, when called by its Chairman.

In the performance of its duties, the Audit and Control Committee may require that the Company s Auditor and the person responsible for internal audit, and any employee or senior executive officer of the Company, attend its meetings.

d) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Audit and Control Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Audit and Control Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Service Quality and Customer Service Committee

a) Composition

The Service Quality and Customer Service Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Service Quality and Customer Service Committee shall be appointed from among its members.

b) Duties

Without prejudice to any other duties that the Board of Directors may assign thereto, the Service Quality and Customer Service Committee shall have at least the following duties:

(i) To periodically examine, review and monitor the quality indices of the principal services provided by the companies of the Telefónica Group.

(ii) To evaluate levels of customer service provided by such companies.

c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Service Quality and Customer Service Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Service Quality and Customer Services Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Strategy Committee

a) Composition

The Board of Directors shall determine the number of members of this Committee. The Chairman of the Strategic Committee shall be appointed from among its members.

b) Duties

Without prejudice to any other tasks that the Board of Directors may assign thereto, the primary duty of the Strategy Committee shall be to support the Board of Directors in the analysis and follow up of the global strategy policy of the Telefónica Group.

c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Strategic Committee shall prepare an Action Plan detailing the actions to be taken during the year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Strategic Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Innovation Committee

a) Composition

The Board of Directors shall determine the number of members of this Committee.

The Chairman of the Innovation Committee shall be appointed from among its members.

b) Duties

The Innovation Committee is primarily responsible for advising and assisting in all matters regarding innovation. Its main object is to perform an examination, analysis and periodic monitoring of the Company s innovation projects, to provide guidance and to help ensure its implementation and development across the Group.

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c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Innovation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Innovation Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Nominating, Compensation and Corporate Governance Committee

a) Composition

The Nominating, Compensation and Corporate Governance Committee shall consist of not less than three nor more than five Directors appointed by the Board of Directors. All members of the Committee must be external Directors and the majority thereof must be independent Directors.

The Chairman of the Nominating, Compensation and Corporate Governance Committee, who shall in all events be an independent Director, shall be appointed from among its members.

b) Duties

Notwithstanding other duties entrusted it by the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall have the following duties:

1) To report, following standards of objectivity and conformity to the corporate interest, on the proposals for the appointment, re-election and removal of Directors and senior executive officers of the Company and its subsidiaries, and evaluate the qualifications, knowledge and experience required of candidates to fill vacancies.

2) To report on the proposals for appointment of the members of the Executive Commission and of the other Committees of the Board of Directors, as well as the Secretary and, if applicable, the Deputy Secretary.

3) To organize and coordinate, together with the Chairman of the Board of Directors, a periodic assessment of the Board, pursuant to the provisions of Article 13.3 of these Regulations.

4) To inform on the periodic assessment of the performance of the Chairman of the Board of Directors.

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5) To examine or organize the succession of the Chairman such that it is properly understood and, if applicable, to make proposals to the Board of Directors so that such succession occurs in an orderly and well-planned manner.

6) To propose to the Board of Directors, within the framework established in the By-Laws, the compensation for the Directors and review it periodically to ensure that it is in keeping with the tasks performed by them, as provided in Article 35 of these Regulations.

7) To propose to the Board of Directors, within the framework established in the By-Laws, the extent and amount of the compensation, rights and remuneration of a financial nature, of the Chairman, the executive Directors and the senior executive officers of the Company, including the basic terms of their contracts, for purposes of contractual implementation thereof.

8) To prepare and propose to the Board of Directors an annual report regarding the Director compensation policy.

9) To supervise compliance with the Company s internal rules of conduct and the corporate governance rules thereof in effect from time to time.

10) To exercise such other powers and perform such other duties as are assigned to such Committee in these Regulations.

c) Operation

In addition to the meetings provided for in the annual schedule, the Nominating, Compensation and Corporate Governance Committee shall meet whenever the Board of Directors of the Company or the Chairman thereof requests the issuance of a report or the approval of proposals within the scope of its powers and duties, provided that, in the opinion of the Chairman of the Committee, it is appropriate for the proper implementation of its duties.

d) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Nominating, Compensation and Corporate Governance Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.
The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.
Of the issues dealt with by the Nominating, Compensation and Corporate Governance Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

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Human Resources and Corporate Reputation and Responsibility Committee

a) Composition

The Human Resources and Corporate Reputation and Responsibility Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Human Resources, Reputation and Corporate Responsibility Committee shall be appointed from among its members.

b) Duties

Without prejudice to any other tasks that the Board of Directors may assign thereto, the Human Resources and Corporate Reputation and Responsibility Committee shall have at least the following duties:

(i) To analyze, report on and propose to the Board of Directors the adoption of the appropriate resolutions on personnel policy matters.

(ii) To promote the development of the Telefónica Group s Corporate Reputation and Responsibility project and the implementation of the core values of such Group.

c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Human Resources, Corporate Reputation and Responsibility Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Human Resources and Corporate Reputation and Responsibility Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Regulation Committee

a) Composition

The Regulation Committee shall consist of such number of Directors as the Board of Directors determines from time to time, but in no case less than three, and the majority of its members shall be external Directors.

The Chairman of the Regulation Committee shall be appointed from among its members.

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b) Duties

Notwithstanding other duties entrusted to it by the Board of Directors, the Regulation Committee shall have at least the following functions:

(i) To monitor on a permanent basis the principal regulatory matters and issues affecting the Telefónica Group at any time, through the study, review and discussion thereof.

(ii) To act as a communication and information channel between the Management Team and the Board of Directors in regulatory matters and, where appropriate, to advise the latter of those matters deemed important or significant to the Company or to any of the companies of its Group in respect of which it is necessary or appropriate to make a decision or adopt a particular strategy.

c) Action Plan and Report

As with the Board and its Committees, at the beginning of each year and in accordance with Article 19 b) 3. of the Regulations of the Board of Directors, the Regulation Committee shall prepare an Action Plan detailing the actions to be taken and their timing for each year in each of their fields of action.

The Committee also draws up an internal Activities Report summarizing the main activities and actions taken during the year detailing the issues discussed at its meetings and highlighting certain aspects regarding its powers and duties, composition and operation.

Of the issues dealt with by the Regulation Committee, and as per Article 19 b) 3. of the Regulations of the Board of Directors, the Board of Directors is informed in order to properly exercise its duties.

Executive Commission

a) Composition

The Executive Commission shall consist of the Chairman of the Board, once appointed as a member thereof, and not less than three nor more than ten Directors appointed by the Board of Directors.

In the qualitative composition of the Executive Commission, the Board of Directors shall seek to have external or non-executive Directors constitute a majority over the executive Directors.

In all cases, the affirmative vote of at least two-thirds of the members of the Board of Directors shall be required in order for the appointment or re-appointment of the members of the Executive Commission to be valid.

b) Operation.

The Executive Commission shall meet whenever called by the Chairman, and shall normally meet every fifteen days.

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The Chairman and Secretary of the Board of Directors shall act as the Chairman and Secretary of the Executive Commission. One or more Vice Chairmen and a Deputy Secretary may also be appointed.

A quorum of the Executive Commission shall be validly established with the attendance, in person or by proxy, of one-half plus one of its members.

Resolutions shall be adopted by a majority of the Directors attending the meeting (in person or by proxy), and in the case of a tie, the Chairman shall cast the deciding vote.

c) Relationship with the Board of Directors.

The Executive Commission shall report to the Board in a timely manner on the matters dealt with and the decisions adopted at the meetings thereof, with a copy of the minutes of such meetings made available to the members of the Board (article 20.C of the Regulations of the Board of Directors).

B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name	Brief description
International Affairs Committee	Consultative and Control Committee
Audit and Control Committee	Consultative and Control Committee
Service Quality and Customer Service Committee	Consultative and Control Committee
Strategy Committee	Consultative and Control Committee
Innovation Committee	Consultative and Control Committee
Nominating, Compensation and Corporate Governance Committee	Consultative and Control Committee
Human Resources and Corporate Reputation and Responsibility Committee	Consultative and Control Committee
Regulation Committee	Consultative and Control Committee
Executive Commission	Corporate Body with general decision-making powers and express delegation of all powers corresponding to the Board of Directors except for those that cannot be delegated by law, bylaws or regulations.

B.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

International Affairs Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

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As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Audit and Control Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. In addition, the Audit and Control Committee is specifically regulated in article 31 bis of the By-Laws. These documents are available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Service Quality and Customer Service Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Strategy Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Innovation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Nominating, Compensation and Corporate Governance Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Human Resources and Corporate Reputation and Responsibility Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Regulation Committee

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. This document is available for consultation on the company website.

As mentioned in section B.2.3 above, the Board Committees draw up an internal Report summarizing the main activities and actions taken during the year detailing the issues discussed at the meetings and highlighting certain aspects regarding the powers and duties, composition and operation.

Executive Commission

The organization and operation of the Board of Directors Committees are governed by specific regulations contained in the Regulations of the Board of Directors. The Executive Committee is also regulated by Article 31 of the By-Laws. These documents are available for consultation on the company website.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:

Yes

C RELATED PARTY TRANSACTIONS

C.1 Indicate whether the board plenary sessions have reserved the right to approve, based on a favourable report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with directors, significant shareholders or representatives on the board, or related parties:

Yes

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousand)
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance income	30,660
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Management or Partnership agreements	113
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessor)	25,621
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Financing agreements: capital contributions and loans (lender)	199,752
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits received	163
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other expenses	4,848
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	293,455
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments undertaken	1,330
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	7,076
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Repayment or cancellation of loans and finance leases (lessor)	1,550
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Guarantees and deposits given	236,470
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Leases	364
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance costs	28,881

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousand)
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Receipt of services	8,000
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Other income	4,284
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Finance leases (lessor)	338
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Commitments undertaken	91,043
Banco Bilbao Vizcaya Argentaria, S.A.	Rest of Telefónica Group	Contractual	Rendering of services	164,856
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends and other benefits paid	286,862
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance income	6,734
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	237,117
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Guarantees and deposits given	244
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	678,700
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Finance costs	3,604
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Dividends received	13,002
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Commitments undertaken	7,733,279
Banco Bilbao Vizcaya Argentaria, S.A.	Telefónica, S.A.	Contractual	Receipt of services	4,361

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Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousand)
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance income	52
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Receipt of services	11,365
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Guarantees and deposits given	17,111
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance agreements, loans and capital contributions (borrower)	27,241
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Commitments undertaken	21,330
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Financing agreements: capital contributions and loans (lender)	407
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Sale of goods (finished or in progress)	25,032
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance leases (lessor)	1,700
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Leases	3,802
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Guarantees and deposits received	18
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Rendering of services	44,406

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Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousand)
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Other expenses	5
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Rest of Telefónica Group	Contractual	Finance costs	1,056
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Financing agreements: capital contributions and loans (lender)	1,292,912
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance agreements, loans and capital contributions (borrower)	616,075
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Commitments undertaken	800,000
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Dividends and other benefits paid	259,919
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Guarantees and deposits given	10
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance costs	4,578
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Finance income	11,802
Caja de Ahorros y Pensiones de Barcelona, la Caixa	Telefónica, S.A.	Contractual	Receipt of services	2,541

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C.3 List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies, and the company s managers or directors:

C.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company s ordinary trading activities:

C.5 Identify, where appropriate, any conflicts of interest affecting company directors pursuant to Article 127 of the LSA.

No

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Company policy has established the following principles governing possible conflicts of interest that may affect Directors, senior executive officers or significant shareholders:

With respect to Directors, Article 32 of the Regulations of the Board of Directors establishes that Directors shall inform the Board of Directors of any situation of direct or indirect conflict they may have with the interest of the company. In the event of conflict, the Director affected shall refrain from participating in the deliberation to which the conflict refers.

Moreover, and in accordance with the provisions set out in the Regulations of the Board, Directors shall refrain from participating in votes that affect matters in which they or persons related to them have a direct or indirect interest.

Likewise, the aforementioned Regulations establish that Directors shall not directly or indirectly enter into professional or commercial transactions with the Company or with any of the companies of the Group, if such transactions are unrelated to the ordinary course of business of the Company or not performed on an arm s length basis, unless the Board of Directors is informed thereof in advance and, with the prior report of the Nominating, Compensation and Corporate Governance Committee, it approves the transaction upon the affirmative vote of at least 90% of the Directors present .

With regards to significant shareholders, Article 39 of the Regulations of the Board of Directors stipulates that the Board of Directors shall know the transactions that the Companies enter into, either directly or indirectly, with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto.

The performance of such transactions shall require the authorization of the Board, after a favorable report of the Nominating, Compensation and Corporate Governance Committee, unless they are transactions or operations that form part of the customary or ordinary activity of the parties involved that are performed on customary market terms and in insignificant amounts for the Company.

The transactions referred to in the preceding sub-section shall be assessed from the point of view of equal treatment of shareholders and the arm s-length basis of the transaction, and shall be included in the Annual Corporate Governance Report and in the periodic information of the Company upon the terms set forth in applicable laws and regulations.

With respect to senior executive officers, the Internal Code of Conduct for Securities Markets Issues sets out the general principles of conduct for the persons subject to the said regulations who are involved in a conflict of interest. The aforementioned Code includes all the Company Management Personnel within the concept of affected persons.

In accordance with the provisions of this Code, senior executive officers are obliged to (a) act at all times with loyalty to the Telefónica Group and its shareholders, regardless of their own or other interests; (b) refrain from interfering in or influencing the making of decisions that may affect individuals or entities with whom there is a conflict; and (c) refrain from receiving information classified as confidential which may affect such conflict. Furthermore, these persons are obliged to inform the Company Regulatory Compliance Unit of all transactions that may potentially give rise to conflicts of interest.

C.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain:

D RISK CONTROL SYSTEMS

D.1 Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

Telefónica continually monitors the most significant risks in the main companies comprising its Group. It therefore monitors this risk using a Corporate Risk Model (based at the time on COSO I), which is becoming the new Risk Management Model (based on COSO II) that will be applied regularly and uniformly across the Group companies. The new Model enables the Company to assess both the impact and the probability of all the risks which may affect the Telefónica Group. As mentioned above, this is based on the systems proposed in the COSO I and COSO II reports (Committee of Sponsoring Organizations of the Treadway Commission), which establish an integrated Internal and Risk Management framework. The new Risk Management Model is currently being rolled out across the various Telefónica Group companies.

One of the features of this Model is that the Group has a map identifying any risks that require specific control and monitoring according to their importance. Likewise, the Model matrix includes the operational processes in which each of the risks considered is managed, in order to evaluate the control systems established.

As for the Telefónica Group s business, it is conditioned by both intrinsic risk factors that affect exclusively the Group, as well as other external factors that are common to businesses of the same sector. The most significant risks, which appear in the Telefónica Group s consolidated management report, included in the notes to the 2009 consolidated financial statements, are as follows.

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Group related risks

Country risk (investments in Latin America). At December 31, 2009, approximately 35.7% of the Group s assets were located in Latin America. In addition, around 40.6% of its revenues from operations for 2009 were derived from its Latin American operations. The Group s investments and operations in Latin America (including the revenues generated by these operations, their market value, and the dividends and management fees expected to be received from them) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly and negatively affect the economic conditions or business environment in wich it operates, and, therefore our interests in such countries;

- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;

- the effects of inflation or currency depreciation may lead certain of its subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;

- governments may expropriate or nationalize assets or increase their participation in the economy and companies;

- governments may impose burdensome taxes or tariffs;

- political changes may lead to changes in the economic conditions and business environment in which it operates; and

- economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group s operations in such countries.

For instance, throughout 2009 and in the early part of 2010, certain factors affecting the Venezuelan economy have had an impact on the accounting treatment applied with respect to the Group s subsidiaries in that country, notably the level of inflation reached in 2009, the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and the devaluation of the bolivar on January 8, 2010. As a result, in accordance with IFRS, Venezuela had to be considered a hyperinflationary economy in 2009, which has had a series of impacts on the Group s consolidated financial statements for 2009 and will on 2010. A more detailed description of this issue is included in Note 2 to the Telefónica Group s 2009 financial statements.

In addition, the Telefónica Group s operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which it operates. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which it operates in this countries.

Management of foreign currency and interest rate risk. The Telefónica Group s business is exposed to various types of market risk in the normal course of its business, including the impact of changes in interest rates or foreign currency exchange rates, as well as the impact of changes of credit risk in its treasury operations or in some structured financed transactions it enters. The Telefónica Group employs risk management strategies to manage this risk, in part through the use of financial derivatives, such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for the Group s risk management purposes, or if it cannot enter into arrangements of the type and for the amounts

necessary to limit its exposure to currency exchange-rate and interest-rate fluctuations, or if its banking counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect its financial position, results of operations and cash flow. Also, Telefónica s other risk management strategies may not be successful, which could adversely affect its financial position, results or operations and cash flow. Finally, if the rating of its counterparties in treasury investments or in its structured financed transactions deteriorates significantly or if these counterparties fail to meet their obligations to the Company, the Telefónica Group may suffer loss of value in its investments, incur in unexpected losses and/or assume additional financial obligations under these transactions. Such failure could adversely affect the Telefónica Group s financial position, results of operations and cash flow.

Current global economic situation. The Telefónica Group s business is impacted by general economic conditions and other similar factors in each of the countries in which it operates. The current adverse global economic situation and uncertainty about the economic recovery may negatively affect the level of demand of existing and prospective customers, as customers may no longer deem critical the services offered by the Group. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other macroeconomic factors. Specifically, in this respect the continuation of recession in Spain, according to the forecasts contained in the Spanish economic ministry s Stability Program for 2009-2013, could have an adverse affect on the Telefónica Group s results in Spain.

In addition, there could be other possible follow-on effects from the economic crisis on the Group s business, including insolvency of key customers or suppliers. A loss of customers or a reduction in purchases by its current customers decline in sales could have an adverse effect on the Telefónica Group s financial position, results of operations and cash flow and may therefore negatively affect its ability to meet its growth targets.

Dependence on external sources of financing. The performance, expansion and improvement of networks, as well as the development and distribution of the Telefónica Group s services and products require a substantial amount of financing. Mover, the Telefónica Group s liquidity and capital resource requirements may increase if the Company participates in other fixed line or wireless license award processes or makes acquisitions. There are also other major capital recourse requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If its ability to generate cash flow were to decrease, whether due to the ongoing economic and financial crisis or otherwise, the Telefónica Group may need to incur additional debt or raise other forms of capital to support its liquidity and recourses requirements for the sustained development and expansion of its business.

The current situation of financial markets in terms of liquidity, cost of credit and volatility has improved since the second half of 2008, and during 2009. However, there are still uncertainties surrounding the pace of the economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning deficits of some governments, etc. which could affect the normal development of financial markets. Worsening conditions in international financial markets due to any of these factors may make it more difficult and expensive for the Telefónica Group to refinance its debt or take on additional debt if necessary.

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In addition, its capacity to raise capital in the international capital markets would be impaired if its credit ratings were downgraded, whether due to decreases in its cash flow or otherwise. Further, current market conditions make it more challenging to renew unused bilateral credit facilities.

The current financial crisis could also make it more difficult and costly for the Company s current shareholders to launch rights issues or ask key investors for equity investments, even if further funds were needed for the Company to pursue its business plans.

Risks associated with relationships with venturers. Telefónica s mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, N.V., which is jointly controlled by the Group and Portugal Telecom, SGPS, S.A. (Portugal Telecom). Since it has less than a controlling interest in this joint venture, Telefónica does not have absolute control over the venture s operations. As a result, there is an inherent risk for management or operational disruptions whenever an agreement between the Company and its partners arises, in terms of a deadlock of the management or the possible operations.

Therefore, Telefónica must cooperate with Portugal Telecom to implement and expand its business strategies and to finance and management the operations of the venture. If Telefónica does not manage to obtain the cooperation of Portugal Telecom or if a disagreement or deadlock arises it may not achieve the expected benefits from its interest in this joint venture, such as economies of scale and opportunities to achieve potential synergies and cost savings.

Risks related to our industry

Highly competitive markets. The Telefónica Group faces significant competition in all of the markets in which it operates. Therefore, it is subject to the effects of actions by competitors in these markets. These competitors could:

- offer lower prices, more attractive discount plans or better services or features;
- develop and deploy more rapidly new or improved technologies, services and products;
- launch bundle offerings of one type of service with others;
- in the case of the mobile industry, subsidize handset procurement; or
- expand and extend their networks more rapidly.

Furthermore, some of these competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with these competitors, the Telefónica Group needs to successfully market its products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by its competitors, pricing strategies adopted by its competitors, changes in consumer preferences and in general economic, political and social conditions. The Telefónica Group s inability to effectively compete could result in price reductions, lower revenues, under-utilization of the Group s services, reduced operating margins and loss of market share. Any of these circumstances could negatively affect the Telefónica Group s financial position, results of operations and cash flow.

Highly regulated markets. As a multinational telecommunications company that operates in regulated markets, the Telefónica Group is subject to different laws and regulations in each of the jurisdictions in which it provides services and in which supranational (e.g. the European Union), national, state, regional local authorities intervene to varying degrees and as appropriate. Depending on whether the Company has a dominant position or not in these markets, the regulations in some countries are particularly strict. In this respect, the regulatory authorities regularly intervene in both the wholesale and retail offering and pricing of the Telefónica Group s products and services.

Furthermore, they could also adopt regulations or take other actions that could adversely affect the Telefónica Group, including revocation of or failure to renew any of its licenses, changes in the spectrum allocation or the grant of new licenses, authorizations or concessions to competitors to offer services in a particular market. They could also adopt, among others, measures or additional requirements to reduce roaming prices and fixed mobile termination rates, force Telefónica to provide third-party access to its networks and impose economic fines for serious breaches. Such regulatory actions or measures could place significant competitive and pricing pressure on the Group s operations, and could have a material adverse effect on the Telefónica Group s financial position, results of operations and cash flow.

In addition, since the Telefónica Group holds a leading market share in many of the countries where in operates, the Group could be affected by regulatory actions of antitrust or competition authorities. These authorities could prohibit certain actions, such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on the Company, which, if significant, could result in loss of market share and/ or in harm to future growth of certain businesses.

Specifically, the regulatory landscape in Europe will change as a consequence of the recent approval of the European Union s new common regulatory framework, which must be transposed into national law by Member States by June 2011. The regulatory principles established for Europe suggest that the new frameworks in each Member State could result in increased regulatory pressure on the local competitive environment.

This framework supports the adoption of measures by national regulators, in specific cases and under exceptional conditions, establishing the functional separation between the wholesale and retail businesses of operators with significant market power and vertically integrated operators, whereby they would be required to offer equal wholesale terms to third-part operators that are not integrated. The new framework is also likely to strengthen consumer protection, network integrity and data privacy measures. The Company may also face new regulatory initiatives in the area of mobile termination rates and the provision of audiovisual content and services.

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In some European countries, the Telefónica Group may also face increased pressure from regulatory initiatives aimed at reallocating spectrum rights of use and changing the policies regarding spectrum allocation which could lead to new procedures for awarding spectrum in Europe.

Finally, the recommendation on the application of the European regulatory policy to next-generation broadband networks being drawn up by the European Commission could play a key role in the incentives for operators to invest in net fixed broadband networks in the short and medium term, thus affecting the outlook for the business and competition in this market segment.

Services are provided under licenses or concessions. Most of Telefónica s operating companies require licenses, authorizations or concessions from the governmental authorities of the various countries. These licenses, authorizations and concessions specify the types of services Telefónica is permitted to offer under each circumstance.

The terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to possible interpretation, modification of termination by these authorities. Moreover, authorizations, licenses and concessions, as well as their renewal terms and conditions, may be directly affected by political and regulatory factors.

The terms of these licenses, authorization and concessions and the conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, , which is usually related to the fulfillment of the commitments that were assumed by the grantee,. As licenses, authorizations and concessions approach the end of their terms, the Telefónica Group intends to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, though the Group can not guarantee that it will always complete this process successfully.

Many of these licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over the Telefónica Group s operating companies require them to meet specified network build-out requirements and schedules. In particular, Telefónica s existing licenses, authorizations and concessions typically require it to satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession. In addition, the need to meet scheduled deadlines may require Telefónica Group operators to expend more resources than otherwise budgeted for a particular network build-out.

Markets subject to constant technological development. The Telefónica Group s future success depends, in part, on its ability to anticipate and adapt in a timely manner to technological changes. New products and technologies are constantly emerging, while existing products and services continue to develop. This need for constant technological innovation can render obsolete the products and services the Telefónica Group offers and the technology it uses, and may consequently reduce the revenue margins obtained and require investment in the development of new products, technology and services. In addition, the Company may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for the Telefónica Group to develop the products and technology it needs in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect the Telefónica Group s financial position, results of operations and cash flow.

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The Telefónica Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets, to enhancing its financial performance and to satisfy regulatory requirements. Among other things, the Telefónica Group could be required to upgrade the functionality of its networks to achieve greater service customization, to increased coverage of some of its markets, or expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under the Telefónica Group s control and could be constrained by applicable regulation. If the Telefónica Group fails to execute these tasks efficiently, its services and products may become less attractive to new customers and the Company may lose existing customers to its competitors, which would adversely affect the Telefónica Group s financial position, results of operations and cash flow.

Limitations on spectrum capacity could curtail growth. Telefónica s mobile operations in a number of countries may rely on the availability of spectrum. The Company s failure to obtain sufficient or appropriate capacity and spectrum coverage, and, albeit to a lesser extent, the related cost of obtaining this capacity could have an adverse impact on the quality of our services and on its ability to provide new services, adversely affecting its business, financial position, results of operations and cash flow.

Supplier failures. The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Further, these suppliers may be adversely affected by current economic conditions. If these suppliers fair to deliver products and services on a timely basis, this could have an adverse impact on the Telefónica Group s businesses and the results of its operations. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group s ability to satisfy its license terms and requirements.

Risks associated with unforeseen network interruptions. Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group s service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, fines or other types of measures imposed by regulator regulatory authorities and could harm the Telefónica Group s reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and it is not possible to foresee every incident or action that could damage or interrupt the Telefónica Group s networks. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.

Certain studies suggest that electromagnetic radio emissions are harmful. Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has hindered the deployment of the infrastructures necessary to ensure quality of service.

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Institutions and organizations, such as the World Health Organization, have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

Whether or not other research or studies conclude there is a link between radiofrequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group s mobile companies and consequently on its financial position, results of operations and cash flow. While the Telefónica Group is not aware of any evidence confirming a link between radio-frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

Risk of asset impairment. The Telefónica Group reviews on an annual basis, or more frequently where the circumstances require, the value of each of its assets and subsidiaries, to asses whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected, including, in some cases synergies included in acquisition cost. The current economic environment and its development in the short and medium term, as well as changes in the regulatory, business or political environment may result in the need to introduce impairment changes in its goodwill, intangible assets or fixed assets. Though the recognition of impairments of items of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the Telefónica Group s results of operations.

Other risks

Litigation and other legal proceedings. The Telefónica Group is party to lawsuits and other legal proceedings in the ordinary course of its business, the final outcome of which is generally uncertain. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs and may have a material adverse effect on the Telefónica Group s business, financial position, results of operations and cash flow.

D.2 Indicate whether the company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal...) during the year:

Yes

If so, indicate the circumstances and whether the established control systems worked adequately.

Risk occurred in the financial year

Venezuelan economy

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Circumstances that have motivated it

Among other factors, it should be highlighted the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and, finally, the devaluation of the bolivar on January 8, 2010.

Effectiveness of the control systems

In accordance with the information appearing in Notes 2 (Basis of presentation of the consolidated financial statements and 24 (Events after the reporting period of the notes to the consolidated financial statements of Telefónica, S.A. for the year ended December 31, 2009, throughout 2009 and in the early part of 2010, a number of factors arose in the Venezuelan economy that led the Telefónica Group to reconsider how it translates the financial statements of investees and the recovery of its financial investments there. These include the level of inflation reached in 2009 and the cumulative inflation rate over the last three years, restrictions to the official foreign exchange market and, finally, the devaluation of the bolivar on January 8, 2010.

As a result, in accordance with IFRS, Venezuela must be considered a hyperinflationary economy in 2009. The main implications of this are as follows:

- That the 2008 figures should not be restated.
- Adjustment of the historical cost of non-monetary assets and liabilities and the various items of equity of these companies from the date of acquisition or inclusion in the consolidated statement of financial position to the end of the year for the changes in purchasing power of the currency caused by inflation.

The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for years prior to 2009 is shown in translation differences at the beginning of the 2009 financial year.

- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- The various components in the income statement and statement of cash flows have been adjusted for the general price index from the dates the components were contributed or arose, with a balancing entry in net financial results and an offsetting item in the statement of cash flows, respectively.
- All components of the financial statements of the Venezuelan companies have been translated at the closing exchange rate, which at December 31, 2009 was 2.15 bolivars per dollar (3.1 bolivars per euro).

The main effects on the Telefónica Group s consolidated financial statements for 2009 derived from the above are as follows:

	Millions of euros
Revenue	267
OIBDA	64
Net profit (loss)	(548)
Translation differences	1,224
Impact on equity	676

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In addition, regarding the devaluation of the Venezuelan bolivar on January 8, 2010, the two main factors to consider with respect to the Telefónica Group s 2010 financial statements will be:

- The decrease in the Telefónica Group s net assets in Venezuela as a result of the new exchange rate, with a balancing entry in equity of the Group. This effect is estimated at approximately 1,810 million euros.
- The translation of results and cash flows from Venezuela at the new devalued closing exchange rate.

Finally, on January 19, the Venezuelan authorities announced that they would grant a preferential rate of 2.60 bolivar fuerte per dollar for new items, among which payment of dividends is included, as long as the request for Authorization of Acquisition of Foreign Exchange was filed before January 8, 2010. To that date, the Company had in fact requested authorizations related to the distribution of dividends of prior years.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems.

Yes

If so, please explain its duties.

Name of Committee or Body	Description of duties
Audit and Control Committee	The Board of Directors of Telefónica, S.A. has constituted an Audit and Control Committee whose powers and duties and rules of operation are set out in the Company By-Laws and in the Regulations of the Board of Directors. Such regulations comply with all legal requirements as well as with the recommendations for good corporate governance issued by both national and international bodies. Unless dealing with specific issues, the following shall be invited to attend Committee meetings: the External Auditor, representatives of the Legal General Secretariat and the Board, as well as representatives from the following departments: Finance and Corporate Development, Internal Audit, Intervention and Inspection, Planning, Budgets and Control, Operations and Human Resources. Occasionally, as mentioned above, other managers from within the Group are invited to inform the Committee on specific areas of interest to it. The duties of the Committee are established in the Company By-Laws of Telefónica, S.A. (art. 31 bis), and in the Regulations of the Board of Directors (art. 21), as described in section B.2.3 of this Report. In addition, the Company has designed a system of information to which the Chairman and the members of the Audit and Control Committee have access, through which they can obtain, if they wish, information on the conclusions of internal auditing reports and on the fulfillment of recommendations subject to specific monitoring. Likewise, within the Group, Committees have been set up in those companies whose shares are listed on stock market in countries other than Spain, with similar duties to those described for the Audit and Control Committee of Telefónica, S.A.

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D.4 Identify and describe the processes for compliance with the regulations applicable to the company and/or its group.

The vast majority of the companies comprising the Telefónica Group operate in the telecommunications sector, which is subject to regulation in nearly all the countries where the Group is present. Among the basic objectives of the internal control model described above is compliance with laws and regulations that affect the Telefónica Group s activities. In particular, the Group has units exercising specific control over this type of risk, especially through its legal services and in the areas of corporate regulation in the Group companies.

E GENERAL SHAREHOLDERS MEETINGS

E.1 Indicate the quorum required for constitution of the General Shareholders Meeting established in the company s bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

No

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article 103 of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and, as applicable, describe any differences between the company s system of adopting corporate resolutions and the framework set forth in the LSA:

Yes

Describe how they differ from the rules established under the LSA.

Description of differences

Article 21 of the Company By-Laws establishes that the General Shareholders Meeting shall adopt its resolutions with the majority of votes established by law, cast by the shareholders present in person or by proxy.

Each share whose holder is present at the General Shareholders Meeting in person or by proxy shall give the right to one vote, except in the case of non-voting shares, subject to the provisions of Law.

Notwithstanding the provisions of the preceding paragraph, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder.

In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraphs shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

For purposes of the provisions contained in the preceding paragraph, the provisions of Section 4 of the current Securities Market Act of July 28, 1998 (in the reference to article 42 of the Commercial Code) shall apply in order to decide whether or not a group of entities exists and to examine the situations of control indicated above.

Without prejudice to the limitations upon the right to vote described above, all shares present at the Meeting shall be computed for purposes of determining the existence of a quorum in constituting the Meeting, provided, however, that the 10-percent limit on the number of votes established in this article 21, of the Company Bylaw shall apply to such shares at the time of voting.

E.3 List all shareholders rights regarding the General Shareholders Meetings other than those established under the LSA.

Telefónica grants all shareholders the rights related to the General Shareholders Meetings set out in the LSA.

Likewise, with a view to encouraging shareholders participation in the GSM, pursuant to Article 11 of the Regulations for the General Shareholders Meeting of Telefónica, S.A., shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Service [*Servicio de Atención al Accionista*] regarding the organization, operation and duties of the General Shareholders Meeting.

E.4 Indicate the measures, if any, adopted to encourage participation by shareholders at General Shareholders Meetings.

The primary goal of the Regulations of the General Shareholders Meeting of Telefónica, S.A. is to offer the shareholder a framework that guarantees and facilitates the exercise of their rights in their relationship with the governing body of the Company. Particular emphasis is placed on the shareholders right to receive information and to participate in the deliberations and voting, by ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions that are submitted to the shareholders at the General Shareholders Meeting. In addition to the measures required by the applicable law in effect, the following are specific measures envisaged in the Regulation of the General Shareholders Meeting with a view to facilitating shareholders attendance and participation in the Meeting:

* WEBSITE

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From the date of publication of the notice of the call to the General Shareholders Meeting, and in order to facilitate shareholders attendance and participation therein, the Company shall include in its website, to the extent available and in addition to the documents and information required by the Law, all materials that the Company deems advisable for such purposes and in particular, but merely for illustrative purposes, the following:

a) The text of all the proposed resolutions that are to be submitted to the shareholders at the General Shareholders Meeting and that have by then been approved by the Board of Directors, provided, however, that the Board of Directors may amend such proposals up to the date of the Meeting when so permitted by the Law.

b) Information regarding the place where the General Shareholders Meeting is to be held, describing, when appropriate, the means of access to the meeting room.

c) The procedure to obtain attendance cards or certificates issued by the entities legally authorized to do so.

d) The means and procedures to grant a proxy for the General Shareholders Meeting.

e) If established, the means and procedures to cast votes from a distance.

f) Any other matters of interest for purposes of following the proceedings at the Meeting, such as whether or not simultaneous interpretation services will be provided, the possibility that the General Shareholders Meeting be followed by audio-visual means, or information in other languages.

The Company shareholders may obtain all the aforementioned information through the corporate website, or may request that it be sent or delivered to them without charge through the mechanisms established on the website for this purpose.

* SUGGESTIONS MADE BY THE SHAREHOLDERS

As indicated above, without prejudice to the shareholders right, in such cases and under such terms as are provided in the Law, to have certain matters included in the Agenda for the Meeting that they request be called, the shareholders may at all times and after providing evidence of their status as such, make suggestions through the Shareholder Service [*Servicio de Atención al Accionista*] regarding the organization and operation of the General Shareholders Meeting and the powers of the shareholders thereat.

Likewise, through the Shareholder Service, shareholders may request all types of information, documentation and clarifications required in relation to the General Shareholders Meeting, either through the Company website or by calling the toll-free line.

* PROXY GRANTING AND REPRESENTATION

The Chairman of the General Shareholders Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders Meeting, whether individually or by grouping shares with other shareholders, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been cured.

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E.5 Indicate whether the General Shareholders Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders Meeting:

Yes

Details of measures

The General Shareholders Meeting of Telefónica, S.A. has established its principles of organization and operation in a set of Regulations, approved by the General Shareholders Meeting, and the Chairman must always act in line with the principles, criteria and guidelines set out therein.

In addition to establishing the principles of organization and operation of the General Shareholders Meeting, gathering and organizing the different aspects of calling, organization and development of the General Shareholders Meeting in a single text, the document provides mechanisms to:

Facilitate shareholders exercise of their relevant rights, with particular attention to the shareholders right to information and to participate in the deliberations and voting.

Ensure the utmost transparency and efficiency in the establishment of the shareholders will and in decision-making at the Meeting, ensuring the widest possible dissemination of the call to meeting and of the proposed resolutions.

Furthermore, in accordance with the Regulations of the Board of Directors, the conduct of the Chairman of the Board must always act in accordance with the decisions and criteria established by the shareholders at the General Shareholders Meeting (in addition to the Board of Directors and the Board Committees).

E.6 Indicate the amendments, if any, made to the General Shareholders Meeting regulations during the year.

In 2009, no amendments were made to the Regulations for the General Shareholders Meeting of Telefónica, S.A.

E.7 Indicate the attendance figures for the General Shareholders Meetings held during the year:

	Attendance data				
			% remote voting		
Date of general meeting	**% attending in person**	**% by proxy**	**Electronic means**	**Other**	**Total**
06/23/09	0.168	60.463	0.000	0.000	60.631

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E.8 Briefly indicate the resolutions adopted at the General Shareholders Meetings held during the year and the percentage of votes with which each resolution was adopted.

Items on agenda	Summary of proposal	Votes in favor	Votes against	Abstentions	Result of the vote
I	Approval of the Annual Accounts for Fiscal Year 2008.	2,629,333,559 (92.17%)	9,622,338 (0.34%)	213,720,882 (7.49%)	Approved
II	Distribution of a dividend to be charged to unrestricted reserves	2,644,991,917 (92.72%)	971,960 (0.03%)	206,712,902 (7.25%)	Approved
III	Approval of an incentive Telefónica, S.A. share purchase plan for employees of the Telefónica Group	2,609,510,504 (91.48%)	36,379,361 (1.28%)	206,786,914 (7.25%)	Approved
IV	Authorization for acquisition of the Company s own shares, directly or through companies of the Group.	2,649,876,493 (92.89%)	2,230,686 (0.08%)	200,569,600 (7.03%)	Approved
V	Reduction of the share capital through the cancellation of treasury shares.	2,651,153,726 (92.94%)	1,274,760 (0.04%)	200,248,293 (7.02%)	Approved
VI	Re-election of the Auditor for Fiscal Year 2009.	2,642,101,657 (92.62%)	4,504,247 (0.16%)	206,070,875 (7.22%)	Approved
VII	Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders Meeting.	2,652,039,978 (92.97%)	898,877 (0.03%)	199,737,924 (7.00%)	Approved

E.9 Indicate whether the bylaws impose any minimum requirement on the number of shares needed to attend the General Shareholders Meetings:

Yes

Number of shares required to attend the General Shareholders Meetings 300

E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Shareholders Meeting.

As indicated above, with a view to facilitating shareholders attendance and participation in the General Shareholders Meetings, the Company has established the following policies in keeping with the legislation in effect:

* Voting by proxy at the General Shareholders Meeting:

  Every shareholder having the right to attend the General Shareholders Meeting may be represented thereat by another person, even if not a shareholder. The proxy must be granted specifically for each Meeting, either by using the proxy-granting form printed on the attendance card or in any other manner permitted by the Law.

  Shareholders that do not hold the minimum number of shares required to attend the Meeting (300 shares) may at all times grant a proxy in respect thereof to a shareholder having the right to attend the Meeting, as well as group together with other shareholders in the same situation until reaching the required number of shares, following which a proxy must be granted to one of such shareholders.

* Voting instructions:

  The documents setting forth the proxies or powers of attorney for the General Shareholders Meeting shall contain instructions regarding the direction of the vote. If no express instructions are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions put forward by the Board of Directors regarding the matters on the agenda and against those proposals which, albeit not included in the Agenda, may be submitted to a vote in said Meeting.

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* Proxies:

If the document setting forth the proxy or power of attorney does not state the specific person or persons to whom the shareholder grants the proxy, such proxy shall be deemed granted in favor of any of the following: the Chairman of the Board of Directors of the Company, or the person that stands in for him as Chairman of the General Shareholders Meeting, or such person as is appointed by the Board of Directors, with notice of such appointment being given in advance in the official notice of the call to meeting.

In cases in which a public proxy solicitation has been carried out, the Director who obtains such proxy shall be subject to the voting restriction established in Section 114 of the Securities Market Act [Ley del Mercado de Valores] in connection with conflict of interest situations.

Finally, to facilitate the maximum participation by shareholders, the Chairman of the General Shareholders Meeting, or the Secretary for the Meeting acting under a delegation of powers, shall resolve all questions arising in connection with the validity and effectiveness of the documents setting forth the right of any shareholder to attend the General Shareholders Meeting, as well as the granting of a proxy or of powers of representation to another person, and shall ensure that only such documents as fail to meet the minimum essential requirements are considered invalid or ineffective and provided that the defects therein have not been cured.

E.11 Indicate whether the company is aware of the policy of institutional investors on whether or not to participate in the company s decision-making processes:

No

E.12 Indicate the address and mode of accessing corporate governance content on your company s website.

Telefónica complies with the applicable legislation and best practices in terms of the content of the website concerning Corporate Governance. In this respect, it fulfils both the technical requirements for access and for content for the Company website, through direct access from the homepage of Telefónica, S.A. (www.telefonica.es) in the section Shareholders and Investors (http://www.telefonica.es/investors/), which includes not only all of the information that is legally required, but also information that the Company considers to be of interest.

All the available information included on the Company website, except for certain specific documents, is available in three languages: Spanish, Portuguese and English.

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F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company s compliance with Corporate Governance recommendations.

Should the company not comply with any of them, explain the recommendations, standards, practices or criteria the company applies.

1. **The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

See sections: A.9, B.1.22, B.1.23 and E.1, E.2.

Explain

In accordance with Article 21 of the Company By-Laws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed, and those held by other shareholders that have granted their proxy to the first-mentioned shareholder shall not be computed, without prejudice to the application of the aforementioned limit of 10 percent to each of the shareholders that have granted a proxy.

The limitation established in the preceding paragraph shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholder companies belonging to the same group of entities, as well as to the maximum number of votes that may be cast by an individual or corporate shareholder and the entity or entities that are shareholders themselves and which are directly or indirectly controlled by such individual or corporate shareholder.

In addition, Article 25 of the By-Laws stipulates that no person may be appointed as Director unless they have held, for more than three years prior to their appointment, a number of shares of the Company representing a nominal value of at least 3,000 euros, which shares the Director may not transfer while in office. These requirements shall not apply to those persons who, at the time of their appointment, are related to the Company under an employment or professional relationship, or when the Board of Directors resolves to waive such requirements with the favorable vote of at least 85 percent of its members.

Article 26 of the By-Laws establishes that, in order for a Director to be appointed Chairman, Vice Chairman, Chief Executive Officer or member of the Executive Commission, it shall be necessary for such Director to have served on the Board for at least the three years immediately prior to any such appointment. However, such length of service shall not be required if the appointment is made with the favorable vote of at least 85 percent of the members of the Board of Directors.

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2. **When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**
   a) **The type of activity they engage in, and any business dealings between them as well as between the listed subsidiary and the other group companies;**
   b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: C.4 and C.7

Not applicable

3. **Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders Meeting for approval or ratification. In particular:**
   a) **The transformation of listed companies into holding companies through the process of subsidiarization, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**
   b) **Any acquisition or disposal of key operating assets that would effectively alter the company s corporate purpose;**
   c) **Operations that effectively add up to the company s liquidation;**

Complies

4. **Detailed proposals of the resolutions to be adopted at the General Shareholders Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.**

Complies

5. **Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:**
   a) **The appointment or ratification of directors, with separate voting on each candidate;**
   b) **Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.**

See section: E.8

Complies

6. **Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

See section: E.4

Complies

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7. **The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company s best interest and, as such, strive to maximise its value over time.**

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. **The board should see the core components of its mission as to approve the company s strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company s interests and corporate purpose. As such, the board in full should reserve the right to approve:**
   a) **The company s general policies and strategies, and in particular:**
      i) **The strategic or business plan, management targets and annual budgets;**
      ii) **Investment and financing policy;**
      iii) **Design of the structure of the corporate group;**
      iv) **Corporate governance policy;**
      v) **Corporate social responsibility policy;**
      vi) **Remuneration and evaluation of senior officers;**
      vii) **Risk control and management, and the periodic monitoring of internal information and control systems;**
      viii) **Dividend policy, as well as the policies and limits applying to treasury stock.**

See sections: B.1.10, B.1.13, B.1.14 and D.3

   b) **The following decisions:**
      i) **On the proposal of the company s chief executive, the appointment and removal of senior officers, and their compensation clauses.**

See section: B.1.14.

      ii) **Directors remuneration, and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.**

See section: B.1.14.

      iii) **The financial information listed companies must periodically disclose.**
      iv) **Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting;**

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v) **The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**

c) **Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto (related-party transactions).**

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. **They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;**

2. **They go through at market rates, generally set by the person supplying the goods or services;**

3. **Their amount is no more than 1% of the company s annual revenues.**

It is advisable that related-party transactions should only be approved on the basis of a favorable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally, the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Complies

9. **In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer then five and no more than fifteen members.**

See section: B.1.1

Explain

The complexity of the Telefónica Group organizational structure, given the considerable number of companies it comprises, the variety of sectors it operates in, its multinational nature, as well as its economic and business relevance, justify the fact that the number of members of the Board is adequate to achieve an efficient and operative operation.

In addition, it is important to bear in mind the Company s largest number of Board committees, which ensures the active participation of all its Directors.

10. **External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies

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11. **In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders.**

See section: B.1.3

Complies

12. **That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company s capital.**

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.**
2. **In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: B.1.3, A.2 and A.3

Explain

The aforementioned recommendation number 12 refers to the composition of the group of external Directors. As stated in section B.1.3 of this Annual Corporate Governance Report, at December 31, 2009, the group of external Directors of Telefónica, S.A. was composed of 14 members (of a total of 17 Members), of whom four are proprietary Directors, eight are independent and two fall under the other external Directors category.

Of the four proprietary directors, two act in representation of Caja de Ahorros y Pensiones de Barcelona (la Caixa), which holds 5.17% of the capital stock of Telefónica, S.A., and two act in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), which holds 5.54% of the capital stock.

Applying the proportional criteria established in Article 137 of the LSA (to which Recommendation 12 of the Unified Code refers to), regarding the total number of directors, the stakes held by la Caixa and BBVA are sufficient to entitle each entity to appoint a director.

Moreover, it must be taken into account that Recommendation 12 stipulates that this strict proportionality criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent in large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

In this regard, Telefónica is the listed company on Spanish stock exchanges with the highest stock market capitalization, reaching the figure of 89,089 million euros at December 31, 2009, which means a very high absolute value of the stakes of la Caixa and BBVA in Telefónica (that of la Caixa is 4,606 million euros, and that of BBVA is 4,936 million euros), which justifies the overrepresentation of these entities on the Board of Directors, rising from one member of the board each (to which they would strictly have the right in accordance with Article 137 of the LSA) to two members, i.e. permitting the appointment of just one more proprietary director over the strictly legal proportion.

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13. **The number of independent directors should represent at least one third of all board members.**

See section: B.1.3

Complies

14. **The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year s Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See sections: B.1.3 and B.1.4

Complies

15. **When women directors are few or non existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:**
    a) **The process of filling board vacancies has no implicit bias against women candidates;**
    b) **The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: B.1.2, B.1.27 and B.2.3.

Explain

In fact, the search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to appoint, by means of interim appointment and at the proposal of the Nominating, Compensation and Corporate Governance Committee, María Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a term of five years.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a favorable report from the Nominating, Compensation and Corporate Governance Committee, to appoint María Luz Medrano Aranguren as the Deputy Secretary General and Secretary of the Board of Directors of Telefónica.

Article 10.3. of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates (recognized caliber, qualifications and experience) and their ability to dedicate themselves to the functions of members of the board, so there is no implicit bias capable of impeding the selection of women directors, if, within the potential candidates, there are women candidates who meet the professional profile sought at each moment.

16. **The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company s chief executive, along with the chairmen of the relevant board committees.**

See section: B.1 42

Complies

17. **When a Company s Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the Board s evaluation of the Chairman.**

See section: B.1.21

Partially complies

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

In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

In addition, in accordance with article 13.3 of said Regulations, the Chairman of the Nominating, Compensation and Corporate Governance Committee a post that shall always be given to an independent Director (article 22 of the Regulations)- and the Chairman of the Board of Directors shall be responsible for organizing and coordinating a periodic assessment of the Board.

18. **The Secretary should take care to ensure that the Board s actions:**
    - a) **adhere to the spirit and letter of Laws and their implementing regulations, including those issued by regulatory agencies;**
    - b) **Comply with the company bylaws and the regulations of the General Shareholders Meeting , the Board of Directors and others;**
    - c) **Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

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

See section: B.1.34

Complies

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

See section: B.1.29

Complies

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

See sections: B.1.28 and B.1.30

Complies

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

Complies

22. **The Board in full should evaluate the following points on a yearly basis:**
    a) **The quality and efficiency of the Board s operation;**
    b) **Starting from a report submitted by the Nomination Committee, how well the Chairman and Chief Executive have carried out their duties;**
    c) **The performance of its committees on the basis of the reports furnished by the same.**

See section: B.1.19

Complies

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

See section: B.1.42

Complies

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

See section: B.1.41

Complies

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

Complies

26. **Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**
    a) **Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;**
    b) **Companies should lay down rules about the number of directorships their board members can hold.**

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

Complies

27. **The proposal for the appointment or renewal of directors which the board submits to the General Shareholders Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:**
    a) **On the proposal of the Nomination Committee, in the case of independent directors.**
    b) **Subject to a report from the Nomination Committee in all other cases.**

See section: B.1.2

Complies

28. **Companies should post the following director particulars on their websites, and keep them permanently updated:**
    a) **Professional experience and background;**
    b) **Directorships held in other companies, listed or otherwise;**
    c) **An indication of the director s classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.**

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

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

Complies

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

See section: B.1.2

Complies

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

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

Complies

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

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

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

Complies

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

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

See sections: B.1.43, B.1.44

Complies

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

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

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

Complies

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

See section: B.1.5

Not Applicable

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

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

i) Duration;

ii) Notice periods; and

iii) Any other clauses covering hiring bonuses, as well as indemnities or golden parachutes in the event of early termination of the contractual relation between company and executive director.

See section: B.1.15

Complies

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

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

See sections: A.3, B.1.3

Complies

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

Complies

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

Not applicable

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

Complies

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

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

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

See section: B.1.16

Partially complies

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

41. The notes to the Annual Accounts should list individual directors remuneration in the year, including:

a) a breakdown of the compensation obtained by each company director, to include where appropriate:

i) Participation and attendance fees and other fixed director payments;

ii) Additional compensation for acting as chairman or member of a board committee;

iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;

iv) Contributions on the director s behalf to defined-contribution pension plans, or any increase in the director s vested rights in the case of contributions to defined-benefit schemes;

v) Any severance packages agreed or paid;

vi) Any compensation they receive as directors of other companies in the group;

vii) The remuneration executive directors receive in respect of their senior management posts;

viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

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b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:
  - **i) Number of shares or options awarded in the year, and the terms set for their execution;**
  - **ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;**
  - **iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;**
  - **iv) Any change in the year in the exercise terms of previously awarded options.**

c) Information on the relation in the year between the remuneration obtained by executive directors and the Company s profits, or some other measure of enterprise results.

Partially complies

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

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

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

See sections: B.2.1 and B.2.6

Complies

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

Complies

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

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

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

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

See sections: B.2.1 and B.2.3

Complies

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

Complies

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

Complies

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

Complies

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

Complies

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

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

See section: D

Complies

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50. The Audit Committee s role should be:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.

c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department s budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor:

a) Make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.

b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

c) Monitor the independence of the external auditor, to which end:

i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor s business and, in general, other requirements designed to safeguard auditors independence;

iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

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

Complies

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

Complies

52. **The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:**
    a) **The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
    b) **The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**
    c) **Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control Committee.**

See sections: B.2.2 and B.2.3

Complies

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

See section: B.1.38

Complies

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

See section: B.2.1

Complies

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

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

See section: B.2.3

Complies

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

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

Complies

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

a) Make proposals to the Board of Directors regarding:

i) The remuneration policy for directors and senior officers;

ii) The individual remuneration and other contractual conditions of executive directors.

iii) The standard conditions for senior officer employment contracts.

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

See sections: B.1.14, B.2.3

Complies

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

Complies

G OTHER INFORMATION OF INTEREST

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

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

Note 1 to Section A.2.]

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

Note 2 to Section A.3.]

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

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

Note 3 to Section A.3.]

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

Note 4 to Section A.3.]

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

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

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

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

Note 5 to Section B.10.10.]

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

Note 6 to Section B.1.11.]

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

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

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

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

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

(Euros)

In addition, the amounts paid for attendance to each of the Advisory or Control Committee meetings is 1,250 euros. Total compensation paid to Telefónica s directors for discharging their duties in 2009 amounted to 4,081,333 euros in fixed compensation and 252,500 euros in fees for attending the Board Advisory or Control Committee meetings. It should also be noted that the compensation paid to Company directors sitting on the Boards of other Telefónica Group companies amounted to 1,791,104 euros. In addition, the Company directors who are members of the regional advisory committees, including the Telefónica Corporate University Advisory Council, received a total of 553,750 euros in 2009.

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

			Other Board Committees		
Board Members	**Board of Directors**	**Executive Commission**	Fixed payment	Per diems	**TOTAL**
Chairman					
Mr. César Alierta Izuel	300,000	100,000			400,000
Vice chairmen					
Mr. Isidro Fainé Casas	250,000	100,000			350,000
Mr. Vitalino Manuel Nafría Aznar	250,000		56,000	22,500	328,500
Members					
Mr. Julio Linares López					
Mr. José María Abril Pérez	150,000	100,000	14,000	1,250	265,250
Mr. José Fernando de Almansa Moreno-Barreda	150,000		56,000	21,250	227,250
Mr. José María Álvarez-Pallete López					
Mr. David Arculus	150,000		28,000	11,250	189,250
Ms. Eva Castillo Sanz	150,000		14,000	10,000	174,000
Mr. Carlos Colomer Casellas	150,000	100,000	56,000	16,250	322,250
Mr. Peter Erskine	150,000	100,000	56,000	25,000	331,000

Mr. Alfonso Ferrari Herrero	150,000	100,000	84,000	38,750	372,750
Mr. Luiz Fernando Furlán	150,000		14,000	3,750	167,750
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	100,000	98,000	42,500	390,500
Mr. Pablo Isla Álvarez de Tejera	150,000		84,000	16,250	250,250
Mr. Antonio Massanell Lavilla	150,000		65,333	28,750	244,083
Mr. Francisco Javier de Paz Mancho	150,000	100,000	56,000	15,000	321,000
TOTAL	2,600,000	800,000	681,333	252,500	4,333,833

(Euros)

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

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

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

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

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

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

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

Note 7 to Section B.1.11.]

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

Note 8 to Section B.1.12.]

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

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

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

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

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Note 9 to Section B.1.21.]

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

In accordance with Article 29 of the Regulations of the Board of Directors, all the Directors of the Company, including all independent Directors, may request that a meeting of the Board of Directors be called whenever they consider it necessary, or that the items they deem appropriate be included in the Agenda.

Furthermore, in accordance with Article 13.3 of said Regulations, the Chairman of the Board of Directors, together with the Chairman of the Nominating, Compensation and Corporate Governance Committee who shall in all events be an independent Director (Article 22 of the Regulations)- shall be responsible for organizing and coordinating a periodic assessment of the Board.

Note 10 to Section B.1.29.]

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

Human Resources and Corporate Reputation and Responsibility Committee: 5

Regulation Committee: 6

Service Quality and Customer Service Committee: 4

International Affairs Committee: 4

Innovation Committee: 8

Strategy Committee: 10

Note 11 to Section B.1.31.]

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

Note 12 to Section B.1.39.]

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

Note 13 to Section B.1.44.]

The ruling has been appealed before the Supreme Court.

Note 14 to Section C.2.]

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

Note 15 to Section F. Recommendation 34]

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

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

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

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Binding definition of independent director:

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

No

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

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

No

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Telefónica, S.A.

Date: March 23rd, 2010

By: /s/ Santiago Fernández Valbuena
Name: Santiago Fernández Valbuena
Title: Chief Financial Officer