

**AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS AND
MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE
YEAR ENDED DECEMBER 31, 2009**

Audit Report

TELEFÓNICA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2009

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See note 22)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

1. We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2009 and the income statement, the statement of changes in equity, the cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company's Directors. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. In accordance with Spanish mercantile law, for comparative purposes, the Company's Directors have included for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and in the notes thereto, in addition to the figures of 2009, those of the prior year. The presentation of the figures corresponding to the prior year differ from those included in the financial statements approved for such year, as described in note 2.b) to the accompanying financial statements. Our opinion refers only to the financial statements for 2009. On March 6, 2009 we issued our audit report on the 2008 financial statements, in which we expressed an unqualified opinion.
3. In our opinion, the accompanying 2009 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2009 and of the results of its operations, changes in equity and cash flow for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with the applicable accounting principles and standards generally accepted in Spain, applied on a consistent basis with those applied in the preparation of the figures corresponding to the prior year, included for comparative purposes in the accompanying financial statements.

4. The accompanying 2009 management report contains such explanations as the Directors consider appropriate concerning the situation of Telefónica, S.A., the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2009 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.



José Luis Perelli Alonso

March 18, 2010

Telefonica

TELEFÓNICA, S.A.

**ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT
REPORT FOR THE YEAR ENDED DECEMBER 31, 2009**



TELEFÓNICA, S.A.
BALANCE SHEET AT DECEMBER 31
(Millions of euros)

ASSETS	Notes	2009	2008
NON-CURRENT ASSETS		75,589	76,768
Intangible assets	5	129	81
Patents, licenses, trademarks, and others		45	4
Software		19	15
Other intangible assets		65	62
Property, plant and equipment	6	411	404
Land and buildings		178	178
Property, plant and equipment		179	207
Property, plant and equipment under construction and prepayments		54	19
Investment property	7	328	336
Land		65	65
Buildings		263	271
Non-current investments in group companies and associates	8	70,565	69,889
Equity instruments		66,542	63,795
Loans to companies		4,000	6,070
Other financial assets		23	24
Non-current financial investments	9	3,059	4,253
Equity instruments		544	383
Loans to third parties		59	25
Derivatives	16	2,358	3,458
Other financial assets		98	387
Deferred tax assets	17	1,097	1,805
CURRENT ASSETS		9,549	11,673
Trade and other receivables	10	844	546
Current investments in group companies and associates	8	3,199	9,512
Loans to companies		3,141	9,383
Derivatives	9	29	101
Other financial assets		29	28
Current financial investments	9	522	1,002
Loans to companies		5	46
Derivatives	16	517	956
Current deferred expenses		13	8
Cash and cash equivalents		4,971	605
Cash and cash equivalents		4,971	605
TOTAL ASSETS		85,138	88,441

The accompanying Notes 1 to 22 and Appendix I are an integral part of these balance sheets.

Telefonica

TELEFÓNICA, S.A.
BALANCE SHEET AT DECEMBER 31
(Millions of euros)

EQUITY AND LIABILITIES	Notes	2009	2008
EQUITY		28,290	27,326
CAPITAL AND RESERVES		28,617	27,477
Share capital	11	4,564	4,705
Share premium	11	460	460
Reserves	11	20,145	24,087
Legal		984	984
Other reserves		19,161	23,103
Treasury shares and own equity instruments	11	(527)	(2,179)
Profit for the year	3	6,252	2,700
Interim dividend	3	(2,277)	(2,296)
UNREALIZED GAINS (LOSSES) RESERVE	11	(327)	(151)
Available-for-sale financial assets		(91)	(229)
Hedging instruments		(236)	78
NON-CURRENT LIABILITIES		40,642	41,317
Non-current provisions		42	42
Other provision		42	42
Non-current borrowings	12	8,579	9,761
Bonds and other marketable debt securities	13	192	288
Bank borrowings	14	6,833	7,225
Derivatives	16	1,488	2,241
Other debts		66	7
Non-current borrowings from group companies and associates	15	31,984	30,955
Deferred tax liabilities	17	37	559
CURRENT LIABILITIES		16,206	19,798
Current provisions		4	5
Current borrowings	12	2,121	3,059
Bonds and other marketable debt securities	13	335	1,567
Bank borrowings	14	481	788
Derivatives	16	1,305	704
Current borrowings from group companies and associates	15	13,829	16,568
Trade and other payables	12	244	164
Current deferred income		8	2
TOTAL EQUITY AND LIABILITIES		85,138	88,441

The accompanying Notes 1 to 22 and Appendix I are an integral part of these balance sheets.



TELEFÓNICA, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31

<i>(Millions of euros)</i>	Notes	2009	2008
Revenue from operations	18.1	6,863	8,367
Rendering of services to group companies and associates		433	357
Rendering of services to non-group companies		5	6
Dividends from group companies and associates		5,763	7,135
Interest income on loans to group companies and associates		662	869
Impairment and gains (losses) on disposal of financial instruments	18.9	1,080	(4,219)
Impairment losses and other losses	8.2	1,087	(4,182)
Gains (losses) on disposal and other gains and losses		(7)	(37)
Other operating income	18.2	145	109
Non-core and other current operating revenues - group companies and associates		88	93
Non-core and other current operating revenues - non-group companies		57	16
Personnel expenses	18.3	(169)	(167)
Wages, salaries, and others		(140)	(150)
Social security costs		(29)	(17)
Other operating expenses		(375)	(384)
External services - group companies and associates	18.5	(74)	(78)
External services - non-group companies	18.5	(290)	(290)
Taxes other than income tax		(11)	(16)
Depreciation and amortization	5, 6 and 7	(68)	(72)
OPERATING PROFIT		7,476	3,634
Finance revenue	18.6	104	223
From equity investments of third parties		16	41
From marketable securities and other financial instruments:		88	182
Of group companies and associates		-	22
Of third parties		88	160
Finance costs	18.7	(1,888)	(3,027)
Borrowings from group companies and associates		(1,717)	(2,652)
Third-party borrowings		(171)	(342)
Provision discount adjustment		-	(33)
Change in fair value of financial instruments		(11)	5
Trading portfolio and other securities		23	(6)
Gain (loss) on available-for-sale financial assets recognized in the period	11.2	(34)	11
Exchange gains (losses)	18.8	(75)	(57)
NET FINANCIAL EXPENSE		(1,870)	(2,856)
PROFIT BEFORE TAX		5,606	778
Income tax	17.2	646	1,922
PROFIT FOR THE YEAR		6,252	2,700

The accompanying Notes 1 to 22 and Appendix I are an integral part of these income statements.

TELEFÓNICA, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

<i>(Millions of euros)</i>	Notes	2009	2008
Profit for the period		6,252	2,700
Total income and expense recognized directly in equity	11.2	(146)	(405)
From measurement of financial instruments:		164	(390)
Available-for-sale financial assets		164	(390)
From cash flow hedges		(371)	(189)
Income tax		61	174
Total amounts transferred to income statement	11.2	(30)	27
From measurement of financial instruments:		34	(11)
Available-for-sale financial assets		34	(11)
From cash flow hedges		(76)	50
Income tax		12	(12)
TOTAL RECOGNIZED INCOME AND EXPENSE		6,076	2,322

The accompanying Notes 1 to 22 and Appendix I are an integral part of these statements of changes in equity.



TELEFÓNICA, S.A.

B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

<i>(Millions of euros)</i>	Share capital	Share premium	Reserves	Treasury shares and own equity investments	Retained earnings	Profit for the year	Interim dividend	Net unrealized gains (losses) reserve	TOTAL
Balance in financial statements at December 31, 2007	4,773	521	7,991	-	6,620	-	(1,652)	-	18,253
Impact of first-time application of the new accounting principles	-	1,075	12,962	(1,074)	-	-	-	227	13,190
Balance at January 1, 2008	4,773	1,596	20,953	(1,074)	6,620	-	(1,652)	227	31,443
Total recognized income and expense	-	-	-	-	-	2,700	-	(378)	2,322
Transactions with shareholders and owners	(68)	(1,136)	(1,875)	(1,105)	-	-	(2,296)	-	(6,480)
Capital decreases	(68)	(1,136)	-	1,204	-	-	-	-	-
Dividends paid	-	-	(1,869)	-	-	-	(2,296)	-	(4,165)
Transactions with treasury shares or own equity instruments (net)	-	-	(6)	(2,309)	-	-	-	-	(2,315)
Appropriation of prior year profit (loss)	-	-	4,968	-	(6,620)	-	1,652	-	-
Other changes in equity	-	-	41	-	-	-	-	-	41
Balance at December 31, 2008	4,705	460	24,087	(2,179)	-	2,700	(2,296)	(151)	27,326
Total recognized income and expense	-	-	-	-	-	6,252	-	(176)	6,076
Transactions with shareholders and owners	(141)	-	(4,346)	1,652	-	-	(2,277)	-	(5,112)
Capital decreases	(141)	-	(2,167)	2,308	-	-	-	-	-
Dividends paid	-	-	(2,280)	-	-	-	(2,277)	-	(4,557)
Transactions with treasury shares or own equity instruments (net)	-	-	101	(656)	-	-	-	-	(555)
Appropriation of prior year profit (loss)	-	-	404	-	-	(2,700)	2,296	-	-
Balance at December 31, 2009	4,564	460	20,145	(527)	-	6,252	(2,277)	(327)	28,290

The accompanying Notes 1 to 22 and Appendix I are an integral part of these statements of changes in equity.

TELEFÓNICA, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31

<i>(Millions of euros)</i>	Notes	2009	2008
A) CASH FLOWS FROM OPERATING ACTIVITIES		8,437	8,068
Profit before tax		5,606	778
Adjustments to profit:		(5,567)	(857)
Depreciation and amortization	5, 6, and 7	68	72
Gains on disposal of consolidated companies	8.1	-	(3)
Impairment of investments in group companies and associates	8.2	(1,087)	4,182
Impairment of investments in non-group companies		7	1
Losses on disposal of financial assets, securities portfolio		-	39
Dividends from group companies and associates	18.1	(5,763)	(7,135)
Interest income on loans to group companies and associates	18.1	(662)	(869)
Net financial expense	18.6 and 18.7	1,870	2,856
Change in working capital:		16	(301)
Trade and other receivables		86	(250)
Other current assets		(51)	(16)
Trade and other payables		47	(96)
Other current liabilities		1	(4)
Other non-current assets and liabilities		(67)	65
Other cash flows from operating activities:	20	8,382	8,448
Net interest paid		(974)	(2,644)
Dividends received		7,784	8,248
Income tax receipts (payments)		1,572	2,844
B) CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		804	(762)
Payments on investments	20	(1,403)	(2,983)
Proceeds from disposals	20	2,207	2,221
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(4,790)	(8,935)
Proceeds from/(payments on) equity instruments	11.a	(311)	(2,224)
Proceeds from/(payments on) financial liabilities	20	78	(2,546)
Dividends paid	11.d	(4,557)	(4,165)
D) NET FOREIGN EXCHANGE DIFFERENCE		(85)	321
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,366	(1,308)
Cash and cash equivalents at January 1		605	1,913
Cash and cash equivalents at December 31		4,971	605

Notes 1 to 22 and Appendix I are an integral part of these cash flow statements.

TELEFÓNICA, S.A.

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. ("Telefónica" or "the Company") is a public limited company incorporated on April 19, 1924 for an indefinite period, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company's registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica's basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that operates mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

(2) BASIS OF PRESENTATION

a) True and fair view

The accompanying financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's directors in accordance with the accounting principles and standards contained in the Code of Commerce, developed in the Spanish GAAP in force at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2009.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company's functional currency.

b) Comparison of information

In accordance with the final first provision of the Law 16/2007, dated July 4, on the adaptation of commercial legislation on accounting for international harmonization based on EU regulations, Spanish GAAP has been altered considerably. The new principles were approved by Royal Decree 1514/2007 of November 16. Telefónica is required to apply the new accounting principles in the preparation and presentation of its separate financial reporting for the year beginning January 1, 2008. Therefore, the financial statements for the years ended December 31, 2009 and 2008 (these 2008 financial statements have been approved at the General Shareholders Meeting of June 23, 2009) have been prepared in accordance with the new recognition and measurement policies. The Company considered January 1, 2008 as the transition date.

As a result of the publication on September 30, 2009, of the Institute of Accounting and Audit of Accounts (Instituto de Contabilidad y Auditoria de Cuentas, ICAC) Official Bulletin 79, which included consultation number 2 on the classification of revenue and expense of a holding company individual accounts and the determination of revenue, the presentation in the income statement of dividends and income on loans to investees has been modified, reclassifying “Dividends from group companies and associates” and “Interest income on loans to group companies and associates” to “Revenue from operations” in 2009. In addition, “Impairment and gains (losses) on disposal of financial instruments” and gains on the disposal of investments have been reclassified and presented under “Operating profit” in the Company’s income statement.

Similarly, in accordance with the provisions of the Spanish GAAP, specifically recognition and measurement rules 22 and 5 regarding the preparation of annual financial statements, the 2008 figures for the items described in the preceding paragraphs have been reclassified in order to maintain the comparability of the information presented in the income statement.

In addition, the cash flow statements for the years ended December 31, 2009 and 2008 have been presented on the basis of the above criteria.

Tax amortization of goodwill

In December 2007, the European Commission opened an investigation involving the Kingdom of Spain with respect to the potential consideration as stated aid of the tax deduction for the tax basis amortization of goodwill generated on certain foreign investments under the provisions of article 12.5 of the revised Spanish corporate 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 S.A., as a result of this uncertainty the Company deemed it necessary to recognize a liability in the financial statements until the investigation was concluded.

In December 2009, the text of the European Commission's decision regarding the investigation was released, which deems the deduction as state aid. Investments made prior to December 21, 2007, (as is the case for the Telefónica Group's investments in O2 Group companies, the operators acquired from BellSouth, Colombia Telecomunicaciones, ESP and Telefónica O2 Czech Republic, a.s.) are not affected by this decision. As a result this decision and considering the corporate structure of these investments, income tax expense in the Telefónica, S.A.'s income statement for the year ended December 31, 2009 is 584 million euros lower due to the reversal of this liability.

c) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

A significant change in the facts and circumstances on which these estimates are based could have a material impact on the Company's results and financial position.

Provisions for impairment of investments in group companies, joint ventures and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount.

Recoverable amount of investments in group companies, joint ventures and associates is measured as described in Note 4 e.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

(3) PROPOSED APPROPRIATION OF PROFIT

Telefónica, S.A. obtained 6,252 million euros of profit in 2009. Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2009 profit for approval at the Shareholders' Meeting:

	<i>Millions of euros</i>
Proposed appropriation:	
Profit for the year	6,252
Distribution to:	
Interim dividend (paid in May 2009)	2,277
Goodwill reserve	2
Voluntary reserves	3,973

At its meeting of April 29, 2009, Telefónica, S.A.'s Board of Directors resolved to pay an interim dividend against 2009 profit of a fixed gross 0.5 euros for each of the Company's outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2009, and the total amount paid was 2,277 million euros (see Note 11.1 d).

The following table shows the provisional statement issued by the Directors to substantiate that the Company had sufficient liquidity at that time to distribute this dividend.

	<i>Millions of euros</i>
Liquidity statement at April 29, 2009	
Income from January 1 through March 31, 2009	3,024
Mandatory appropriation to reserves	-
Distributable income	3,024
Proposed interim dividend (maximum amount)	2,352
Cash position at April 29, 2009	
Funds available for distribution:	
Cash and cash equivalents	2,218
Unused credit facilities	4,667
Proposed interim dividend (maximum amount)	(2,352)
Difference	4,533

To ensure its liquidity requirements are met throughout the following year, the Company effectively manages its liquidity risks (see Note 16).

(4) RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2009 annual financial statements are the following:

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable.

Amortization methods and schedules are revised annually at year end and, where appropriate, adjusted prospectively.

Intangible assets include mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over their useful lives, generally estimated at three years.
2. Intellectual property, which is recorded at the amounts paid to acquire ownership of or rights to use patents and trademarks and amortized on a straight-line basis over the useful life of the patent or trademark for a period of 3 to 10 years.
3. The goodwill arising from the merger of Telefónica, S.A. and Terra Networks, S.A. carried out in 2005. This is included under "Other intangible assets" at the carrying amount at January 1, 2008, of 33 million euros, calculated in accordance with the former accounting principles, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 4 c).

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external and any internal costs comprising warehouse materials used, direct labor costs incurred in installation work and the allocable portion of the indirect costs required for the related investment. Cost includes, where appropriate, the estimate of decommissioning, retirement and site reconditioning costs when the Company is under obligation to incur such costs due to the use of the asset.

Costs incurred for expansion, remodeling or improvements which increase the productivity, capacity, or prolong the useful life of the asset are capitalized when the capitalization requirements are met.

Interest and other borrowing costs incurred and directly attributable to the acquisition or construction of assets that require preparation of more than one year for their intended use or sale are capitalized.

Upkeep and maintenance expenses are expensed as incurred.

The Company assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the assets' carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment provision is not maintained if the factors giving rise to the impairment disappear (see Note 4 c).

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3-25
Other plant or equipment, furniture and fixtures	10
Other items of property, plant and equipment	4-10

Assets' estimated residual values and methods and depreciation periods are reviewed, and adjusted if appropriate, prospectively at each financial year end.

Investment property is measured using the same criteria described for land and buildings in the property, plant and equipment caption. Buildings included in investment property are depreciated on a straight-line basis over 40 years.

c) Impairment of non-current assets

Non-current assets, including property, plant and equipment, goodwill and other intangible assets are assessed at each reporting date for indications of impairment losses. Where such indications exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset of its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. The Company assesses each asset individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets (or cash-generating units).

The Company bases the calculation of impairment on the business plans of the various cash-generating units to which the assets are allocated. These business plans generally cover five years. For longer periods, an expected constant or decreasing growth rate is applied to the projections based on these plans from the fifth year.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement and the depreciation charge is adjusted in future periods to the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

d) Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to the Company to use the asset.

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are taken to the income statement over the lease term.

e) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Company classifies its financial assets into the following categories for initial recognition purposes: financial assets held for trading, other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, investments in Group companies, joint ventures and associates, and available-for-sale financial assets. Where appropriate, the Company re-evaluates the designation at each financial year end.

Financial assets held for trading, i.e., investments made with the aim of realizing short-term profits as a result of price changes, are included in “*Financial assets held for trading*” and presented under current or non-current assets depending on their maturity. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

“Investments in group companies, joint ventures and associates” are classified into a category of the same name and are shown at cost less any impairment loss. Group companies are those over which the Company controls, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements and which have not been included in the preceding categories are classified as *available-for-sale*. These investments are recorded under “Non-current assets,” unless it is probable and feasible that they will be sold within 12 months. Financial assets in this category are measured at fair value. Gains or losses arising from changes in fair value are recognized in equity until the asset is derecognized or impaired, at which time the cumulative gain or loss previously reported in equity is taken to the income statement. Dividends from available-for-sale equity investments are recognized in the income statement once the Company has the right to receive the dividend. Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the quoted market price at the closing date.
2. Unlisted securities: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by reference to arm’s length market transactions. When fair value cannot be reliably determined, these investments are carried at cost.

Loans and receivables includes trade or non-trade financial assets, that are neither derivatives nor equity instruments, with fixed or determinable payments and that are not quoted in an active market and not included in any of the preceding classifications. Upon initial recognition, these assets are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. Following initial recognitions, these financial assets are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are settled or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A provision for impairment is recorded when there is objective evidence of customer collection risk. The amount of the provision is calculated as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, current trade receivables are not discounted.

The Group assess at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (or fair value when it can be measured reliably). If in a subsequent period the impairment loss decreases as a result of a subsequent event, the loss is reversed up to the asset's amortized cost had no impairment loss been recognized upon reversal. Such a reversal is recognized in the income statement of that year.

For equity instruments included in available-for-sale financial assets, the Company assesses individually for each security whether there is any objective evidence that an asset is impaired as a result of one or more events indicating that the carrying amount of the security will not be recovered. If there is objective evidence that an available-for-sale financial instrument is impaired, the cumulative loss recognized in equity measured as the difference between the acquisition cost (net of any principal payments and amortization made) and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from equity and recognized in the income statement. If in a subsequent period the fair value of the financial asset increases because of a subsequent event, the impairment loss is reversed through the income statement if the asset is a debt instrument. For equity instruments, the loss is not reversed in the income statement for the period, but rather in equity, as the instrument is measured at its new fair value, with any changes taken to equity.

Recoverable amount for estimating impairment of investments in group companies, joint ventures and associates is the higher of the investment's net fair value less costs to sell and the present value of the future cash flows derived from the investment. These cash flows can be calculated by estimating the cash flows to be received from dividends or from the disposal or derecognition of the investment, or the Company's share of the cash flows expected to be generated by the investment (from operations, or the investment's disposal or derecognition).

Financial assets are only fully or partially derecognized when:

1. The rights to receive cash flows from the asset have expired;
2. The Company has assumed an obligation to pay the cash flows received from the asset to a third party; or
3. The Company has transferred its rights to receive cash flows from the asset to a third party and transferred substantially all the risks and rewards of the asset.

Cash and cash equivalents

Cash and cash equivalents included in the balance sheet include cash on hand and at banks, demand deposits and other highly liquid investments with an original maturity of three months or less. These items are stated at historical cost, which does not differ significantly from realizable value.

For the purpose of the cash flow statement, cash and cash equivalents are shown net of any outstanding bank overdrafts.

Issues and interest-bearing debt

These debts are recognized initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Interest-bearing debt is considered non-current when its maturity is over 12 months or the Company has full discretion to defer settlement for at least another 12 months from the reporting date.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with another on substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in their respective carrying amounts is taken to the income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. They are classified as current or non-current depending on whether they fall due within less than or after one year, respectively. Derivatives that meet all the criteria for consideration as long-term hedging instruments are recorded as non-current assets when fair value is positive and non-current liabilities when fair value is negative.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

The Company designates certain derivatives as:

1. Fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or
2. Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
3. Hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk in a firm commitment is accounted for as either a fair value or a cash flow hedge.

Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged item attributable to the risk hedged.

Changes in the fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in equity. The portion considered ineffective is taken directly to the income statement. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously recognized in equity are recognized in the income statement in the period in which the hedged transaction affects profit or loss.

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in a way similar to fair value hedges for the foreign currency component. For these purposes, the net investment in the foreign operation comprises not only the share in the equity of the foreign investment, but also the monetary item receivable or payable, the settlement of which is not expected or likely to take place in the foreseeable future, excluding trade items.

The application of the Company's corporate risk-management policies could result in financial risk-hedging transactions that make economic sense, yet do not comply with the criteria and effectiveness tests required by accounting policies to be treated as hedges. Alternatively, the Company may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

From inception, the Company formally documents the hedge relationship between the derivative and the hedged item, as well as the associated risk management objectives and strategies. The documentation includes identification of the hedge instrument, the hedged item or transaction and the nature of the risk being hedged. In addition, it states how it will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed, prospectively and retrospectively, both at the inception of the hedge relationship and on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. In these instances, gains or losses accumulated in equity are not taken to the income statement until the forecast transaction or commitment affects profit or loss. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to the income statement.

The fair value of the derivative portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk-management tools commonly used by financial entities.

f) Treasury shares

Treasury shares are stated at cost and deducted from equity. Any gain or loss obtained on the purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

g) Foreign currency transactions

Monetary items denominated in foreign currencies are translated to euros at the exchange rates prevailing on the related transaction date, and are retranslated at the year end to the exchange rates then prevailing.

All realized or unrealized exchange gains or losses are taken to the income statement for the year, with the exception of non-monetary items measured at fair value, provided that they are recognized directly in equity (such as investments in equity instruments classified as available-for-sale financial assets). In these cases, any exchange differences included in gains or losses recognized in equity derived from changes in the value of the non-monetary items measured at fair value are also recognized directly in equity.

h) Provisions

Pensions and other employee obligations

The Company has a defined-contribution pension plan for employees. The obligations are limited to the regular payment of the contributions, which are taken to the income statement as incurred.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost.

i) Share-based payments

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the Company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity.

j) Income tax

The income tax expense of each year includes both current and deferred taxes, where applicable.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and accounting amounts of investments in group companies and associates.

Furthermore, deferred taxes arise from unused tax credits and tax loss carryforwards.

The Company determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred income tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred income tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity.

k) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

The income obtained by the Company in dividends received from group companies and associates, and from the interest accrued on loans and credits given to them are included in revenue.

l) Related party transactions

Related party transactions are accounted for in accordance with the criteria described above.

m) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 19 a). Where financial guarantees provided have a counterguarantee on the Company's balance sheet, the value of the counterguarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company's balance sheet acting as a counterguarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

- i) the amount in accordance with rules on provisions and contingencies, and
- ii) the amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

n) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2009 are as follows:

Item	Millions of euros
Total assets	108,141
Equity:	
Attributable to equity holders of the parent	21,734
Attributable to minority interests	2,540
Revenue from operations	56,731
Profit for the year:	
Attributable to equity holders of the parent	7,776
Attributable to minority interests	161

(5) INTANGIBLE ASSETS

The movements in the items composing intangible assets and the related accumulated amortization in 2009 and 2008 are as follows:

<i>(Millions of euros)</i> 2009	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INTANGIBLE ASSETS, GROSS	325	73	(60)	8	346
Patents, licenses, trademarks, and others	29	50	(17)	-	62
Software	196	10	(43)	8	171
Other intangible assets	100	13	-	-	113
ACCUMULATED AMORTIZATION	(244)	(25)	52	-	(217)
Patents, licenses, trademarks, and others	(25)	(2)	10	-	(17)
Software	(181)	(13)	42	-	(152)
Other intangible assets	(38)	(10)	-	-	(48)
Net carrying amount	81	48	(8)	8	129

<i>(Millions of euros)</i> 2008	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INTANGIBLE ASSETS, GROSS	317	7	(15)	16	325
Patents, licenses, trademarks, and others.	28	-	-	1	29
Software	188	7	(14)	15	196
Other intangible assets	101	-	(1)	-	100
ACCUMULATED AMORTIZATION	(220)	(28)	4	-	(244)
Patents, licenses, trademarks, and others	(24)	(1)	-	-	(25)
Software	(168)	(17)	4	-	(181)
Other intangible assets	(28)	(10)	-	-	(38)
Net carrying amount	97	(21)	(11)	16	81

Additions to patents, licenses, trademarks and others relate, among others, to Telefónica, S.A.'s acquisition of rights to operate and sell the Altamira platform from Telefónica Móviles España, S.A.U., amounting to 48 million euros.

Proceeds from disposals of intangible assets in 2009 and 2008 were not material for the Company's income statement.

At December 31, 2009 and 2008, there were no commitments to acquire intangible assets.

At December 31, 2009 and 2008, the Company had 152 and 186 million euros, respectively, of fully amortized intangible assets. In 2009, fully amortized and provisioned intangible assets worth 52 million euros were written off.

(6) PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2009 and 2008 are as follows:

<i>(Millions of euros)</i> 2009	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
PROPERTY, PLANT AND EQUIPMENT, GROSS	562	52	(15)	(8)	591
Land and buildings	239	4	-	-	243
Property, Plant and Equipment	304	1	(12)	1	294
Property, plant and equipment under construction and prepayments	19	47	(3)	(9)	54
ACCUMULATED DEPRECIATION	(158)	(35)	13	-	(180)
Buildings	(61)	(4)	-	-	(65)
Plant and other PP&E items	(97)	(31)	13	-	(115)
Net carrying amount	404	17	(2)	(8)	411
<i>(Millions of euros)</i> 2008	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
PROPERTY, PLANT AND EQUIPMENT, GROSS	549	33	(4)	(16)	562
Land and buildings	236	3	-	-	239
Property, Plant and Equipment	291	14	(4)	3	304
Property, plant and equipment under construction and prepayments	22	16	-	(19)	19
ACCUMULATED DEPRECIATION	(127)	(34)	3	-	(158)
Buildings	(59)	(3)	1	-	(61)
Plant and other PP&E items	(68)	(31)	2	-	(97)
Net carrying amount	422	(1)	(1)	(16)	404

Firm commitments to acquire property, plant and equipment at December 31, 2009 and 2008 amounted to 2 and 7 million euros, respectively.

In 2009 and 2008, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2009 and 2008, the Company had 17 and 24 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

At the end of 2009 and 2008, this includes the net carrying amount of assets (mainly plant and property) related to the new central offices in the Las Tablas business park, called "Distrito C," of 158 and 182 million euros, respectively.

Also included is the net carrying amount of the land and buildings occupied by Telefónica, S.A. at the central offices of District C of 95 and 98 million euros, respectively.

(7) INVESTMENT PROPERTIES

The movements in the items composing investment properties in 2009 and 2008 and the related accumulated depreciation are as follows:

<i>(Millions of euros)</i> 2009	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INVESTMENT PROPERTIES, GROSS	361	-	-	-	361
Land	65	-	-	-	65
Buildings	296	-	-	-	296
ACCUMULATED DEPRECIATION	(25)	(8)	-	-	(33)
Buildings	(25)	(8)	-	-	(33)
Net carrying amount	336	(8)	-	-	328

<i>(Millions of euros)</i> 2008	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INVESTMENT PROPERTIES, GROSS	358	3	-	-	361
Land	65	-	-	-	65
Buildings	293	3	-	-	296
ACCUMULATED DEPRECIATION	(15)	(10)	-	-	(25)
Buildings	(15)	(10)	-	-	(25)
Net carrying amount	343	(7)	-	-	336

The Company has buildings with a total area of 341,470 m² leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 91.51% of the buildings it has earmarked for lease. In 2008, it had a total of 322,422 m² leased, equivalent to an occupancy rate of 98.3% of the buildings earmarked for lease.

“Investment properties” mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at the central offices of District C in Madrid.

Total income from leased buildings in 2009 (see Note 18.1) amounted to 40 million euros (41 million euros in 2008). Future minimum rentals receivable under non-cancellable leases are as follows:

<i>(Millions of euros)</i>	2009		2008	
	Future minimum payments	Present value	Future minimum payments	Present value
Up to one year	43	42	38	37
Between one and five years	54	48	74	66
Total	97	90	112	103

The main contract in which Telefónica, S.A. acts as lessee is described in Note 18.5.

(8) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

8.1 The movements in the items composing investments in Group companies, joint ventures and associates are as follows:

(Millions of euros) 2009	Balance at January 1	Additions	Disposals	Transfers	Exchange gains (losses)	Dividends	Hedges of a net investment	Balance at December 31	Fair value
Non-current:									
-Equity instruments (Net) (1):	63,795	25	960	1,422	-	(92)	432	66,542	66,656
Equity instruments (Cost)	70,882	25	(127)	1,415	-	(92)	432	72,535	-
Impairment losses	(7,087)	-	1,087	7	-	-	-	(5,993)	-
- Loans to group companies and associates	6,070	36	(59)	(2,042)	(5)	-	-	4,000	4,000
-Other financial assets	24	16	-	(17)	-	-	-	23	23
Total non-current investments in group companies and associates	69,889	77	901	(637)	(5)	(92)	432	70,565	70,679
Current:									
- Loans to group companies and associates	9,383	2,823	(9,714)	661	(12)	-	-	3,141	3,141
-Derivatives	101	3	(75)	-	-	-	-	29	29
-Other financial assets	28	12	(28)	17	-	-	-	29	29
Total current investments in group companies and associates	9,512	2,838	(9,817)	678	(12)	-	-	3,199	3,199

- (1) Fair value at 12/31/09 of Group companies and associates quoted in an active market (Telefónica de Perú, S.A.A., Telefónica Móviles Perú and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year, and for the rest of the shareholdings at carrying amount.

(Millions of euros) 2008	Balance at January 1	Additions	Disposals	Transfers	Exchange gains (losses)	Dividends	Hedges of a net investment	Balance at December 31	Fair value
Non-current:									
-Equity instruments (Net) (1):	69,394	(3,801)	(95)	-	-	(194)	(1,509)	63,795	63,871
Equity instruments (Cost)	72,299	381	(95)	-	-	(194)	(1,509)	70,882	-
Impairment losses	(2,905)	(4,182)	-	-	-	-	-	(7,087)	-
- Loans to group companies and associates	10,289	264	(174)	(4,218)	(91)	-	-	6,070	6,070
-Other financial assets	-	24	-	-	-	-	-	24	24
Total non-current investment in group companies and associates	79,683	(3,513)	(269)	(4,218)	(91)	(194)	(1,509)	69,889	69,965
Current:									
- Loans to group companies and associates	8,183	5,723	(8,659)	4,218	(82)	-	-	9,383	9,383
-Derivatives	55	96	(50)	-	-	-	-	101	101
-Other financial assets	-	28	-	-	-	-	-	28	28
Total current investments in group companies and associates	8,238	5,847	(8,709)	4,218	(82)	-	-	9,512	9,512

- (1) Fair value at 12/31/08 of group companies and associates quoted in an active market (Telefónica de Perú, S.A.A., Telefónica Móviles Perú and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year, and for the rest of the shareholdings at carrying amount.

Dividends received by Telefónica, S.A. in 2009 related to profits generated by subsidiaries prior to the acquisition date are considered repayments of contributions, and therefore are deducted from the equity instruments related to the investments. These amounts come from Telefónica O2 Czech Republic, a.s. (79 and 178 million euros in 2009 and 2008, respectively) and Lycos Europe Holding Corp (13 and 16 million euros in 2009 and 2008, respectively).

On June 11, 2009, the Company agreed the capitalization of loans granted to Telefónica Móviles México, S.A. de C.V. for a total amount, including principal and interest accrued, of 26,000 million Mexican pesos (1,381 million euros). This transaction is included in “Transfers” (see Note 8.5).

On June 5 and November 2, 2009, Telefónica, S.A. contributed to its subsidiary Latin American Cellular Holding, S.A. receivables in favor of Telcel, C.A. amounting to 58 million strong Venezuelan bolivars (19 million euros) and 49 million strong bolivars (15 million euros) for this company to subsequently make payments on the loan granted to it by Telcel, C.A. These transactions are included in “Transfers.”

In addition to the two capitalizations described above, the remainder of the amounts included under “Loans to group companies and associates” in “Transfers” in the table of movements in investments relate mainly to short-term movements required to meet the repayment schedules of the loans.

The impact in 2009 of hedges of net investments in foreign operations for its investments amounted to a gain of 432 million euros (loss of 1,509 million euros in 2008).

In 2009 and 2008, Telefónica, S.A. bought and sold the following investments:

a) Acquisitions of investments and capital increases:

Companies	Millions of euros	
	2009	2008
Subsidiaries:		
Telefónica O2 Europe, Ltd.	-	224
Telefónica Móviles Colombia, S.A.	-	155
Telefónica de Argentina, S.A.	23	-
Others	2	-
Total subsidiaries	25	379
Associates:		
Others	-	2
Total associates:	-	2

2009

In December 2009, following approval by the *Comisión Nacional de Valores de la República Argentina* (“CNV”), the Argentine securities regulatory, Telefónica, S.A. acquired shares representing 1.8% of the share capital of Telefónica de Argentina, S.A. held by minority shareholders. The total investment amounted to 23 million euros. Following this acquisition, the Telefónica Group holds 100% of the share capital of Telefónica de Argentina, S.A.

2008

In 2008, Telefónica, S.A. agreed to increase Telefónica O2 Europe, Ltd.’s capital by 224 million euros to raise financing for Telefónica Deutschland GmbH, a subsidiary of Telefónica O2 Europe, Ltd.

On January 17, 2008, Telefónica Móviles Colombia, S.A. issued an offer of subscription for the portion of its unsubscribed capital (499,000,000 new shares with par value of 1 peso). The new shares were fully subscribed by Telefónica, S.A. for a total of 155 million euros. As a result, Telefónica, S.A.'s stake in this company increased to 49.4%.

b) Disposals of investments and capital decreases:

Companies	Millions of euros	
	2009	2008
Subsidiaries:		
Brasilcel, N.V.	74	-
Telefónica Internacional Wholesale Services América, S.A.	24	58
Ateseco Comunicación, S.A.	27	-
Others	2	2
Total subsidiaries	127	60
Associates:		
Portugal Telecom, S.G.P.S., S.A.	-	34
Adquira Spain, S.A.	-	1
Total associates	-	35

2009

On November 16, 2009, approval was given at the General Shareholders' Meeting of Brasilcel, N.V. to return contributions to shareholders in accordance with their percentage interest, for a total amount of 123 million US dollars, of which 61.5 million dollars (41 million euros) corresponded to Telefónica, S.A.

On December 22, 2009, approval was given at the General Shareholders' Meeting of Brasilcel, N.V. to return contributions to shareholders in accordance with their percentage interest, for a total amount of 93 million US dollars, of which 46.5 million dollars (33 million euros) corresponded to Telefónica, S.A.

On December 1, 2009, approval was given at the General Meeting of Shareholders of Telefónica Internacional Wholesale Services, S.A. to reduce capital by 35.7 million US dollars (24 million euros), with the full amount going to Telefónica, S.A. As a result, the Company's stake decreased from 78.22% to 76.85%.

In December 2009, approval was given at the General Shareholders' Meeting of Ateseco Comunicación, S.A. to return the share premium to Telefónica, S.A. of 27 million euros.

2008

On October 1, 2008, approval was given at the General Meeting of Shareholders of Telefónica Internacional Wholesale Services América, S.A. for a partial reduction of capital by 36 million dollars.

On October 1, 2008, approval was given in the General Meeting of Shareholders of Telefónica Internacional Wholesale Services, S.A. for a partial reduction of capital by 75 million dollars. As a result, Telefónica, S.A.'s stake in this company decreased from 80.56% to 78.22%.

Pursuant to the requirements of Portugal Telecom, S.G.P.S.'s Bylaws regarding maximum shareholdings, on December 18, 2008, Telefónica, S.A. reduced its stake in the company by 0.476% to 8.51%. This transaction led to a gain of 1.8 million euros, recognized in the income statement.

On May 6, 2008 Telefónica, S.A. transferred its stake in Telefónica Compras Electrónicas, S.L. to Telefónica Gestión de Servicios Compartidos, S.A., recognizing a gain of 2 million euros. On the same date, Telefónica, S.A. transferred its stake in Adquiria Spain, S.A. to Telefónica Compras Electrónicas, S.L., recognizing a gain of 0.5 million euros.

8.2 Assessment of impairment of investments in Group companies, joint ventures and associates

2009

At December 31, 2009, the Company re-estimated the future cash flows derived from its investments in group companies and associates. The estimate is made based on the discounted cash flows to be received from each subsidiary in its functional currency and translated to euros at the official closing rate of each currency at December 31, 2009.

As a result of these re-estimations, the Company recognized a reversal of write-downs amounting to 1,457 million euros (1,087 million euros after the effect of net investment hedges). This amount mainly arises from the reversal recognized by Telefónica Europe, plc, for 1,311 million euros (941 million euros excluding the impact of the net investment hedge) from the favorable movement in the pound sterling's closing exchange rate, with a 7.25% appreciation in 2009.

This amount also includes the entire reversal of the write-down recognized in 2008 for the stake in Portugal Telecom, S.G.P.S., of 178 million euros. The share price of this company on the Lisbon stock exchange rose 40% in 2009.

2008

On January 1, 2008, in accordance with the first-time application of the new accounting principles, Telefónica, S.A. revised the recoverable amount of its investments in group companies and associates, estimating the future cash flows derived from them. These revisions uncovered unrealized gains in the equity of these companies. Accordingly, at the transition date the investment portfolio provisions, net of the related tax effect, were reversed for an amount of 13,162 million euros.

This amount was reversed with a balancing entry in the reserve for the first-time application in accordance with the rules for transition to the new accounting principles. This reserve is recorded as "Other reserves" in the Company's equity (see Note 11.1 c).

At December 31, 2008, Telefónica, S.A. re-estimated the future cash flows derived from its investments in group companies and associates. The re-estimation uncovered the need to write down the values of the shareholdings in Telefónica Europe, plc. Telco, S.p.A. and Portugal Telecom, S.G.P.S.(see Note 18.9).

The write-down to the stake in Telefónica Europe, plc was due to the 23% depreciation of the pound sterling, although this was in part offset by Telefónica, S.A.'s hedges of its net investment in foreign operations.

The write-down to the stake in Telco, S.p.A. entailed the write-down made by Telco, S.p.A. of its 10.36% ownership of the voting shares of Telecom Italia, S.p.A. (7.15% of the dividend rights). This impact was calculated taking into account the estimated synergies to be obtained, mainly in its European operations through the alliances reached with Telecom Italia, S.p.A.

8.3 The detail of subsidiaries and associates is shown in Appendix I.

8.4 Transactions protected for tax purposes.

Transactions carried out in 2009 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 4/2004 of March 5 approving the Revised Spanish Corporate Income Tax Law, are detailed in the following paragraphs.

Only one transaction of this type involving subsidiaries belonging to the Tax Group headed by Telefónica, S.A. took place in 2009.

On November 23, 2009, the public deed for the merger and takeover by Telefónica Cable Menorca, S.A.U. by Telefónica Cable, S.A.U. was granted. As a result of this merger, the bidder, Telefónica Cable, S.A.U. acquired all the rights and obligations of the target.

2008

On October 28, 2008, the deed for the merger and takeover of Viajar.com Viajes, S.L. and Terra Business Travel, S.A. by Red Universal de Marketing y Bookings Online, S.A. (RUMBO) was registered. As a result of this merger, the bidder, Red Universal Marketing y Bookings Online, S.A. (RUMBO), acquired all the rights and obligations of the targets.

8.5 The breakdown and maturity of loans to group companies and associates in 2009 and 2008 are follows:

2009 Company (millions of euros)	2010	2011	2012	2013	2014	2015 and subsequent years	Final balance, current and non-current
Telefónica de España, S.A.U.	1,142	-	-	1,395	-	-	2,537
Telefónica Móviles España, S.A.U.	407	-	-	-	-	-	407
Telefónica Móviles México, S.A. de C.V.	250	1,244	-	-	-	-	1,494
Telefónica de Contenidos, S.A.U.	9	-	-	1,142	-	79	1,230
Telefónica Internacional, S.A.U.	1,110	-	-	-	-	-	1,110
Telefónica Móviles Argentina, S.A.	81	-	-	22	-	29	132
Inversiones Telefónica Móviles Holding, Ltd.	50	-	-	-	-	-	50
Others	92	18	-	3	-	68	181
Total	3,141	1,262	-	2,562	-	176	7,141

2008 Company (millions of euros)	2009	2010	2011	2012	2013	2014 and subsequent years	Final balance, current and non-current
Telefónica de España, S.A.U.	3,731	-	-	-	2,093	-	5,824
Telefónica Móviles España, S.A.U.	4,142	-	-	-	-	-	4,142
Telefónica Móviles México, S.A. de C.V.	794	-	2,092	-	-	-	2,886
Telefónica de Contenidos, S.A.U.	6	-	-	-	1,142	79	1,227
Telefónica Internacional, S.A.U.	493	-	-	-	-	-	493
Telefónica Móviles Argentina, S.A.	113	-	-	-	28	241	382
Inversiones Telefónica Móviles Holding, Ltd.	-	284	-	-	-	-	284
Others	104	13	40	3	52	3	215
Total	9,383	297	2,132	3	3,315	323	15,453

The main loans granted to Group companies are described below:

- Financing granted to Telefónica de España, S.A.U. consists mainly of a loan dated January 4, 1999 resulting from the company's spin-off from Telefónica on January 1, 1999, that bears interest at 6.80% and had an outstanding balance of 2,093 million euros at December 31, 2009, of which 1,395 million euros are long term and 698 million euros are short term. The short-term amount includes accrued interest payable of 14 million euros.

Financial year 2006 featured the takeover and merger of Terra Networks España, S.A.U. by Telefónica de España, S.A.U., both wholly owned direct subsidiaries of Telefónica, S.A. As a result, Terra Networks España, S.A.U. was dissolved without liquidation, and Telefónica de España, S.A.U. assumed the 397 million euros participating loan granted by Telefónica, S.A. to Terra Networks España, S.A.U. This loan matured on November 15, 2009.

In 2008, Telefónica de España, S.A.U. resolved to pay an interim dividend against profit for the year totaling 1,800 million euros. This amount was recognized under "Current assets - Loans to group companies and associates" and was collected in 2009. The movement is shown in "Disposals" in the table of movements.

- Financing granted to Telefónica Móviles España, S.A.U. in 2008 comprised a participating loan dated October 1, 2002, for 3,101 million euros, paying annual fixed interest plus a floating interest rate based on the performance of the company. The loan matured on December 22, 2009 and was offset with a debt granted by Telefónica Móviles España, S.A.U. to Telefónica, S.A. (see Note 15.1).
- On December 1, 2008, Telefónica, S.A. decided to modify the currency in which it should repay the principle, accrued interest payable and any other item related to the loans granted to Telefónica Móviles México, S.A. de C.V. The exchange rate applied in the conversion of former euro-denominated loans into dollars was published by the Bank of Mexico on November 28, 2008. The conditions regarding interest and maturity of the loans were not altered.

On June 11, 2009, Telefónica, S.A. agreed to capitalize 10,340 million Mexican pesos of the principal of these loans and 15,660 million Mexican pesos of accrued interest receivable (equivalent to 1,381 million euros). On that date, 10,000 million Mexican pesos were capitalized, with the remainder pending capitalization until December 11, 2009. The capitalization was recognized with a transfer in the movement of financial assets (see Note 8.1).

After the capitalization, the total amount drawn (loan principle) at December 31, 2009 was 27,912 million Mexican pesos, equivalent to 1,494 million euros (38,252 million Mexican pesos in 2008).

- Financing granted to Telefónica de Contenidos, S.A.U. mainly comprises a 1,142 million euros participating loan, fully drawn down at December 31, 2009 and 2008, which bears interest based on Telefónica de Contenidos, S.A.U.'s business performance. In addition, Telefónica, S.A. granted a new participating loan of 79 million euros maturing in 2015 to provide Telefónica de Contenidos, S.A.U. with funding to cover the financial charges linked to the participating loan mentioned above.
- A loan was granted to Telefónica Internacional, S.A.U. on April 15, 2008 for 1,000 million euros, of which 794 million euros had been drawn down at December 31, 2009 (408 million euros in 2008). The loan matures on April 14, 2009, subject to a one-year renewal commitment, and accrues interest at the 3M Euribor rate. The short-term amount includes accrued interest receivable of 3 million euros.
- Financing granted to Telefónica Móviles Argentina, S.A. comprises a number of dollar-denominated loans, maturing between 2010 and 2015 and bearing a fixed interest rate.
- Financing granted to Inversiones Telefónica Móviles Holding, Ltd. was arranged on November 4, 2008 as a result of the loan assigned by Telefónica Internacional Chile, S.A. to Telefónica, S.A. for 284 million euros. At December 31, 2009, an amount of 50 million euros had been drawn down. This loan falls due in 2010 and bears interest linked to the 3M Euribor rate.
- “Disposals” of current assets - loans to group companies and associates includes the cancellation of balances receivable from subsidiaries belonging to Telefónica, S.A.'s Tax Group on debts with them of 1,859 million euros (3,434 million euros in 2008).
- The Company has also extended 1,166 million euros of loans in 2009 in connection with the taxation of Telefónica, S.A. as the head of the Tax Group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17), mainly 407 million euros to Telefónica Móviles España, S.A.U. (1,039 million euros in 2008), 430 million euros to Telefónica de España, S.A.U. (795 million euros in 2008) and 313 million euros to Telefónica Internacional, S.A.U., all falling due in the short term.

“Loans to Group companies” includes accrued interest receivable at December 31, 2009 amounting to 21 million euros (922 million euros in 2008). The decrease in accrued interest receivable relates mainly to the capitalization of interest on loans of Telefónica Móviles México, S.A. de C.V. described above.

8.6 Other financial assets with group companies and associates

This includes rights to collect amounts from other group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees maturing in 2010, 2011 and 2012 (see Note 18.3).

(9) FINANCIAL INVESTMENTS

9.1. The breakdown of “Financial investments” at December 31, 2009 and 2008 is as follows:

2009	ASSETS AT FAIR VALUE						ASSETS AT AMORTIZED COST				TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Measurement hierarchy		Loans and receivables	Other financial assets	Subtotal Assets at amortized cost	Subtotal Liabilities at fair value		
Level 1: Quoted prices					Level 2: Estimates based on other directly observable market inputs							
(Millions of euros)												
Non-current financial investments	544	839	1,519	2,902	544	2,358	59	98	157	157	3,059	3,059
Equity instruments	544	-	-	544	544	-	-	-	-	-	544	544
Derivatives (Note 16)	-	839	1,519	2,358	-	2,358	-	-	-	-	2,358	2,358
Loans to third parties and other financial assets	-	-	-	-	-	-	59	98	157	157	157	157
Current financial investments	-	476	41	517	-	517	5	-	5	5	522	522
Loans to third parties	-	-	-	-	-	-	5	-	5	5	5	5
Derivatives (Note 16)	-	476	41	517	-	517	-	-	-	-	517	517
Total financial investments	544	1,315	1,560	3,419	544	2,875	64	98	162	162	3,581	3,581

2008	ASSETS AT FAIR VALUE						ASSETS AT AMORTIZED COST				TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Measurement hierarchy		Loans and receivables	Other financial assets	Subtotal Assets at amortized cost	Subtotal liabilities at fair value		
Level 1: Quoted prices					Level 2: Estimates based on other directly observable market inputs							
(Millions of euros)												
Non-current financial investments	383	1,185	2,273	3,841	383	3,458	25	387	412	413	4,253	4,254
Equity instruments	383	-	-	383	383	-	-	-	-	-	383	383
Derivatives (Note 16)	-	1,185	2,273	3,458	-	3,458	-	-	-	-	3,458	3,458
Loans to third parties and other financial assets	-	-	-	-	-	-	25	387	412	413	412	413
Current financial investments	-	675	281	956	-	956	46	-	46	96	1,002	1,052
Loans to third parties	-	-	-	-	-	-	46	-	46	96	46	96
Derivatives (Note 16)	-	675	281	956	-	956	-	-	-	-	956	956
Total financial investments	383	1,860	2,554	4,797	383	4,414	71	387	458	509	5,255	5,306

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivative financial instruments at December 31, 2009 and 2008 (see Note 16).

9.3 Available-for-sale financial assets

This category mainly includes the fair value of investments in listed companies (equity instruments). The movement of items composing this category at December 31, 2009 and 2008 are as follows:

<i>(Millions of euros)</i>	2009			
	Balance at January 1	Additions (disposals)	Fair value adjustments	Balance at December 31
Banco Bilbao Vizcaya Argentaria, S.A.	314	3	151	468
Amper, S.A.	8	-	3	11
Zon Multimedia Serviços de Telecomunicações e Multimedia, SGPS, S.A.	55	-	10	65
Other equity investments	6	(6)	-	-
Total	383	(3)	164	544

<i>(Millions of euros)</i>	2008			
	Balance at January 1	Additions (disposals)	Fair value adjustments	Balance at December 31
Banco Bilbao Vizcaya Argentaria, S.A.	607	-	(293)	314
Sogecable, S.A.	45	(46)	1	-
Amper, S.A.	19	-	(11)	8
Zon Multimedia Serviços de Telecomunicações e Multimedia, SGPS, S.A.	142	-	(87)	55
Other equity investments	6	-	-	6
Total	819	(46)	(390)	383

In June 2009, Telefónica, S.A. took a 34 million euros write-down on the value of its shareholding in Zon Multimedia Serviços de Telecomunicações e Multimedia, S.G.P.S., S.A. as a result of the steady decline in its market price. This write-down was recognized in "Gain (loss) on available-for-sale financial assets recognized in the period" (see Note 18.10).

This heading in 2008 included the gain on the disposal of the Company's stake in Sogecable, S.A. after acceptance of the takeover bid launched by Promotora de Informaciones, S.A. ("PRISA") for Sogecable, S.A. on May 9, 2008.

Among these is the investment held by Telefónica, S.A. in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 representing 0.98% of its share capital at year-end 2009. The amount included under “Additions” for the stake in BBVA relates to the recognition of the dividend in kind approved at that company’s General Shareholders’ Meeting held on March 13, 2009, whereby one new share was granted to each 62 existing shares held by shareholders.

At year-end 2009, the Company assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any additional impairment losses.

In 2009 and 2008, changes recognized in the equity of Telefónica, S.A. to the fair value of available-for-sale assets, net of the tax effect, amounted to gains of 115 million euros and losses of 273 million euros, respectively (see Note 11.2).

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2009 and 2008 is as follows:

<i>(Millions of euros)</i>	2009	2008
Other non-current financial assets		
Loans to third parties	59	25
Prepayments	1	1
Guarantees given	97	386
Other current financial assets:		
Loans to third parties	5	46
Total	162	458

9.4.1 Loans to third parties

2009

Non-current loans to third parties includes the cost of options arranged at December 31, 2009 to cover shared-based payment schemes involving Telefónica, S.A. shares (phases III and IV, respectively) for 59 million euros (see Note 18.3).

2008

Loans to third parties, both non-current and current, includes the cost of options arranged at December 31, 2008 to cover shared-based payment schemes involving Telefónica, S.A. shares (phases I and III, respectively) for 71 million euros (see Note 18.3). The hedges arranged in 2006 for 46 million euros were recognized as current, as the first phase of the share option plan ended in June 2009.

9.4.2 Guarantees given

“Guarantees given” under non-current assets mainly comprise deposits made to cover the guarantees provided for Ipse 2000 S.p.A., which totaled 86 million and 375 million euros at December 31, 2009 and 2008, respectively. The decrease in this deposit is due to the payments made in 2009 for a total of 291 million euros to the Italian government corresponding to the quotas of the UMTS license for 2006 to 2009. At December 31, 2009, the quota corresponding to 2010 is pending.

All future payments related to this guarantee have counterguarantees by other Telefónica Group companies and therefore do not pose a risk for Telefónica, S.A. (see Note 19 c).

(10) TRADE AND OTHER RECEIVABLES

The breakdown of “Trade and other receivables” at December 31, 2009 and 2008 is as follows:

<i>(Millions of euros)</i>	2009	2008
Trade receivables	65	14
Trade receivables from Group companies and associates	639	474
Other receivables	7	19
Receivables from employees	-	1
Current income tax assets (Note 17)	133	38
Total	844	546

“Trade receivables from Group companies and associates” mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see Note 7).

“Trade receivables” and “Trade receivables from group companies and associates” include balances in foreign currency equivalent to 94 million euros (78 million euros in 2008). In December 2009, there were receivables in dollars equivalent to 66 million euros and Czech crown equivalent to 28 million euros. In December 2008, there were receivables in dollars equivalent to 68 million euros and Brazilian reais equivalent to 9 million euros.

These balances gave rise to exchange gains in the income statement of approximately 1 million euros in 2009 and 2008.

(11) EQUITY

11.1 Capital and reserves

a) Share capital

At December 31, 2009, Telefónica, S.A.'s share capital amounted to 4,563,996,485 euros and consisted of 4,563,996,485 fully paid ordinary shares of a single series, par value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system ("Continuous Market"), where they form part of the "Ibex 35" Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Tokyo, Buenos Aires, Sao Paulo and Lima Stock Exchanges.

With respect to authorizations given regarding share capital, on June 21, 2006, authorization was given at the Annual Shareholders' Meeting of Telefónica, S.A. for the Board of Directors, at its discretion and in accordance with the Company's needs, to increase the Company's capital, at one or several times, within a maximum period of five years from that date, under the terms of Article 153.1 b) of the Spanish Corporation Law (authorized capital) up to a maximum increase of 2,460 million euros, equivalent to half of the Company's share capital at that date, by issuing and placing new ordinary shares, be they ordinary or of any other type permitted by the Law, with a fixed or variable premium, with or without pre-emptive subscription rights and, in all cases, in exchange for cash, and expressly considering the possibility that the new shares may not be fully subscribed in accordance with the terms of Article 161.1 of the Spanish Corporation Law. The Board of Directors was also empowered to exclude, partially or fully, pre-emptive subscription rights under the terms of Article 159.2 of the Spanish Corporation Law and related provisions.

In addition, at the May 10, 2007 Shareholders' Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the Group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. As at December 31, 2009, the Board of Directors had exercised these powers, approving three programs to issue corporate promissory notes for 2008, 2009 and 2010.

In addition, on June 23, 2009, shareholders voted to authorize the acquisition by the Board of Directors of treasury shares, for a consideration, up to the limits and pursuant to the terms and conditions established at the Shareholders' Meeting, within a maximum period of 18 months from that date. However, it specified that in no circumstance could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time (currently 10% of Telefónica, S.A.'s share capital).

Finally, on December 28, 2009, the deed of capital reduction formalizing the implementation by the Company's Board of Directors of the resolution adopted by the Shareholders' Meeting on June 23, 2009, was entered into the corresponding registry. Capital was reduced through the cancellation of treasury shares previously acquired by the Company as authorized by the Shareholders' Meeting. As a result, 141,000,000 Telefónica, S.A. treasury shares were cancelled and the Company's share capital was reduced by a nominal amount of 141,000,000 euros. Article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,563,996,485 euros. At the same time, a reserve was recorded for the cancelled shares described in the section on "Other reserves" of this same Note. The cancelled shares were delisted on December 30, 2009.

At December 31, 2009 and 2008, Telefónica, S.A. held the following treasury shares:

	No. of shares	Euros per share		Market Value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.13868%

(1) Millions of euros

	No. of shares	Euros per share		Market Value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/08	125,561,011	16.68	15.85	1,990	2.66867%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2009 and 2008 is as follows:

	No. of shares
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
Disposals	(40,730,735)
Delivery PSP Phase I (Note 18.3)	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	6,329,530

The amount paid to acquire own equity instruments in 2009 and 2008 was 1,005 million and 2,225 million euros, respectively.

On October 16, 2009, Telefónica, S.A. sold 40.7 million treasury shares to Telefónica Internacional, S.A.U. under an agreement entered into between the Telefónica Group and China Unicom Hong Kong Limited. On October 21, 2009, this agreement was executed with the mutual share exchange between Telefónica Internacional, S.A.U. and China Unicom amounting to 1,000 million dollars. The treasury shares were sold to Telefónica Internacional, S.A.U. at a price of 766 million euros.

Treasury shares sold in 2009 and 2008 amounted to 766 million and 1 million euros, respectively.

At December 31, 2009, Telefónica, S.A. held firm call options on 150 million treasury shares. At December 31, 2008, Telefónica, S.A. held firm put options on 6 million treasury shares.

b) Legal reserve

According to the revised text of Spanish Corporation Law, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2009 this reserve has been duly set aside.

c) Other reserves

“Other reserves” includes:

- The “Revaluation reserve” which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2009, an amount of 15 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to “Other reserves.” In 2008, an amount of 19 million euros was reclassified in this connection. The balance of this reserve at December 31, 2009 and 2008 was 157 million and 172 million euros, respectively.
- Reserve for cancelled share capital: In accordance with Article 167.3 of the Spanish Corporate Law and to render null and void the right of opposition provided for in Article 166 of the same Law, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. In 2009, a reserve for cancelled share capital amounting to 141 million euros was recorded, the same amount as the capital reduction made in the year. The cumulative amount of the reserve for cancelled share capital at December 31, 2009 was 498 million euros. In 2008, a reserve for cancelled share capital amounting to 68 million euros was recorded, the same amount as the capital reduction made that year. The cumulative amount of the reserve for cancelled share capital at December 31, 2008 was 357 million euros.

- Pursuant to the provisions of Royal Decree 1514/2007 approving the new accounting principles in Spain, after the distribution of 2008 profits the Company set aside a non-distributable reserve for the amount of goodwill of 1.7 million euros. The proposed appropriation of 2009 profit (see Note 3) includes an additional allocation of the same amount to this restricted reserve.
- In addition to the restricted reserves explained above, “Other reserves” includes unrestricted reserves from gains obtained by the Company in prior years.
- “Other reserves” also includes the reserve for the impacts of adjustments made on the first-time application of the new accounting principles approved by Royal Decree 1514/2007. The financial statements for 2008 were the first such statements prepared in accordance with this Royal Decree. The impacts of adjustments on first-time application were recognized in equity, pursuant to the second transitional provision of the aforementioned Royal Decree, as indicated in the 2008 financial statements.

d) Dividends

Dividends paid in 2009

At its meeting of April 29, 2009, Telefónica, S.A.’s Board of Directors resolved to pay an interim dividend against 2009 profit of a fixed gross 0.50 euros for each of the Company’s outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2009 (see Note 3). The total amount paid was 2,277 million euros.

In addition, at its meeting held on June 23, 2009, the Company’s Board of Directors resolved to pay a dividend charged to unrestricted reserves for a fixed gross amount of 0.5 euros per outstanding share carrying dividend rights, up to a maximum total amount of 2,352 million euros. This dividend was paid in full on November 11, 2009, for a total amount of 2,280 million euros.

Dividends paid in 2008

At its meeting held on April 22, 2008, the Company’s Board of Directors agreed to pay an additional dividend charged against 2007 profit of a gross 0.40 euros per share. A total of 1,869 million euros was paid in May 2008.

In addition, in November 2008 an interim dividend against 2008 profit of a fixed gross 0.50 euros per share was paid, entailing a total payment of 2,296 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing “Unrealized gains (losses) reserve” in 2009 and 2008 are as follows:

<i>(Millions of euros)</i> 2009	Balance at January 1	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
Available-for-sale financial assets (Note 9.3)	(229)	164	(49)	34	(11)	(91)
Cash flow hedges (Note 16)	78	(371)	110	(76)	23	(236)
Total	(151)	(207)	61	(42)	12	(327)

<i>(Millions of euros)</i> 2008	Balance at January 1	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
Available-for-sale financial assets (Note 9.3)	51	(390)	117	(11)	4	(229)
Cash flow hedges (Note 16)	176	(189)	57	50	(16)	78
Total	227	(579)	174	39	(12)	(151)

(12) FINANCIAL LIABILITIES

The breakdown of “Financial liabilities” at December 31, 2009 and 2008 is as follows:

2009										
LIABILITIES AT FAIR VALUE										
				Measurement hierarchy			LIABILITIES AT AMORTIZED COST		TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: Quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Subtotal Liabilities at fair value		
(Millions of euros)										
Non-current financial liabilities	460	1,028	1,488	-	1,488	-	39,075	40,948	40,563	42,436
Payable to group companies and associates	-	-	-	-	-	-	31,984	33,891	31,984	33,891
Bank borrowings	-	-	-	-	-	-	6,833	6,812	6,833	6,812
Bonds and other marketable debt securities	-	-	-	-	-	-	192	179	192	179
Derivatives (Note 16)	460	1,028	1,488	-	1,488	-	-	-	1,488	1,488
Other financial liabilities	-	-	-	-	-	-	66	66	66	66
Current financial liabilities	266	1,039	1,305	-	1,305	-	14,889	14,876	16,194	16,181
Payable to group companies and associates	-	-	-	-	-	-	13,829	13,816	13,829	13,816
Bank borrowings	-	-	-	-	-	-	481	482	481	482
Bonds and other marketable debt securities	-	-	-	-	-	-	335	334	335	334
Derivatives (Note 16)	266	1,039	1,305	-	1,305	-	-	-	1,305	1,305
Other financial liabilities	-	-	-	-	-	-	244	244	244	244
Total financial liabilities	726	2,067	2,793	-	2,793	-	53,964	55,824	56,757	58,617
2008										
LIABILITIES AT FAIR VALUE										
				Measurement hierarchy			LIABILITIES AT AMORTIZED COST		TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: Quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Subtotal Liabilities at fair value		
(Millions of euros)										
Non-current financial liabilities	443	1,798	2,241	-	2,241	-	38,475	35,818	40,716	38,059
Payable to group companies and associates	-	-	-	-	-	-	30,955	28,250	30,955	28,250
Bank borrowings	-	-	-	-	-	-	7,225	7,273	7,225	7,273
Bonds and other marketable debt securities	-	-	-	-	-	-	288	288	288	288
Derivatives (Note 16)	443	1,798	2,241	-	2,241	-	-	-	2,241	2,241
Other financial liabilities	-	-	-	-	-	-	7	7	7	7
Current financial liabilities	564	140	704	-	704	-	19,087	19,090	19,791	19,794
Payable to group companies and associates	-	-	-	-	-	-	16,568	16,559	16,568	16,559
Bank borrowings	-	-	-	-	-	-	788	788	788	788
Bonds and other marketable debt securities	-	-	-	-	-	-	1,567	1,579	1,567	1,579
Derivatives (Note 16)	564	140	704	-	704	-	-	-	704	704
Other financial liabilities	-	-	-	-	-	-	164	164	164	164
Total financial liabilities	1,007	1,938	2,945	-	2,945	-	57,562	54,908	60,507	57,853

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives.

(13) BONDS AND OTHER MARKETABLE DEBT SECURITIES

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2009 and 2008 are as follows:

<i>(Millions of euros)</i> 2009	Non-convertible debentures and bonds	Other marketable debt securities	Total
Balance at January 1	997	858	1,855
Depreciation and amortization	(800)	(504)	(1,304)
Revaluation and other movements	(38)	14	(24)
Balance at December 31	159	368	527
Detail of maturities:			
Non-current	138	54	192
Current	21	314	335

<i>(Millions of euros)</i> 2008	Non-convertible debentures and bonds	Other marketable debt securities	Total
Balance at January 1	1,505	1,371	2,876
Depreciation and amortization	(421)	(519)	(940)
Revaluation and other movements	(87)	6	(81)
Balance at December 31	997	858	1,855
Detail of maturities:			
Non-current	173	115	288
Current	824	743	1,567

Maturities of the nominal amounts of debenture and bond issues at December 31, 2009 and 2008 are as follows:

2009			Maturity						Subsequent years	TOTAL
Name	Interest rate	% interest rate	2010	2011	2012	2013	2014			
DEBENTURES AND BONDS:										
FEBRUARY 1990 SERIES C	FIXED ZERO COUPON	12.60	4	-	-	-	-	-	-	4
FEBRUARY 1990 SERIES F	(**) ZERO COUPON	12.82	15	-	-	-	-	-	-	15
JULY 99	(**)	6.39	-	-	-	-	-	-	57	57
MARCH 00	FLOATING	5.2761(*)	-	-	-	-	-	-	50	50
Total issues			19	-	-	-	-	-	107	126

2008			Maturity					Subsequent years	TOTAL
Name	Interest rate	% interest rate	2009	2010	2011	2012	2013		
DEBENTURES AND BONDS:									
FEBRUARY 1990 SERIES C	FIXED	12.6	-	4	-	-	-	-	4
FEBRUARY 1990 SERIES F	ZERO COUPON (**)	12.58	-	14	-	-	-	-	14
APRIL 99	FIXED	4.5	500	-	-	-	-	-	500
JUNE 99	FLOATING	6.04	300	-	-	-	-	-	300
JULY 99	ZERO COUPON(**)	6.37	-	-	-	-	-	54	54
MARCH 00	FLOATING	5.09(*)	-	-	-	-	-	50	50
Total issues			800	18	-	-	-	104	922

(*) The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225

(**) Issues of zero-coupon debentures and bonds are shown in the table above at amortized cost.

13.2 The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2009 and 2008 is as follows:

2009				
Issue	Redemption date	Redemption rate	Amortized cost	Redemption value
DEBENTURES AND BONDS:				
FEBRUARY 1990 SERIES F	02/26/2010	1,069.470%	15	15
JULY 99	07/21/2029	637.639%	57	191
Total			72	206

2008				
Issue	Redemption date	Redemption rate	Amortized cost	Redemption value
DEBENTURES AND BONDS:				
FEBRUARY 1990 SERIES F	02/26/2010	1,069.470%	14	15
JULY 99	07/21/2029	637.639%	54	191
Total			68	206

The remaining debentures and bonds have been measured at amortized cost at the year end.

13.3 At December 31, 2009, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

Amount (millions of euros)	Placement system	Nominal amount of the promissory note	Terms of the promissory note	Placement
2,000	Auctions	1,000 euros	3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Tailored and brokered by participating entities	100,000 euros	Between 7 and 750 days	Specific transactions

At December 31, 2009 the outstanding balance on this promissory note program was 254 million euros (741 million euros in 2008).

With respect to the transaction with La Estrella, S.A. de Seguros consisting of the issuance of bearer promissory notes, on February 15, 2001 Telefónica, S.A. issued 74 bearer promissory notes with a face value of 126 million euros and final maturity in February 2011. The nominal amounts outstanding at year-end 2009 and 2008 were 68 million and 74 million euros, respectively, equivalent to outstanding balances of 59 million and 54 million euros, respectively on the balance sheet.

In 2006, the Company acquired shares in O2, plc, payment for which was deferred through the arrangement of a 207 million pounds sterling (308 million euro) “Loan Notes” program. This program, enacted under UK law, gives the seller of the shares rights to a security that pays semi-annual interest and the option to collect the principal on demand at the interest payment dates (June 30 and December 31) until December 31, 2010, when the program ends. The outstanding balance of the program at December 31, 2009 amounted to 49 million pounds sterling (55 million euros). The outstanding balance of the program at December 31, 2008 amounted to 60 million pounds sterling (63 million euros).

13.4 The average interest rate in 2009 on debentures and bonds outstanding during the year was 5.47% (5.14% in 2008) and the average interest rate on corporate promissory notes was 1.318% (4.62% in 2008).

(14) INTEREST-BEARING DEBT AND DERIVATIVES

14.1 The balances at December 31, 2009 and 2008 are as follows:

Item (millions of euros)	December 31, 2009		
	Current	Non-current	Total
Loans and borrowings	453	6,833	7,286
Foreign-currency loans and borrowings	28	-	28
Derivative financial liabilities (Note 16)	1,305	1,488	2,793
Total	1,786	8,321	10,107

Item (millions of euros)	December 31, 2008		
	Current	Non-current	Total
Loans and borrowings	535	7,128	7,663
Foreign-currency loans and borrowings	253	97	350
Derivative financial liabilities (Note 16)	704	2,241	2,945
Total	1,492	9,466	10,958

14.2 The nominal values of the main interest-bearing debts at December 31, 2009 and 2008 are as follows:

Description	December 31, 2009					
	Value date	Maturity date	Currency	Limit at 12/31/09	Balance (million, currency)	Balance (million euros)
ECAS structured facility	11/26/04	11/15/10	USD	377	40	28
€6bn syndicated loan	06/28/05	06/28/13	EUR	6,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700

Description	December 31, 2008					
	Value date	Maturity date	Currency	Limit at 12/31/08	Balance (million, currency)	Balance (million euros)
ECAS structured facility	11/26/04	11/15/10	USD	377	115	83
€3bn syndicated loan	07/06/04	07/06/09	USD	3,000	302	217
€6bn syndicated loan	06/28/05	06/28/11	EUR	6,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700

14.3 Maturities of balances at December 31, 2009 and 2008 are as follows:

Item (millions of euros)	December 31, 2009						Balance December 31
	Maturity						
	2010	2011	2012	2013	2014	Subsequent years	
Loans and borrowings	453	780	2,677	2,000	-	1,376	7,286
Foreign-currency loans and borrowings	28	-	-	-	-	-	28
Derivative financial liabilities (Note 16)	1,305	210	94	56	60	1,068	2,793
Total	1,786	990	2,771	2,056	60	2,444	10,107

Item (millions of euros)	December 31, 2008						Balance December 31
	Maturity						
	2009	2010	2011	2012	2013	Subsequent years	
Loans and borrowings	535	-	5,135	601	-	1,392	7,663
Foreign-currency loans and borrowings	253	65	-	-	-	32	350
Derivative financial liabilities (Note 16)	704	1,209	121	40	52	819	2,945
Total	1,492	1,274	5,256	641	52	2,243	10,958

14.4 On April 21, 2006, Telefónica S.A. arranged a 700 million euro syndicated loan, denominated in euros and bearing interest linked to the Euribor rate. In 2009, there were no movements in this loan, which will be repaid in two equal installments, in April 2015 and 2017, respectively.

On June 28, 2005 Telefónica, S.A. arranged a syndicated loan with 40 national and international financial institutions for 6,000 million euros, maturing on June 28, 2011. The loan is denominated in euros and can be drawn either in this currency or in US dollars, sterling, yen, Swiss francs or any other currency subject to prior agreement by the banking institutions. On February 13, 2009, an amendment was signed to extend the term of 4,000 million euros of the 6,000 million euros drawn down, by one year for 2,000 million euros and by two years for the other 2,000 million euros. At December 31, 2009, this loan was fully drawn down.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. formalized a credit facility, secured by the export credit agencies of Finland ("Finnvera") and Sweden ("EKN"), bearing fixed interest of 3.26%, with a limit of 377 million euros and final maturity on November 15, 2010. This financing will cover up to 85% of the purchases of network equipment to be made by Telefónica Móviles Group companies from Ericsson and Nokia. In 2009, a total of 75 million dollars was repaid, leaving an outstanding balance at December 31, 2009 of 40 million dollars, equivalent to 28 million euros. The balance at December 31, 2008 was 115 million dollars, equivalent to 83 million euros.

On July 6, 2004, Telefónica, S.A. arranged a 3,000 million euro syndicated multicurrency loan with several Spanish and foreign banks. This loan was cancelled at its maturity on July 6, 2009.

14.5 Average interest on loans and borrowings

The average interest rate in 2009 on loans and borrowings denominated in euros was 1.448% and on foreign-currency loans and receivables it was 1.626%.

The average interest rate in 2008 on loans and borrowings denominated in euros was 4.68% and on foreign-currency loans and receivables it was 3.56%.

14.6 Unused credit facilities

The balances of “Loans and borrowings” relate only to amounts drawn down.

At December 31, 2009 and 2008, Telefónica had undrawn credit facilities amounting to 5,322 million and 4,762 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2009 and 2008 is not subject to compliance with any financial covenants.

(15) PAYABLES TO GROUP COMPANIES AND ASSOCIATES

15.1 The breakdown at December 31, 2009 and 2008 is as follows:

December 31, 2009			
(Millions of euros)	Non-current	Current	Total
Loans	31,643	13,637	45,280
Trade payables to group companies and associates	37	82	119
Derivatives (Note 16)	16	17	33
Payable to subsidiaries due to taxation on a consolidated basis	288	93	381
Total	31,984	13,829	45,813

December 31, 2008			
(Millions of euros)	Non-current	Current	Total
Loans	30,576	16,118	46,694
Trade payables to group companies and associates	14	66	80
Derivatives (Note 16)	44	65	109
Payable to subsidiaries due to taxation on a consolidated basis	321	319	640
Total	30,955	16,568	47,523

The maturity of these loans at year-end 2009 and 2008 is as follows:

December 31, 2009							
Company (millions of euros)	2010	2011	2012	2013	2014	2015 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,986	2,942	632	2,463	4,244	12,265	24,532
Telefónica Europe, B.V.	2,519	-	4,540	2,245	-	1,463	10,767
Telefónica Móviles España, S.A.U.	301	-	-	-	-	-	301
Telefónica Finanzas, S.A.U.	8,066	300	-	-	-	549	8,915
Others	765	-	-	-	-	-	765
Total	13,637	3,242	5,172	4,708	4,244	14,277	45,280

December 31, 2008							
Company (millions of euros)	2009	2010	2011	2012	2013	2014 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,503	1,338	2,939	622	2,548	8,821	17,771
Telefónica Europe, B.V.	2,274	1,796	-	4,382	2,380	1,499	12,331
Telefónica Móviles España, S.A.U.	-	1,402	2,000	-	-	-	3,402
Telefónica Finanzas, S.A.U.	11,822	-	300	-	-	549	12,671
Others	519	-	-	-	-	-	519
Total	16,118	4,536	5,239	5,004	4,928	10,869	46,694

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Europe, B.V. at December 31, 2009 was 10,767 million euros (12,331 million euros in 2008). This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate was 4.11% in 2009 and 5.78% in 2008.

This financing mainly derives from the syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling at October 31, 2005 to fund the acquisition of O2, Plc., which at December 14, 2006 was reduced to 7,000 million pounds sterling, while the maturity was extended from 2008 to 2013. The outstanding balance on this loan at December 31, 2009 and 2008 was 3,091 million and 4,203 million euros, respectively.

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2009 was 24,532 million euros (17,771 million euros in 2008). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2009 was 4.98% (5% in 2008). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on their effective rate. Telefónica Emisiones, S.A.U. raised financing in 2009 mainly by tapping the European and US capital markets, issuing the following bonds:

(Millions of euros)			Nominal maturities		Total
			2014	2015 and subsequent years	
Debentures and bonds	Currency	% Interest rate			
T. EMISIONES FEBRUARY 2014	EUR	5.4310%	2,000	-	2,000
T. EMISIONES APRIL 2016	EUR	5.4960%	-	1,000	1,000
T. EMISIONES JUNE 2015	EUR	1 x EURIBOR3M + 1.825%	-	400	400
T. EMISIONES APRIL 2016	EUR	5.4960%	-	500	500
T. EMISIONES JANUARY 2015	USD	4.9490%	-	868	868
T. EMISIONES JULY 2019	USD	5.8770%	-	694	694
T. EMISIONES NOVEMBER 2019	EUR	4.6930%	-	1,750	1,750
T. EMISIONES DECEMBER 2022	GBP	5.2890%	-	732	732
T. EMISIONES DECEMBER 2014	EUR	1 x EURIBOR3M + 0.70%	100	-	100

Meanwhile, at December 31, 2009, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A.U., in charge of the integrated cash management of the companies comprising the Telefónica Group, amounting to 8,915 million euros (12,671 million euros in 2008) in a series of loans earning market interest rates.

At December 31, 2008, there was a loan with Telefónica Móviles España, S.A.U. for 3,402 million euros. Telefónica Móviles España, S.A.U. also had a participating loan for 3,101 million euros (see Note 8.5) maturing on December 22, 2009. On that date, authorization was given to offset the amounts, leaving a balance of 301 million euros in favor of Telefónica Móviles España, S.A.U. due December 21, 2010. Accordingly, it appears under current liabilities in the balance sheet.

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes restatements to amortized cost at December 31, 2009 resulting from fair value interest rate and exchange rate hedges.

“Loans to Group companies” under current assets includes accrued interest receivable at December 31, 2009 amounting to 774 million euros (638 million euros in 2008).

- 15.2 The balance of “Payable to subsidiaries due to taxation on a consolidated basis” was 381 million and 640 million euros at December 31, 2009 and 2008, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax losses) to the Group headed by Telefónica, S.A. (see Note 17). The current- or non-current classification is based on the Company’s projection of maturities.

The main amounts are those relating to Telefónica Internacional, S.A.U. (203 million euros), Telefónica Móviles España, S.A.U. (113 million euros), Telefónica de Contenidos, S.A.U. (17 million euros) and Telefónica Data Corp, S.A.U. (22 million euros).

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

a) Derivative financial instruments

In 2009 the Company continued to use derivatives both to limit interest and exchange rate risks on otherwise unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2009, the total outstanding balance of derivative transactions was 96,132 million euros (95,891 million euros at December 31, 2008), of which 73,785 million euros related to interest rate risk and 22,347 million euros to foreign currency risk. In 2008 70,999 million euros related to interest rate risk and 24,892 million euros to foreign currency risk.

It should be noted that at December 31, 2009, Telefónica, S.A. had arranged transactions with financial institutions to hedge interest and exchange rate risks for other Telefónica Group companies amounting to 35 million euros and 847 million euros, respectively. At December 31, 2008 similar arrangements amounted to 101 million euros for interest rate risk and 1,225 million euros for exchange rate risk. These external transactions are matched by parallel intragroup arrangements, with identical terms and maturities, and therefore involve no risk for Telefónica, S.A. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s derivatives at December 31, 2009, their notional amounts at year-end and the expected maturity schedule is as follows:

2009					
Type of risk <i>Millions of euros</i>	Value in euros	Telefónica receives		Telefónica pays	
		Amount	Currency	Amount	Currency
Euro interest rate swaps	52,565				
<i>Fixed to fixed</i>	35	35	EUR	35	EUR
<i>Fixed to floating</i>	20,723	20,723	EUR	20,723	EUR
<i>Floating to fixed</i>	31,765	31,765	EUR	31,765	EUR
<i>Floating to floating</i>	42	42	EUR	42	EUR
Foreign currency interest rate swaps	13,974				
<i>Fixed to floating</i>	10,588				
GBP/GBP	1,295	1,150	GBP	1,150	GBP
JPY/JPY	113	15,000	JPY	15,000	JPY
USD/USD	9,180	13,225	USD	13,225	USD
<i>Floating to fixed</i>	3,386				
CZK/CZK	430	11,375	CZK	11,375	CZK
GBP/GBP	1,065	945	GBP	945	GBP
MXN/MXN	1	9	MXN	9	MXN
USD/USD	1,890	2,722	USD	2,722	USD
Exchange rate swaps	12,958				
<i>Fixed to fixed</i>	2,948				
EUR/BRL	115	107	EUR	288	BRL
EUR/CLP	120	112	EUR	87,800	CLP
EUR/CZK	333	352	EUR	8,818	CZK
USD/EUR	2,380	2,207	USD	2,380	EUR
<i>Fixed to floating</i>	319				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
<i>Floating to fixed</i>	271				
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	182	320	USD	994	ARS
USD/MXN	1	1	USD	12	MXN
<i>Floating to floating</i>	9,420				
EUR/CZK	622	550	EUR	16,455	CZK
EUR/GBP	1,937	2,537	EUR	1,720	GBP
GBP/EUR	1,014	775	GBP	1,014	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,667	7,450	USD	5,667	EUR
USD/MXN	2	3	USD	30	MXN
Forwards	6,955				
ARS/USD	32	231	ARS	45	USD
EUR/CZK	1,143	1,184	EUR	30,257	CZK
EUR/GBP	394	389	EUR	350	GBP
EUR/MXN	10	10	EUR	180	MXN
EUR/USD	1,723	1,678	EUR	2,482	USD
GBP/EUR	2,342	2,117	GBP	2,342	EUR
GBP/USD	95	92	GBP	137	USD
USD/BRL	159	226	USD	400	BRL
USD/EUR	667	979	USD	667	EUR
USD/GBP	150	218	USD	133	GBP
USD/MXN	240	343	USD	4,519	MXN
Spots	394				
EUR/GBP	394	388	EUR	350	GBP
Subtotal	86,846				

<i>(Millions of euros)</i>			
Notional amounts of structured products with options	Value in euros	Notional value	Currency
Interest rate options Caps & Floors	7,246		
<i>External counterparties</i>			
USD	206	297	USD
EUR	5,576	5,576	EUR
GBP	1,464	1,300	GBP
Currency options	2,040		
<i>External counterparties</i>			
USD/EUR	2,040	2,939	USD
Subtotal	9,286		
TOTAL	96,132		

The breakdown by average maturity is as follows:

<i>(Millions of euros)</i> Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	887	500	107	280	-
Loans	20,586	7,877	8,782	419	3,508
In national currency	17,603	6,510	7,299	400	3,394
In foreign currencies	2,983	1,367	1,483	19	114
Debentures and bonds MtM	53,650	14,821	10,728	5,488	22,613
In national currency	21,586	7,557	5,192	3,741	5,096
In foreign currencies	32,064	7,264	5,536	1,747	17,517
Without underlying (*)	21,009	10,008	2,173	4,463	4,365
Swaps	11,666	2,751	1,963	4,306	2,646
Currency options	2,040	-	183	138	1,719
Forwards	7,303	7,257	27	19	-
Total	96,132	33,206	21,790	10,650	30,486

* Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

2008					
Type of risk <i>Millions of euros</i>	Value in euros	Telefónica receives		Telefónica pays	
		Amount	Currency	Amount	Currency
Euro interest rate swaps	48,099				
Fixed to floating	17,389	17,389	EUR	17,389	EUR
Floating to fixed	29,148	29,148	EUR	29,148	EUR
Floating to floating	1,562	1,562	EUR	1,562	EUR
Foreign currency interest rate swaps	11,896				
Fixed to floating	8,408				
GBP/GBP	525	500	GBP	500	GBP
JPY/JPY	119	15,000	JPY	15,000	JPY
USD/USD	7,764	10,805	USD	10,805	USD
Floating to fixed	3,488				
CZK/CZK	977	26,305	CZK	26,305	CZK
GBP/GBP	1,255	1,195	GBP	1,195	GBP
MXN/MXN	1	28	MXN	28	MXN
USD/USD	1,255	1,746	USD	1,746	USD
Exchange rate swaps	15,173				
Fixed to fixed	2,684				
EUR/CLP	135	159	EUR	119,057	CLP
EUR/CZK	109	122	EUR	2,936	CZK
USD/EUR	2,440	2,282	USD	2,440	EUR
Floating to fixed	657				
EUR/BRL	89	115	EUR	288	BRL
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	478	743	USD	2,296	ARS
USD/MXN	2	3	USD	35	MXN
Fixed to floating	319				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
Floating to floating	11,513				
EUR/CLP	43	51	EUR	37,911	CLP
EUR/CZK	1,165	1,050	EUR	31,385	CZK
EUR/GBP	2,882	4,080	EUR	2,745	GBP
GBP/EUR	2,029	1,550	GBP	2,029	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,211	6,700	USD	5,211	EUR
USD/MXN	5	8	USD	91	MXN
Forwards	7,397				
ARS/USD	102	694	ARS	143	USD
EUR/CLP	119	122	EUR	105,000	CLP
EUR/CZK	1,470	1,589	EUR	39,592	CZK
EUR/GBP	437	477	EUR	417	GBP
EUR/MXN	28	28	EUR	535	MXN
EUR/USD	2,215	2,265	EUR	3,083	USD
GBP/EUR	1,860	1,585	GBP	1,860	EUR
GBP/USD	74	53	GBP	103	USD
MXN/USD	48	858	MXN	66	USD
USD/BRL	119	157	USD	388	BRL
USD/EUR	594	794	USD	594	EUR
USD/GBP	37	53	USD	36	GBP
USD/MXN	294	418	USD	5,543	MXN
Spots	11				
EUR/GBP	8	8	EUR	7	GBP
USD/GBP	3	5	USD	3	GBP
Subtotal	82,576				

<i>(Millions of euros)</i> Notional amounts of structured products with options	Value in euros	Notional value	Currency
Interest rate options Caps & Floors	11,004		
External counterparties			
USD	655	911	USD
EUR	8,774	8,774	EUR
GBP	1,575	1,500	GBP
Currency options	2,311		
External counterparties			
USD/EUR	2,295	3,194	USD
ARS/USD	16	23	USD
Subtotal	13,315		
TOTAL	95,891		

The breakdown by average maturity is as follows:

<i>(Millions of euros)</i> Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	500	-	500	-	-
Loans	26,092	11,386	5,333	5,575	3,798
In national currency	21,034	9,522	3,991	4,977	2,544
In foreign currencies	5,058	1,864	1,342	598	1,254
Debentures and bonds	47,942	10,884	17,179	5,140	14,739
In national currency	18,791	7,326	7,232	3,242	991
In foreign currencies	29,151	3,558	9,947	1,898	13,748
Without underlying (*)	21,357	9,796	5,899	1,968	3,694
Swaps	11,735	2,266	5,706	1,788	1,975
Spots	11	11	-	-	-
Currency options	2,311	271	183	138	1,719
Forwards	7,300	7,248	10	42	-
Total	95,891	32,066	28,911	12,683	22,231

* Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

The fair value of Telefónica, S.A. derivatives portfolio at December 31, 2009 was equivalent to a net asset of 78 million euros (net asset of 1,469 million euros in 2008).

b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of (i) its ordinary business activity, (ii) debt taken on to finance its business, (iii) investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting the Group are as follows:

1. Foreign currency risk

Exchange rate risk arises primarily from (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America, but also in the United Kingdom and the Czech Republic), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt.

2. Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates.

3. Share price risk

Share price risk arises primarily from changes in the value of our equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of our treasury shares and from equity derivatives.

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to stabilizing cash flows, the income statement and investments. In this way, it is attempted to protect Telefónica's solvency, and facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understand its debt position. Net debt and net financial debt take into account the impact of our cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of our liquidity.

Foreign currency risk

The fundamental objective of our exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by our businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of our debt denominated in such currencies. The degree of exchange rate hedging we employ varies depending on the type of investment.

Telefónica aims to protect itself against declines in Latin American currencies relative to the euro affecting our asset values through, among other measures, the use of dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2009, pound sterling-denominated net debt was approximately 2.3 times the value of our 2009 operating income before depreciation and amortization (OIBDA) from the Telefónica Europe business unit in the United Kingdom. Telefónica's aim is to maintain the same proportion of pound sterling-denominated net debt to OIBDA as the Telefónica net debt to OIBDA ratio, on a consolidated basis, in order to help them to reduce its sensitivity to changes in the pound sterling to euro exchange rate.

To protect its investment in the Czech Republic, the Company has net positions denominated in Czech crowns, which at December 31, 2009 amounted to nearly 59% of the original cost of the investment (compared to 75% of the original cost of the investment in 2008).

We also manage exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether we have open positions. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in sourcing local currency finance which makes it impossible to arrange a low-cost hedge (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

As Telefónica's direct exposure is counterbalanced by the positions held in subsidiaries, the Company analyses its foreign currency risk exposure at the Group level. To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2009 were constant during 2010 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that exchange gains or losses recorded for 2010 would be 46 million euros. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to an increase in finance costs of 41 million euros. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

Telefónica financial expenses are exposed to changes in interest rates. In 2009, the rates applied to the largest amount of our short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest-rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. To illustrate the sensitivity of net financial expense to variability in short-term interest rates at Group level, assuming a 100 basis point increase in interest rates in all currencies in which there are financial positions and no change in the currency make-up and balance of the position at year end, we estimate that net financial expense at December 31, 2010 would have been 124 million euros higher. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to an increase in finance costs of 16 million euros.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

As part of the shareholder remuneration policy, in 2008, Telefónica announced plans to buy back up to 150 million of our shares. The share buyback program was completed on March 31, 2009. Telefónica manages the share price risk of its share buyback programs by setting the timetable for execution in accordance with the pace of cash flow generation, the share price and other market conditions.

According to the PSP, the shares delivered under such plan may be either the Telefónica, S.A. treasury shares, acquired by them or any of its Group companies; or newly-issued shares. The possibility of delivering shares to employees in the future, in accordance with relative total shareholders' return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each cycle, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for our ordinary shareholder as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk to us associated with variations in share price under this plan, Telefónica has acquired financial instruments that replicate the risk profile of some of the shares derivable under the plan as explained in Note 18. Telefónica will assess if at the moment of implementation it will have to take any action in order to reduce any risk implied in this plan.

Additionally, at the Ordinary General Shareholders' Meeting of 2009, an incentive plan for all Telefónica Group employees to purchase Telefónica, S.A. shares was approved. The cost allocated to this Plan will be determined by the Board of Directors, but it will not exceed 60 million euros. It is expected that the Plan will be implemented during the first half of 2010. Telefónica will assess if at the moment of implementation, once the Plan is completely defined, it will have to take any action in order to reduce any risk related to the future delivery of shares.

In addition, part of the treasury shares of the parent company held at December 31, 2009 may be used to cover shares deliverable under the Plan. At December 31, 2009, we held 6,329,530 treasury shares (see Note 11). The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A.'s share price.

Liquidity risk

Telefónica seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The average maturity of our net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle should be considered as a guideline when managing debt and access to credit markets, but not a rigid goal “per se”. When calculating the average maturity for the net financial debt, cash and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.
2. Telefónica must be able to pay all commitments over the next 12 months without accessing new borrowing or accessing the capital markets (although including firm credit lines arranged with banks), assuming budget projections are met.

Country risk

Telefónica managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in its Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities; and,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

Telefónica is exposed to credit risk. Telefónica, S.A. trades in derivatives with creditworthy counterparties. Therefore, the parent company trades with credit entities with senior debt ratings of at least “A.” In Spain, where it holds most of Telefónica’s derivatives portfolio, it has netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. For other subsidiaries, particularly those in Latin America, given the stable sovereign rating provides a ceiling and is below “A,” trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, Telefónica places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a general framework, revised annually based on the conditions of the market and countries where Telefónica operates. The general framework sets: (i) the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); (ii) the maximum tenor of the investment; and (iii) the instruments in which the surpluses may be invested. For the parent company which places the bulk of Telefónica surpluses, the maximum placement in 2009 was 180 days and the creditworthiness of the counterparties used, measured by their debt ratings, remained above A- and/or A3 by Standard & Poors’ and Moody’s, respectively.

These placements are regulated by a general framework, authorization procedures and homogeneous management practices within Telefónica, based on particular conditions and best international practices observed in the telecom sector, and incorporating this commercial credit risk management approach to Telefónica's decision policy both from a strategic and operating (in the ordinary course of business) perspective.

Telefónica also considers managing commercial credit risk as crucial to meeting its business and customer base growth targets in a manner that is consistent with Telefónica's risk-management policy.

Therefore, Telefónica's commercial credit risk-management approach is based on continuous monitoring of the risk assumed and the resources necessary to manage its various units, in order to optimize the risk-reward relationship in its operations and the assessment, primarily, those clients that could cause a material impact on Telefónica's financial condition.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica (see Note 19).

Capital management

Telefónica's corporate finance department, which is in charge of Telefónica's capital management, takes into consideration several factors when determining Telefónica's capital structure, with the aim of ensuring sustainability of the business and maximizing the value to shareholders.

Telefónica monitors its cost of capital with a goal of optimizing its capital structure. In order to do this, Telefónica monitors the financial markets and updates to standard industry approaches for calculating weighted average cost of capital, or WACC. The second, a gearing ratio that enables the Company to obtain and maintain the desired credit rating over the medium term, and with which Telefónica can use to match its potential cash flow generation and the alternative uses of this cash flow at all times.

These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, tax efficiency and volatility in cash flow generation, when determining our financial structure.

Hedging policy

Derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative's fair value using the valuation systems available to us.
- Sale of options only when there is an underlying exposure.
- Hedge accounting.

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges, which can be set at any value of the risk to be hedged (primarily interest rate and foreign currency) or for a defined range through options.
- Hedges of a net investment in a foreign operation.

Hedges can comprise a combination of different derivatives. There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through to maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in market view. Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model.

Risk management guidelines are issued by the Corporate Finance Department. This department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2009 the Company recognized a loss of 17 million euros for the ineffective part of cash flow hedges.

The breakdown of the Company's derivatives with counterparties not belonging to the Telefónica Group at December 31, 2009 and December 31, 2008 by type of hedge, their fair value at year-end and the expected maturity schedule is as follows:

2009	<i>(Millions of euros)</i>						
	Fair value at December 31 (**)	Notional amount MATURITIES (*)					Derivatives
		2010	2011	2012	Subsequent years		
Derivatives							
Interest rate hedges	(282)	3,023	(7)	4	(2,535)	485	
Cash flow hedges	145	1,769	1,239	500	3,024	6,532	
Fair value hedges	(427)	1,254	(1,246)	(496)	(5,559)	(6,047)	
Foreign currency hedges	1,052	2,511	788	112	4,900	8,311	
Cash flow hedges	1,052	2,511	788	112	4,900	8,311	
Fair value hedges	-	-	-	-	-	-	
Interest and exchange rate hedges	37	224	-	89	95	408	
Cash flow hedges	37	224	-	89	95	408	
Fair value hedges	-	-	-	-	-	-	
Hedge of net investment	(300)	(1,977)	(907)	-	(818)	(3,702)	
Derivatives not designated as hedges	(589)	4,943	287	275	(794)	4,711	
Interest rate	(298)	4,946	413	483	(1,770)	4,072	
Foreign currency	(248)	157	(63)	(141)	976	929	
Interest and exchange rate	(43)	(160)	(63)	(67)	-	(290)	

2008	<i>(Millions of euros)</i>					
	Fair value at December 31 (**)	Notional amount MATURITIES (*)				
Derivatives		2009	2010	2011	Subsequent years	TOTAL
Interest rate hedges	(611)	2,031	1,748	503	72	4,354
Cash flow hedges	182	2,028	494	1,749	3,505	7,776
Fair value hedges	(793)	3	1,254	(1,246)	(3,433)	(3,422)
Foreign currency hedges	543	891	2,380	788	3,689	7,748
Cash flow hedges	543	891	2,380	788	3,689	7,748
Fair value hedges	-	-	-	-	-	-
Interest and exchange rate hedges	(17)	-	224	-	258	482
Cash flow hedges	(17)	-	224	-	258	482
Fair value hedges	-	-	-	-	-	-
Hedge of net investment	(531)	(2,830)	(517)	(1,124)	(751)	(5,222)
Derivatives not designated as hedges	(853)	7,274	(614)	(1,182)	(164)	5,314
Interest rate	(270)	8,569	(303)	(1,105)	(1,100)	6,061
Foreign currency	(381)	(875)	(145)	(12)	1,026	(6)
Interest and exchange rate	(202)	(420)	(166)	(65)	(90)	(741)

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.

(**) Positive amounts indicate payables.

(17) INCOME TAX

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated Tax Group in 2009 comprised 40 companies. Included during the year were Telefónica Remesas, S.A. and Telefónica Internacional Wholesale Services II, S.L. In both cases, the companies were newly incorporated. Meanwhile, Telefónica Cable Menorca, S.A.U. merged with Telefónica Cable, S.A.U. and therefore was removed from the Tax Group.

Tax balances are as follows:

<i>(Millions of euros)</i>	2009	2008
Tax receivables:	1,230	1,843
<i>Deferred tax assets:</i>	<i>1,097</i>	<i>1,805</i>
Deferred income tax (income)	44	41
Other temporary differences, assets	410	567
Long-term tax loss carryforwards	443	356
Deductions and other	200	841
<i>Current tax receivables (Note 10):</i>	<i>133</i>	<i>38</i>
Withholdings	49	23
Corporate income tax payable	9	-
VAT and Canary Islands general indirect tax refundable	75	15
Tax payable:	186	581
<i>Deferred tax liabilities:</i>	<i>37</i>	<i>559</i>
Deferred income tax (expense)	11	551
Other temporary differences, liabilities	26	8
<i>Non-current payables to public administrations:</i>	<i>59</i>	<i>-</i>
Deferral of corporate income in tax in accordance with the 28 th transitional provision of the income tax law	59	-
<i>Current payables to public administrations (Note 12):</i>	<i>90</i>	<i>22</i>
Personal income tax withholdings	4	3
Corporate income tax payable	12	-
Withholding on investment income, VAT and other	73	18
Social security	1	1

The Tax Group had tax loss carryforwards at December 31, 2009 amounting to 3,612 million euros. These losses must be applied within 15 years.

The balance at December 31, 2009 includes unused tax credits amounting to 443 million euros corresponding to unused tax losses of 1,475 million euros.

Unused tax loss carryforwards relate mainly to a negative adjustment made to the taxable base for corporate income tax at Telefónica Móviles, S.A. (now Telefónica, S.A.) in 2002, amounting to 2,137 million euros and resulting from the transfer of certain holdings acquired in previous years where the market value differed from the book value at which they were recognized.

The challenging of this adjustment, which was related to the tax inspection of financial years 2001 to 2004, completed in 2008, has not had an impact on the Company's financial statements. However, the use by the Group of the tax loss carryforward is subject to a successful appeal before the Courts against the assessments arising from this inspection.

As head of the Telefónica Tax Group, in 2009 Telefónica, S.A. made payments on account of 2009 income tax amounting to 1,297 million euros.

17.1 Deferred tax assets and liabilities

The balances and movements in "Deferred tax assets" and "Deferred tax liabilities" for Telefónica, S.A. at December 31, 2009 and 2008 are as follows:

<i>2009 (Millions of euros)</i>	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Balance at January 1	356	608	841	1,805	559
Arising in the year	2	137	33	172	-
Reversal	-	(270)	-	(270)	(445)
Transfers to the Tax Group's net position	85	(21)	(674)	(610)	(77)
Other movements	-	-	-	-	-
Balance at December 31	443	454	200	1,097	37

<i>2008 (Millions of euros)</i>	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Balance at January 1	380	629	1,390	2,399	1,646
Arising in the year	971	1,863	47	2,881	139
Reversal	(33)	(608)	-	(641)	-
Transfers to the Tax Group's net position	(962)	-	(568)	(1,530)	-
Other movements	-	(1,276)	(28)	(1,304)	(1,226)
Balance at December 31	356	608	841	1,805	559

The main items for which Telefónica, S.A. recognizes temporary differences are the tax effects of impairment losses on some of its assets, principally investments in subsidiaries (see Note 8).

In accordance with article 12.3 of the revised Spanish Income Tax Law ("TRLIS"), as well as with transitional provision 29 of that law, taxable income declared in 2008 was reduced by 829 million euros in connection with the decline in value of investees.

The reduction in goodwill of these companies, mainly O2 UK, O2 Germany, Telefónica Móviles México and Telefónica Móviles Argentina, up to December 31, 2008 amounted to 5,737 million euros.

In addition, at the 2009 year end, an increase of 586 million euros was provisionally incorporated in the Company's taxable income in connection with impairment of investees for tax purposes.

At December 31, 2009 2,181 million euros is pending inclusion for reversal of the adjustment in future periods.

In 2009 the variation in goodwill of investees amounts to 3,881 million euros and mainly relates to O2 UK, O2 Germany and Telefónica Móviles México.

17.2 Reconciliation of accounting profit to taxable income and income tax expense to income tax payable

The calculation of the income tax expense and income tax payable for 2009 is as follows:

<i>(Millions of euros)</i>	2009	2008
Accounting profit before tax	5,606	778
Permanent differences	(6,138)	(7,096)
Permanent differences arising from the first-time application of PGC 2007	205	82
Temporary differences:	(686)	3,086
Arising in the year	(1,052)	3,577
Arising in prior years	366	(491)
Tax result	(1,013)	(3,150)
Gross tax payable	(304)	(945)
Tax credits capitalized	(33)	(25)
Corporate income tax refundable	(337)	(970)
Temporary differences for tax valuation	206	(926)
Tax effect of first-time application of PGC 2007	(61)	(24)
Other effects	(445)	(12)
Corporate income tax accrued in Spain	(637)	(1,932)
Foreign taxes	(9)	10
Corporate income tax	(646)	(1,922)
Current income tax	(365)	(945)
Deferred income tax	(281)	(977)

The permanent differences relate mainly to changes in investment write-down provisions recorded by the Tax Group companies included in the consolidated corporate income tax return, to dividends received from Tax Group companies or foreign companies that meet certain requirements, and to the write-down provisions related to dividends paid by subsidiaries up to the amount of the dividend recorded as non-deductible income at Telefónica, S.A. and to non-deductible provisions.

In addition, they include as a permanent difference the decrease in income tax expense derived from the tax amortization of financial goodwill for foreign shareholding acquisitions made before December 21, 2007. This income of 584 million euros was recognized in 2009 after the European Commission released its decision regarding the legal action against the Kingdom of Spain in this respect (see Note 2 b).

Within the scope of Law 4/2008 dated December 23, with respect to corporate income tax Telefónica, S.A. has elected to apply the provisions of the 29th transitional provisions of this law. In this respect, under the terms of this provision the Company has included two-thirds of the net tax impact of accounting adjustments arising from the first-time application of the new accounting principles. At December 31, 2009 a total of 205 million euros were pending inclusion in taxable income.

In 2009 and 2008, the Company capitalized 33 million euros and 25 million euros, respectively, of tax credits, mainly for donations to non-profit organizations and for double taxation relief. The cumulative amount at year end principally reflects deductions for export activities (approximately 200 million euros). In 2009, 673 million euros were applied in relation to deductions, and 150 million euros to double taxation for export activities.

In accordance with article 42 of the Spanish Income Tax Law RDL/2004 and having met the reinvestment requirement on February 6, 2006, in 2006 Telefónica, S.A. applied deductions for reinvestment of gains amounting to 1,809 million euros. This deduction mainly arose in connection with the sale of Telefónica Publicidad e Información, S.A. In 2007 and 2008 the Company also applied similar deductions of 18 million euros and 12 million euros, respectively, after meeting the reinvestment requirement on October 24, 2007.

- 17.3 On July 4, 2008, the tax inspection of Tax Group 24/90, of which Telefónica, S.A. is the parent company, was concluded. The taxes subject to review were corporate income tax for the years 2001 to 2004, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the years 2002 to 2004.

In addition to the above, the Company has proposed additional adjustments to the tax amounts considered by Telefónica Móviles in 2002 (of 2,137 million euros) of approximately 346 million euros in the tax payable. In November 2009, Telefónica filed an appeal before the National Court of Justice to dispute the assessment derived from the tax audits, as the Company considered the tax returns to have been prepared in accordance with applicable tax legislation. Therefore, no liability for this issue was reflected in the financial statements.

No material liabilities arose as a result of the inspection of the other items and financial years, and the Company has not and will not file any appeal.

Telefónica, S.A. is open to inspection of all taxes since 2005. The Company does not expect that any additional material liabilities will arise from the years open to inspection.

Meanwhile, the Courts have yet to rule on the appeal filed in relation to the assessments arising from the inspection of corporate income tax for the years 1998 to 2000. These assessments, which were signed in disagreement in October 2004 and July 2005, gave rise to settlement agreements and imposed fines on Telefónica, S.A. The total amount appealed is 140 million euros, with no liability shown in the balance sheet.

In 2007, Telefónica, S.A. filed an administrative appeal before the National Court of Justice, requesting that the execution of the settlements and penalties appealed be suspended by providing the appropriate guarantees. Upon conclusion of the trial period, Telefónica presented in writing its conclusions on September 1, 2008.

On February 22, 2010, Telefónica received the notification of the ruling by the National courts dated February 4, 2010, in which it partially expected the Company's allegations.

Telefónica is assessing the impacts, both positive and negative, of this ruling, and as it may appeal for an overturn in the Supreme Court, it does not expect this to give rise additional material liabilities.

In relation to the sale by Terra Networks, S.A. (now Telefónica, S.A.) of its stake in Lycos, Inc. in 2004, the Company began procedures to recognize a higher tax loss of up to 7,418 million euros because of measuring at acquisition value for tax purposes the market value of Lycos, Inc. shares received, rather than the book value at which they were recorded, in conformity with Article 159 of the Spanish Corporation Law. However, no accounting adjustments have been recorded until the Company receives a definitive ruling on this procedure.

(18) REVENUE AND EXPENSES

18.1 Revenue from operations

a) Rendering of services

In 2008, Telefónica, S.A. arranged contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2009 and 2008, "Rendering of services to group companies and associates" included 369 million and 274 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts, with effect from January 1, 2008, to provide management support services to Telefónica de España, S.A.U., Telefónica Móviles España, S.A.U., Telefónica O2 Holding, Ltd. and Telefónica Internacional, S.A.U. Revenue received for this concept in 2009 and 2008 amounted to 13 million and 25 million euros, respectively, recognized under "Services rendered to group companies and associates."

In November 1990, Telefónica, S.A. and Telefónica Argentina, S.A. entered into a management agreement which regulates the consultancy and advisory services provided by Telefónica and the price of such services. Revenue received for this concept in 2008 amounted to 5 million euros, recognized under "Services rendered to group companies and associates". This contract expired in 2008. Therefore, no revenue was recognized in this connection in 2009.

Operating revenues also include property rental income amounting to 40 million euros in 2009 and 41 million euros in 2008, mainly from the lease of office space in District C to several Telefónica Group companies (see Note 7).

b) Dividends from group companies and associates

In compliance with the provisions of consultation No. 2 of BOICAC 79 on the accounting classification in individual financial statements of the revenue and expenses of a holding company and the determination of revenue, in 2009 Telefónica, S.A. classified under “Revenue from operations” the income from dividends of group companies and associates (see Note 2 b).

The detail of the main amounts received in 2009 and 2008 is as follows:

<i>(Millions of euros)</i>	2009	2008
Telefónica Móviles España, S.A.U.	2,602	2,486
Telefónica de España, S.A.U.	1,193	4,002
Telefónica O2 Europe, plc.	1,352	-
Telefónica O2 Czech Republic, a.s.	340	267
Latin American Cellular Holding, B.V.	168	314
Other companies	108	66
Total	5,763	7,135

The amount of other companies includes dividends received in 2009 and 2008 from Telefónica, S.A.’s shareholding in Portugal Telecom, S.G.P.S., amounting to 44 million and 46 million euros, respectively.

c) Interest income on loans to group companies and associates

In compliance with the provisions of consultation No. 2 of BOICAC 79 on the accounting classification in individual financial statements of the revenue and expenses of a holding company and the determination of revenue, in 2009 Telefónica, S.A. classified under “Revenue from operations” the interest income on loans to group companies and associates (see Note 2 b).

This heading includes the return obtained on loans made to subsidiaries to carry out their business (see Note 8.5). The breakdown of the main amounts is as follows:

<i>(Millions of euros)</i>	2009	2008
Telefónica Móviles México, S.A. de C.V.	215	259
Telefónica de España, S.A.U.	187	250
Telefónica Móviles España, S.A.U.	214	222
Other companies	46	138
Total	662	869

18.2 “Non-core and other current operating revenues – Group companies” relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion. The amount includes billings to Telefónica Móviles España, S.A.U., which amounted to 35 million euros and 41 million euros in 2009 and 2008, respectively, and to Telefónica de España, S.A.U., for 30 million and 28 million euros, respectively.

18.3 Personnel expenses and employee benefits

The breakdown of “Personnel expenses” is as follows:

<i>(Millions of euros)</i>	2009	2008
Wages and salaries	129	144
Pension plans (Note 4.h)	11	6
Social security costs, and others	29	17
Total	169	167

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this Plan are as follows:

- Defined contribution of 4.51% of the participating employees’ base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g. 6.87% in the case of Telefónica de España, S.A.U.) will be maintained.
- Mandatory contribution by participants of a minimum of 2.2% of their base salary.
- Individual and financial capitalization systems.

This fund was outsourced to Telefónica subsidiary, Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2009, 1,535 employees had signed up for the plan (1,496 employees in 2008). This figure includes both employees contributing and those who have ceased to contribute to the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 2.73 million euros in 2009 and 2.75 million euros in 2008.

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements the previous plan and involves additional defined contributions at a certain percentage of the executive’s fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the Plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 7.7 million euros in 2009 (6 million euros in 2008).

In 2009, some executives left this Plan, leading to the reversal of part of the initial extraordinary contributions amounting to 0.5 million euros. Similarly, in 2008, some executives left this Pension Plan for Senior Executives, leading to the reversal of 3 million euros.

No provision was made for this plan as it has been fully externalized.

The main share-based payment plan is the following:

Telefónica, S.A. share plan: “Performance Share Plan” (PSP)

At the General Shareholders’ Meeting of Telefónica, S.A. on June 21, 2006, its shareholders approved the introduction of a long-term incentive plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies. Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation.

The Plan was initially intended to last seven years. It is divided into five phases, each three years long, beginning on July 1 (the “Start Date”) and ending on June 30 three years later (the “End Date”). At the start of each phase the number of shares to be awarded to Plan beneficiaries is determined based on their success in meeting targets set. The shares are delivered, assuming targets are met, at the End Date of each phase. Each phase is independent from the others. The first started on July 1, 2006 (with shares delivered on July 1, 2009) and the fifth phase begins on July 1, 2010 (with any shares to be delivered from July 1, 2013).

Award of the shares is subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three years of the phase, subject to certain special conditions related to departures.
- The actual number of shares awarded at the end of each phase will depend on success in meeting targets and the maximum number of shares assigned to each executive. Success is measured by comparing the total shareholder return (TSR), which includes both share price and dividends offered by Telefónica shares, with the TSRs offered by a basket of listed telecoms companies that comprise the comparison group. Each employee who is a member of the plan is assigned at the start of each phase a maximum number of shares. The actual number of shares awarded at the end of the phase is calculated by multiplying this maximum number by a percentage reflecting their success at the date in question. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

June 30, 2009 marked the end of the first phase of this Plan, which entailed the following maximum number of shares allocated:

	Number of shares	Unit value	End date
1 st phase July 1, 2006	6,530,615	6.43	June 30, 2009

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives is as follows:

	Number of shares	Unit value	End date
1 st phase July 1, 2006	1,276,751	6.43	June 30, 2009

With the maturity of the Plan, in July 2009 a total of 3,309,968 shares (corresponding to a total of 4,533,393 gross shares less a withholding of 1,224,610 shares prior to delivery) were delivered to Telefónica Group directors included in the first phase. The shares delivered were deducted from the Company's treasury shares in 2009 (see Note 11 1 a). The total net shares delivered to Telefónica, S.A. managers and executives were 1,240,834.

All the shares included in the first phase of the Plan were hedged with a financial instrument acquired in 2006. The cost of this instrument was 46 million euros, which in unit terms is 6.43 euros per share. At June 30, 2009, the bank with which the financial instrument was entered into delivered to Telefónica, S.A. the own shares contracted. These were accounted for as treasury shares.

The cost of the gross amount of shares delivered to the directors of each subsidiary was subsequently billed by Telefónica, S.A., as previously established, with a unit value of 6.43 euros per share. The tax obligations of the directors in each of their countries related to the increase in their personal income from the receipt of the incentive were met by each subsidiary and subsequently charged to Telefónica, S.A., which recognized the cost under "Reserves" for an amount of 21 million euros in 2009.

The maximum number of the shares issuable in each of the three outstanding phases at December 31, 2009 is as follows:

	Number of shares	Unit value	End date
2 nd phase July 1, 2007	5,556,234	7.70	June 30, 2010
3 rd phase July 1, 2008	5,286,980	8.39	June 30, 2011
4 th phase July 1, 2009	6,356,597	8.41	June 30, 2012

Of the total number of shares, those corresponding to Telefónica, S.A. employees, by phase, are as follows:

	Number of shares	Unit value	End date
2 nd phase July 1, 2007	1,102,711	7.70	June 30, 2010
3 rd phase July 1, 2008	1,248,067	8.39	June 30, 2011
4 th phase July 1, 2009	1,555,382	8.41	June 30, 2012

This plan is equity-settled via the delivery of shares to the executives, with a balancing entry for the 10 million euros of employee benefits expense recorded in 2009 (11 million euros in 2008) in equity, net of the related tax effect.

The cost of the shares granted to employees of Group subsidiaries is recognized under "Reserves" and amounted to 52 million euros in 2009 (52 million euros in 2008). As Telefónica, S.A. will reinvoice these amounts to its subsidiaries at the maturity of the phases, the related receivable is recognized under "Other non-current financial assets (phases III and IV) and "Other current financial assets" (phase II) (see Note 8.6).

For the sole purpose of ensuring the shares necessary at the end of the phase begun in 2008 (the third phase of the Plan), Telefónica, S.A. purchased an instrument from a financial institution that will deliver to Telefónica, at the end of the phase, a total of 2,500,000 shares, part of the shares necessary to settle the phase. This instrument is indexed to the success of the plan; i.e. the instrument has the features as the plan. The cost of the financial instrument was 25 million euros, equivalent to 9.96 euros per option (see Note 9.4.1).

For the fourth phase of the Plan, Telefónica, S.A. has acquired an instrument from a financial institution with the same features of the Plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4,000,000 shares). The cost of the financial instrument was 34 million euros, equivalent to 8.41 euros per option (see Note 9.4.1).

18.4 Average number of employees in 2009 and 2008 and number of employees at year-end:

2009 Professional category	Employees at 12/31/09			Average no. of employees in 2009		
	Women	Men	Total	Women	Men	Total
General managers and chairmen	-	5	5	-	5	5
Directors	40	134	174	40	130	170
Managers	75	100	175	77	91	168
Project Managers	91	72	163	88	68	156
University graduates and experts	80	56	136	78	53	131
Administration, clerks, advisors	136	19	155	130	19	149
Total	422	386	808	413	366	779

2008 Professional category	Employees at 12/31/08			Average no. of employees in 2008		
	Women	Men	Total	Women	Men	Total
General managers and chairmen	-	5	5	-	5	5
Directors	39	140	179	42	141	183
Managers	76	89	165	77	90	167
Project Managers	85	67	152	88	66	154
University graduates and experts	79	50	129	80	51	131
Administration, clerks, advisors	125	6	131	133	14	147
Total	404	357	761	420	367	787

18.5 External services

The items composing this heading are as follows:

(Millions of euros)	2009	2008
Rent	13	11
Repairs and maintenance	4	5
Independent professional services	107	96
Bank charges	45	49
Marketing and advertising	128	144
Utilities	14	11
Other expenses	53	52
Total	364	368

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establishing the headquarters of the “Telefónica Corporate University.” The contract included construction and refurbishment of certain facilities by the lessor.

On October 31, 2008, some of the facilities were partially accepted and thus the lease period commenced. The lease period is for 15 years (until 2023), renewable for another five. In addition to rent, the lessor charges the lessee community expenses. Future minimum rentals payable under non-cancellable leases at December 31, 2009 and 2008 are as follows:

<i>(Millions of euros)</i>	2009		2008	
	Future minimum payments	Present value	Future minimum payments	Present value
Up to one year	5	5	5	5
Between one and five years	20	17	20	17
More than five years	46	27	51	29
Total	71	49	76	51

18.6 Finance revenue

The items composing “Finance revenue” are as follows:

<i>(Millions of euros)</i>	2009	2008
Dividends from other companies	16	41
Interest received from loans to group companies	-	22
Other finance revenue	88	160
Total	104	223

“Other finance revenue” mainly includes interest income of 59 million euros (157 million euros in 2008).

18.7 Finance costs

The breakdown of “Finance costs” is as follows:

<i>(Millions of euros)</i>	2009	2008
Interest on borrowings from group companies and associates	1,717	2,652
Finance costs payable to third parties net of gains (losses) on interest rates of financial hedges	170	339
Other finance costs	1	36
Total	1,888	3,027

The breakdown by Group company of debt interest expenses is as follows:

<i>(Millions of euros)</i>	2009	2008
Telefónica Europe, B.V.	518	747
Telefónica Finanzas, S.A.	140	777
Telefónica Emisiones, S.A.U.	981	836
Other companies	78	292
Total	1,717	2,652

Finance costs with Telefónica Finanzas, S.A.U. related to current payables for specific cash needs. In 2009, there were not as many withdrawals of funds in this way, as a result of which the financial charge passed on from this subsidiary to Telefónica, S.A. decreased.

18.8 Exchange differences

The breakdown of exchange losses recognized in the income statement is as follows:

<i>(Millions of euros)</i>	2009	2008
On current operations	100	4
On loans and borrowings	439	1,521
On hedging derivatives	1,528	1,964
On other items	38	87
Total	2,105	3,576

The breakdown of exchange gains recognized in the income statement is as follows:

<i>(Millions of euros)</i>	2009	2008
On current operations	3	334
On loans and borrowings	511	650
On hedging derivatives	1,458	2,470
On other items	58	65
Total	2,030	3,519

The change in exchange gains and losses in 2009 was due mainly to fluctuations in the dollar/euro exchange rate, with the dollar falling 3.4% in the year (5.78% appreciation in 2008), and in the pound sterling/euro exchange, following a 7.25% appreciation by the pound in 2009 (23% depreciation in 2008), which was offset by the effect of hedges arranged for this purpose.

18.9 Impairment and gains (losses) on disposal of financial instruments

2009

In 2009, the values of the investments in group companies and associates were reviewed based on the calculations of their discounted cash flows. These reviews lead to a reversal of impairment losses amounting to 1,087 million euros. The main reversal relates to the pound's appreciation, leading to a reversal of the adjustment to the investment in Telefónica Europe, plc of 941 million euros.

In addition, in 2009 the entire impairment loss on Portugal Telecom, S.G.P.S., for 178 million euros, was reversed following the rebound in the share price on the Lisbon stock exchange.

2008

At the end of 2008, Telefónica, S.A. tested its investments in group companies and associates for impairment (see Note 8.2). As a result, it recognized impairment losses of 3,769 million euros for the stake in Telefónica Europe, plc and 233 million euros for the stake in Telco, S.p.A.

In addition, an impairment loss of 178 million euros on the stake in Portugal Telecom was recognized in the income statement.

The impairment loss on the stake in Telefónica Europe, plc shown is after the impact of hedges of the net investment.

18.10 Change in fair value of financial instruments

As a result of the steady decline or over 40% of the value of the cost of the investment, in June 2009, Telefónica, S.A. took a 34 million euro write-down on the value of its shareholding in Zon Multimedia Serviços de Telecomunicações e Multimedia, S.G.P.S., S.A. At December 31, 2009, it was not considered necessary to make any further write-downs in this respect.

“Change in fair value of financial instruments held for trading and others” includes the effect on profit and loss of trading derivatives and the inefficiency of cash flow hedges amounting to 23 million euros.

In 2008, this item included the result of the sale of the stake in Sogecable, S.A. (see Note 9.3).

(19) OTHER INFORMATION

a) Financial guarantees

At December 31, 2009, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 37,141 million euros (31,256 million euros in 2008). These guarantees are measured in the Company’s financial statements as indicated in Note 4 m).

The main Group companies receiving these financial guarantees are:

- Telefónica Emisiones, S.A.U., in relation to guarantees given for issues of debentures and bonds in international markets, the outstanding carrying amount of which at December 31, 2009 was 24,533 million euros (16,827 million euros in 2008). In 2009, the Company issued debentures and bonds for a total amount of approximately 8,044 million euros (1,250 million euros in 2008).

- Telefónica Europe, B.V., in relation to guarantees given for debentures and bonds issues in international markets, the outstanding carrying amount of which at December 31, 2009 was 5,016 million euros (5,064 million euros in 2008), for the European commercial paper program, with an outstanding balance of 551 million euros (840 million euros in 2008), the syndicated loan granted by various institutions for the O2, plc acquisition, with an outstanding carrying amount of 3,079 million euros (4,187 million euros in 2008), and other guaranteed bank borrowings for 114 million euros (120 million euros in 2008). Changes in the year were mainly due to fluctuations in exchange rates and transactions with commercial paper.

Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V. are wholly owned subsidiaries of Telefónica, S.A., which underwrites all their issues.

- Telefónica Finanzas México, S.A. de C.V., in relation to guarantees given for the peso bonds in circulation, the outstanding carrying amount of which at December 31, 2009 was 617 million euros (617 million euros in 2008).
- Telefónica Finance USA, LCC, in relation to the guarantee provided for the issue of preferred shares in 2002, the outstanding carrying amount of which was 1,954 million euros at December 31, 2009 (1,939 million euros in 2008).
- Telefónica Finanzas, S.A.U. in relation to financing from the European Investment Bank for investment projects in Spain, which at December 31, 2009 had an outstanding carrying amount of 1,206 million euros (1,297 million euros in 2008): (a) in the mobile telecommunications network; (b) in the design, acquisition, construction and start-up of telephony equipment; and (c) in the Telefónica Group's research and development activities. In 2009, financing for a nominal amount equivalent to approximately 26 million euros matured (440 million euros in 2008).

b) Litigation

Telefónica is party to several lawsuits or proceedings that are currently in progress in the law courts and administrative and arbitration bodies of the various countries in which the Telefónica Group is present.

Considering the reports of the Company's legal advisors regarding these proceedings, it is reasonable to assume that this litigation or cases will not materially affect the financial position or solvency of Telefónica Group, regardless of the outcome.

Among unresolved cases or those underway in 2009, we would highlight the following:

1. *Contentious proceedings in connection with the merger between Terra Networks, S.A. and Telefónica*

On September 26, 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the Prospectus of the Initial Public Offering of shares of Terra Networks, S.A. dated October 29, 1999. This claim was rejected via ruling issued on September 21, 2009, and the appellants charged for the court costs. This ruling was appealed on December 4, 2009.

2. *Claim before the Center for Settlement of Investment Disputes (ICSID) against the Argentine government*

As a result of the enactment by the Argentine Government of Public Emergency and Exchange Rules Reform Law 25561, of January 6, 2002, Telefónica considered that the terms and conditions of the Share Transfer Agreement approved by Decree 2332/90 and the Pricing Agreement ratified by Decree 2585/91, both of which were executed by the Company with the Argentine government, had been affected appreciably, since the Law rendered ineffective any dollar or other foreign currency adjustment clauses, or indexation clauses based on price indexes of other countries, or any other indexation mechanism in contracts with the public authorities. The law also required that prices and rates derived from such clauses be denominated in pesos at an exchange rate of one Argentine peso to one US dollar.

Accordingly, since negotiations with the Argentine Government were unsuccessful, on May 14, 2003, Telefónica filed a request for arbitration with the International Center for Settlement of Investment Disputes (ICSID) pursuant to the Agreement for the Promotion and Reciprocal Protection of Investments between the Argentine Republic and the Kingdom of Spain. On December 6, 2004, Telefónica filed the “Memorial” or claim with the ICSID, as well as the initial testimonies supporting the claim.

On February 15, 2006, Telefónica de Argentina, S.A. signed a memorandum of understanding with the Argentine government as a prerequisite to reaching an agreement to renegotiate the transfer contract pursuant to the provisions of Article 9 of Law 25561. Among other issues, the memorandum of understanding envisaged the suspension for a certain period of all claims, appeals and demands planned or underway, based on events or measures taken as a result of emergency situation established by Law No. 25561 with regard to the Transfer Agreement and the license granted to Telefónica de Argentina, S.A.

On August 21, 2009, after successive extensions of the period of suspension included in the memorandum of understanding, Telefónica and the Argentine government agreed to consider this arbitration proceeding concluded. As a result, both parties requested the ICSID Court to file the proceeding, which the court agreed to on September 24, 2009.

3. *Appeal against the European Commission ruling of July 4, 2007 against Telefónica de España’s broadband pricing policy.*

On July 9, 2007, Telefónica was notified of the decision issued by the European Commission imposing a fine of approximately 152 million euros for breach of April 82 of EC Treaty rules by charging unfair prices between whole and retail broadband access services. The ruling charged Telefónica with applying a margin squeeze between the prices it charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology between September 2001 and December 2006.

On September 10, 2007, Telefónica and Telefónica de España filed an appeal to overturn the decision before the Court of First Instance of the European Communities. The Kingdom of Spain, as an interested party, also lodged an appeal to overturn the decision. Meanwhile, France Telecom and the Spanish Association of Bank Users (AUSBANC) filed requests to intervene, to which Telefónica has submitted its comments.

4. *Appeal for judicial review against the ruling of the Central Economic-Administrative Tribunal* dated February 15, 2007 rejecting several economic-administrative claims filed by Telefónica against assessments from the National Inspection Office of the Spanish Treasury related to consolidated taxes in 1998, 1999 and 2000. See Note 17.3.

c) Commitments

Agreements with Portugal Telecom (Brazil)

In accordance with the agreements signed between the Telefónica Group and the Portugal Telecom Group governing their 50/50 joint venture, Brasilcel N.V., which groups together their cellular businesses in Brazil, the Portugal Telecom Group is entitled to sell to Telefónica, S.A., which is obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica or at any of its subsidiaries that hold a direct or indirect ownership interest in Brasilcel, N.V.

Similarly, Telefónica is entitled to sell to the Portugal Telecom Group, which be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom, S.G.P.S., S.A., at PT Móveis, S.G.P.S., S.A. or at any of their subsidiaries that hold a direct or indirect ownership interest in Brasilcel N.V.

The price in both cases will be determined on the basis of an independent appraisal (under the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

Guarantee provided for Ipse 2000 S.p.A.

At December 31, 2009, the Telefónica Group had provided guarantees for the Italian company Ipse 2000 S.p.A. (holder of a UMTS license in Italy and in which the Company has a stake through Solivella B.V.) to ensure the amounts payable to the Italian government in connection with the grant of the license. The only payment pending at December 31, 2009, was the last of the 10 monthly payments scheduled.

In this respect, Telefónica (together with the other strategic partners of Ipse 2000, S.p.A) arranged a counterguarantee (cash collateral) for a bank which, in turn, issued a bank guarantee for the Italian authorities as security for the deferred payment of the UMTS license.

At December 31, 2009, the amount corresponding to the Telefónica, S.A. in this cash collateral was 86 million euros.

Agreements with PRISA-SOGEABLE

On November 25, 2009, Telefónica signed an agreement with Promotora de Informaciones, S.A. (“Prisa”) and Sogecable, S.A.U. (“Sogecable”) for the acquisition of a 21% stake in DTS Distribuidora de Televisión Digital, S.A. (“DTS”), the company that will include the pay-TV services of Prisa Group (Digital+), for a firm value of 2,350 million euros.

Additionally, on the same date, Telefónica signed a shareholder agreement with Prisa and Sogecable for DTS (“Shareholder agreement”), which will come into effect following completion of the transaction and will establish, among other things, that in the event of a change in control at Telefónica, Sogecable will have the right to acquire from Telefónica, which will be obliged to sell, its stake in DTS. Similarly, in the event of a change of control at Prisa, Telefónica will have the right to buy from Sogecable, which will be obliged to sell, its stake in DTS. In both cases, the acquisition would be carried out at the real value of the shares based on an independent valuation by investment banks in accordance with the procedure stipulated in the agreement (see Not 21).

d) Directors’ and senior executives’ compensation and other benefits

The compensation of Telefónica, S.A.’s directors is governed by Article 28 of the Bylaws, 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 in the preceding paragraphs, deriving from membership on the Board of Directors, shall be compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

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

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

Position	Board of Directors	Standing Committee	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

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 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 directors for discharging their duties in 2009 (in euros):

Board Members	Board of Directors	Standing Committee	Other Board Committees		TOTAL
			Fixed payment	Attendance fees	
<u>Chairman</u>					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
<u>Vice chairmen</u>					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	22,500	328,500
<u>Members</u>					
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

In addition, the breakdown (in euros) 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
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 (see Note 18.3), 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 (see Note 18.3), 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.

Meanwhile, the six senior executives of the Company, excluding those that are also members of the Board of Directors, received a total for all items in 2009 of 10,533,853 euros. In addition, the contributions by the Telefónica Group in 2009 with respect to the Pension Plan described in Note 18.3 for these directors amounted to 922,728 euros.

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

Detail of the equity investments in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the Directors on their own behalf or on behalf of third parties.

Pursuant to Article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003 of July 17, which amends Securities Market Law 24/1988 of July 28, and the revised Spanish Corporation Law, in order to reinforce the transparency of listed corporations, details are given below of the companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge in them, on their own behalf or on behalf of others.

Name	Activity	Company	Position or functions	Stake % ¹
Mr. César Alierta Izuel	Telecommunications	Telecom Italia, S.p.A.	Director	--
	Telecommunications	China Unicom (Hong Kong) Limited	Director	--
Mr. Isidro Fainé Casas	Telecommunications	Abertis Infraestructuras, S.A.	Vice Chairman	<0.01%
Mr. Julio Linares López	Telecommunications	Telefónica de España, S.A.U.	Director	--
	Telecommunications	Telefónica Móviles España, S.A.U.	Director	--
	Telecommunications	Telefónica Europe, Plc.	Director	--
	Telecommunications	Telecom Italia, S.p.A.	Director	--
Mr. José Fernando de Almansa Moreno-Barreda	Telecommunications	Telefónica Internacional, S.A.U.	Director	--
	Telecommunications	Telefónica del Perú, S.A.A.	Director	--
	Telecommunications	Telefónica de Argentina, S.A.	Director	--
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	--
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director	--
Mr. José María Álvarez-Pallete López	Telecommunications	Telefónica DataCorp, S.A.U.	Director	--
	Telecommunications	Telefónica de Argentina, S.A.	Acting Director	--
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director/Vice Chairman	--
	Telecommunications	Telefónica Chile, S.A.	Acting Director	--
	Telecommunications	Telefónica Móviles México, S.A. de C.V.	Director/Vice Chairman	--
	Telecommunications	Colombia Telecomunicaciones, S.A. ESP	Director	--
	Telecommunications	Telefónica del Perú, S.A.A.	Director	--
	Telecommunications	Brasilcel, N.V.	Chairman of Supervisory Board	--
	Telecommunications	Telefónica Móviles Colombia, S.A.	Acting Director	--
	Telecommunications	Telefónica Larga Distancia de Puerto Rico, Inc.	Director	--

1 Shareholding of less than 0.01% of share capital

Name	Activity	Company	Position or functions	Stake % ¹
Mr. José María Álvarez-Pallete López	Telecommunications	Telefónica Móviles Chile, S.A.	Acting Director	--
	Telecommunications	Portugal Telecom, S.G.P.S., S.A.	Director	--
Mr. David Arculus	Telecommunications	Telefónica Europe, Plc.	Director	--
	Telecommunications	British Sky Broadcasting Group, Plc.	--	<0.01%
	Telecommunications	BT Group, Plc.	--	<0.01%
Mr. Peter Erskine	Telecommunications	Telefónica Europe, Plc.	Director	--
Mr. Alfonso Ferrari Herrero	Telecommunications	Telefónica Internacional, S.A.U.	Director	--
	Telecommunications	Telefónica Chile, S.A.	Acting Director	--
	Telecommunications	Telefónica de Perú, S.A.A.	Director	--
	Telecommunications	Telefónica Móviles Chile, S.A.	Director	--
Mr. Luiz Fernando Furlán	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	--
	Telecommunications	Telefónica Internacional, S.A.U.	Director	--
Mr. Francisco Javier de Paz Mancho	Telecommunications	Atento Inversiones y Teleservicios, S.A.U.	Non-Executive Chairman	--
	Telecommunications	Telefónica Internacional, S.A.U.	Director	--
	Telecommunications	Telefónica de Argentina, S.A.	Director	--
	Telecommunications	Telecomunicações de Sao Paulo, S.A.	Director	--

1 Shareholding of less than 0.01% of share capital

Pursuant to Article 114.2 of the Spanish Corporation Law, also introduced by Law 26/2003 of July 17, it is stated that in the year to which these annual financial statements refer, the directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the normal course of the Company's business or that were not on an arm's length basis.

e) Related-party transactions

The main transactions between Telefónica, S.A. and its significant shareholders are as follows:

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and subsidiaries comprising the consolidated group:

- Financing transactions arranged under market conditions, with approximately 237 million euros drawn down at December 31, 2009 (248 million euros at December 31, 2008).
- Derivative transactions contracted under market conditions, for a total nominal amount of approximately 7,733 million euros at December 31, 2009 (6,770 million euros at December 31, 2008).
- Time deposits on an arm's length basis for a total nominal amount of approximately 679 million euros at December 31, 2009 (213 million euros at December 31, 2008).
- Guarantees granted by BBVA for approximately 0.2 million euros at December 31, 2009 (13 million euros at December 31, 2008).
- Dividends and other benefits distributed to BBVA in 2009 for 287 million euros (279 million euros in 2008).

Caja de Ahorros y Pensiones de Barcelona, la Caixa, and subsidiaries comprising the consolidated group:

- Financing transactions arranged under market conditions, with approximately 616 million euros drawn down at December 31, 2009 (646 million euros at December 31, 2008).
- Derivative transactions arranged on an arm's length basis for a total nominal amount of approximately 800 million euros at December 31, 2009.
- Time deposits on an arm's length basis for a total nominal amount of approximately 1,293 million euros at December 31, 2009 (368 million euros at December 31, 2008).
- Dividends and other benefits distributed to La Caixa in 2009 for 260 million euros (237 million euros in 2008).

Group companies

Telefónica, S.A. is a holding company for various investments in companies in Latin America, Spain and the rest of Europe, which do business in the telecommunications, media and entertainment sectors.

The balances and transactions between the Company and these subsidiaries at December 31, 2009 and 2008 are detailed in the notes to these Individual Financial Statements.

Directors and senior executives

In the financial year to which the accompanying annual financial statements refer, the directors and senior executives did not perform any transactions with Telefónica or any Telefónica Group company.

Compensation and other benefits paid to members of the Board of Directors and senior executives, as well as the detail of the equity interests held in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors for their own account or for third parties, are detailed in this note to these financial statements.

f) Auditors' fees

The fees paid in 2009 and 2008 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica, S.A. in 2009 and 2008) belongs, amounted to 3.32 million and 3.36 million euros, respectively, broken down as follows:

<i>(Millions of euros)</i>	2009	2008
Audit services	3.02	3.07
Audit related services	0.30	0.29
TOTAL	3.32	3.36

g) Environmental matters

As head of the Telefónica Group, Telefónica, S.A. engages in activities relating to the ownership of shares and the provision of financing and corporate advisory services to various Group companies. In view of the business activities in which the Company engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position and results. Consequently, the 2009 annual financial statements do not include specific details regarding environmental issues.

In line with its energy and climate change strategy, in 2008 Telefónica announced its commitment to reducing electricity consumption by 30% in its network and by 10% in its office by 2015. To do so, it created the Climate Change Office.

This Office, promoted by the Transformation Department and the Technical Secretariat to the Chairman's office, is responsible for ensuring that energy consumption and greenhouse gas emissions arising from the Company's activity are reduced, encouraging the development of services that enable the Company to be more efficient vis-à-vis its customers and other sectors, and for placing information and communication technologies (ICTs) at the heart of the Company's solution to combating climate change.

In addition to the Climate Change Office, Telefónica S.A. has a Projects Office, directed by Corporate Management for the Environment, set up to coordinate actions within the different areas of focus and to stimulate, facilitate and follow up on the projects included in the Group's environmental strategy.

As a result, in line with the same strategy, Telefónica established the following environmental targets for the 2009 – 2011 period:

1. To implement the global environmental management system in half of operations.
2. To implement an Environmental Performance Index at 70% of the Group's companies.
3. To achieve environmental certification for District C.
4. To perform audits of the energy data at all Group operations and external verification of the carbon footprint.
5. To reduce electricity consumption in the networks by 30% between 2007 and 2015.
6. To reduce electricity consumption in offices by 10% between 2007 and 2015.
7. To design a renewable energy strategy in the Telefónica network.
8. To include the variable of energy efficiency in the decision-making for product purchases.

These objectives are global for the Group, although each Group company has its own environmental objectives directly related to its business.

h) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids and in the ordinary course of its business. No significant additional liabilities in the accompanying financial statements are expected to arise from guarantees and deposits issued.

(20) CASH FLOW ANALYSIS

Profit before tax in 2009 amounted to 5,606 million euros (see the income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in 2009.

These adjustments mainly relate to:

- Reversals of impairments to investments in Group companies, associates and other investments for 1,087 million euros (expense in 2008 of 4,182 million euros).
- Declared dividends as income in 2009 for 5,763 million euros (7,135 million euros in 2008), interest accrued on loans granted to subsidiaries of 662 million euros (869 million euros in 2008) and a net financial loss of 1,870 million euros (-2,856 million euros in 2008), adjusted initially to include only movements related to cash inflows or outlooks during the year under "Other cash flows from operating activities."

“Other cash flows from operating activities” amounted to 8,382 million euros in 2009 (8,448 million euros in 2008). The main items included are:

- a) Net interest paid: Payments of net interest and other financial expenses amounted to 974 million euros (2,644 million euros in 2008), including:
- interest paid to external credit entities of 49 million euros (2,120 million euros in 2008), and
 - interest paid to Group companies of 925 million euros (1,404 million euros in 2008). The main interest payments in 2009 were to Telefónica Emisiones, S.A.U., for 770 million euros, and to Telefónica Europe, B.V., for 499 million euros.
- b) Dividends received:

The main receipts relate to:

<i>(Millions of euros)</i>	2009	2008
Telefónica de España, S.A.U.	2,993	2,202
Telefónica Móviles España, S.A.U.	2,601	2,697
Telefónica O2 Europe, plc.	1,350	2,487
Telefónica O2 Czech Republic, a.s.	438	455
Other dividends received	402	407
Total	7,784	8,248

The interim dividend charged against 2008 profit by Telefónica de España, S.A.U. for 1,800 million euros pending collection at December 31, 2008 was collected in 2009.

- c) Income tax collected: Telefónica, S.A. is the parent of its consolidated Tax Group (see Note 17) and therefore it is liable for filing income tax with the Spanish Treasury. It subsequently informs companies included in the Tax Group of the amounts payable by them. In 2009 the amount recognized under this item mainly related to payments on account totaling 1,297 million euros, less collections from subsidiaries in the Tax Group, mainly from:
- Telefónica Móviles España, S.A.U.: 1,488 million euros, of which 999 million euros are for the payment of corporate income in 2008 and 489 million euros for payments on account of corporate income in 2009. In 2008, a receipt of 1,087 million euros of 2007 corporate income tax was recognized.
 - Telefónica de España, S.A.U.: 1,214 million euros, of which 709 million euros are for the payment of corporate income in 2008 and 505 million euros for payments on account of corporate income in 2009. In 2008, a receipt of 1,972 million euros was recognized, 997 million euros and 975 million euros for 2006 and 2007 corporate income tax, respectively.

“Payments on investments” under “Cash flows used in investing activities” included a total payment of 1,403 million euros (2,983 million euros in 2008) mainly due to the delivery of funds to finance other Group companies. The amounts recognized in 2008 were as follows:

- Capital increases: Telefónica Móviles Colombia, S.A. for 155 million euros and Telefónica O2 Europe, Ltd. for 224 million euros (see Note 8.1).
- Cancellation of interest-bearing debt of Telefónica de España, S.A.U. for 1,042 million euros.
- Delivery of funds to finance other Group companies of 1,562 million euros. The main delivery of funds was to Telefónica Internacional, S.A.U. for 1,134 million euros.

In addition, “Proceeds from disposals” includes the repayment of loans granted by Telefónica, S.A. to subsidiaries, the most significant amounts of which were received from Telefónica de España, S.A.U., (1,095 million euros), Telefónica Internacional, S.A.U. (509 million euros), and Inversiones Móviles Chile (234 million euros).

In 2008, the main proceeds recognized under this heading came from Telefónica Internacional, S.A.U. (942 million euros), Telefónica de España, S.A.U. (698 million euros), Telefónica O2 Ireland, Ltd. (115 million euros) and Telefónica Móviles México, S.A. de C.V. (107 million euros). Also included are amounts received from third parties for the sale of Sogecable, S.A. and shares of Portugal Telecom, S.G.P.S. (see Notes 9.3 and 8.1, respectively).

“Cash flows from financing activities” includes the following:

- i. Payments for equity instruments of 311 million euros (2,224 million in 2008), relating to the net amount of treasury shares acquired in 2009 less the sale of treasury shares to Telefónica Internacional, S.A.U. in the transaction described in Note 11.1 d.
- ii. Payments of financial liability instruments, which mainly includes net movements in the Company’s current accounts with Telefónica Finanzas, S.A.U.
- iii. Payments of dividends for 4,557 million euros (4,165 million euros in 2008) (see movements in Note 11.1 d).

(21) EVENTS AFTER THE REPORTING PERIOD

The following events regarding the Company took place between the balance sheet date and the date of preparation of the accompanying financial statements:

- 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 part of its Telecom Italia, S.p.A. shares. The lending banks have granted Telco shareholders a call option on the Telecom Italia, S.p.A. shares to which they could be entitled 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.

- On December 3, 2009, Telefónica’s subsidiary in Germany, Telefónica Deutschland GmbH (“Telefónica Deutschland”), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH (“HanseNet”). The purchase price agreed by the parties was based on the firm value of 900 million euros, subject to a series of adjustments upon completion of the transaction.

The purchase and sale was subject to compliance with a series of conditions, including approval of the transaction by the pertinent competition authorities, which was obtained on January 29, 2010. The transaction was completed in February 2010; hence the outstanding payment commitment was fulfilled.

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.

- 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.

- 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.
- On February 11, 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.
- 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 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.
- 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.

(22) ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements were originally prepared in Spanish. In the event of discrepancy, the Spanish-language version prevails.

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform with generally accepted principles in other countries.

APPENDIX I

**Details of subsidiaries,
associates and investees
at December 31, 2009**

DETAILS OF SUBSIDIARIES, ASSOCIATES AND INVESTEES AT DECEMBER 31, 2009 (millions of euros)								
Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Europe plc (UK) (1) <i>Wireless communications services operator</i> <i>Wellington Street, Slough, SL1 1YP</i>	100.00%	-	13,470	91,691	1,352	987	3,479	26,153
Telefónica Internacional, S.A. (SPAIN) <i>Investment in the telecommunications industry abroad</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	2,839	32,783	-	78	547	8,132
Telefónica Móviles España, S.A.U. (SPAIN) <i>Wireless communications services provider</i> <i>Plaza de la Independencia, 6 - Pta. 5 - 28001 Madrid</i>	100.00%	-	423	498	2,602	3,154	2,190	5,775
Telefónica de España, S.A.U. (SPAIN) <i>Telecommunications service provider in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	1,024	1,919	1,193	4,254	2,829	3,034
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) <i>Holdíng company</i> <i>Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, Mexico D.F. CP.05349</i>	100.00%	-	1,960	(1,692)	-	336	57	2,557
Telefónica de Contenidos, S.A.U. (SPAIN) <i>Organization and operation of multimedia service-related activities and businesses</i> <i>Don ramón de la Cruz, 84 4ª Pta.- 28006 - Madrid</i>	100.00%	-	1,865	(1,672)	-	(22)	(1)	2,242
Latin American Cellular Holdings, B.V. (NETHERLANDS) (*) <i>Holdíng company</i> <i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%	-	-	1,586	168	-	1,011	1,669
Telefónica Datacorp, S.A.U. (SPAIN) <i>Telecommunications service provider and operator</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	700	65	-	(6)	1	1,343

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Móviles Argentina Holding, S.A. (ARGENTINA) <i> Holding company Ing Enrique Butty 240, piso 20-Capital Federal-Argentina</i>	100.00%	-	317	358	-	509	278	1,142
Inversiones Telefónica Móviles Holding, Ltd. (CHILE) <i> Holding company Miraflores, 130 - 12° - Santiago de Chile</i>	100.00%	-	752	224	-	-	185	741
Ecuador Cellular Holdings, B.V. (NETHERLANDS) (*) <i> Holding company Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%	-	-	107	-	-	4	581
Atento Inversiones y Teleservicios, S.A. (SPAIN) <i> Telecommunications service provider C/ Santiago de Compostela, 94 - 28.035 Madrid</i>	100.00%	-	24	132	-	(10)	7	372
O2 (Europe) Ltd. (UK) <i> Wireless communications services operator Wellington Street, Slough, SL1 1YP</i>	100.00%	-	1,239	6,445	-	-	19	8,744
Telefónica Centroamérica de Guatemala Holdings, S.A. (GUATEMALA) <i> Holding company Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 10 – Guatemala City</i>	100.00%	-	197	(66)	13	48	36	238
Ecuador Cellular Holdings, B.V. (NETHERLANDS) (*) <i> Holding company Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%	-	-	40	14	-	23	238
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) <i> Holding company Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador</i>	100.00%	-	-	-	-	-	-	161



Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) <i>Ownership of shareholdings in cellular operators in Puerto Rico</i> <i>Metro Office Park Calle Edificio #17, Suite 600 - 00968 Guaynabo</i>	100.00%	-	116	(116)	-	-	-	110
Ateseco Comunicación, S.A. (SPAIN) (2) <i>Dormant company</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	6	20	-	(1)	(1)	80
Terra Networks Asociadas, S.L. (SPAIN) <i>Holding company</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	7	(29)	-	1	3	64
Guatemala Cellular Holdings, B.V. (NETHERLANDS) (*) <i>Holding company</i> <i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%	-	-	6	5	-	4	30
Taetel, S.L. (SPAIN) <i>Acquisition, ownership and disposal of shares and stakes in other companies</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	28	6	1	-	-	28
Telefónica Gestión de Servicios Compartidos España, S.A. (SPAIN) <i>Management and administrative services rendered</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	8	19	-	8	14	24
LE Holding Corporation (USA) <i>Holding company</i> <i>Corporation Trust Center, 1209 Orange Street - Wilmington, Delaware 19801</i>	100.00%	-	N/D	N/D	-	N/D	N/D	19
Telefónica Capital, S.A. (SPAIN) <i>Finance company</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	7	75	-	(2)	(1)	18

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Lotca Servicios Integrales, S.L. (SPAIN) <i> Holding and operation of aircraft and aircraft leases. Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	17	-	-	-	-	17
Comet, Compañía Española de Tecnología, S.A. (SPAIN) <i> Promotion of business initiatives and holding of real estate assets Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100.00%	-	5	3	-	-	-	14
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) <i> Integrated cash management, consulting and financial support for Group companies Gran Vía, 30 - 4ª Plta. - 28013 Madrid</i>	100.00%	-	3	29	-	(1)	10	13
Telefónica Móviles Soluciones y Aplicaciones, S.A. (CHILE) <i> IT and communications services provider Avenida del Cóndor N°720, piso 4, comuna de Huechuraba, Santiago de Chile</i>	100.00%	-	10	(1)	-	1	1	11
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) <i> Design of communications products Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid</i>	100.00%	-	-	N/D	-	N/D	N/D	10
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) <i> Security services and systems Condesa de Venadito, 1 - 28027 Madrid</i>	100.00%	-	1	2	-	(2)	-	9
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN) <i> Telecommunications research activities and projects Emilio Vargas, 6 - 28043 Madrid</i>	100.00%	-	6	51	-	1	(1)	6
Venturini España, S.A. (SPAIN) <i> Printing, graphic arts and direct marketing Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100.00%	-	3	-	-	-	-	4

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telfisa Global, B.V. (NETHERLANDS) <i>Integrated cash management, consulting and financial support for Group companies</i> <i>Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX - Amsterdam</i>	100.00%	-	-	2	-	(1)	1	2
Telefónica de Centroamérica, S.L. (SPAIN) (3) <i>Dormant company</i> <i>Gran Vía, n° 28, 28013 Madrid</i>	100.00%	-	-	-	-	-	-	1
Terra Networks Marocs, S.A.R.L. (MOROCCO) (2) <i>Dormant company</i> <i>332 Boulevard Brahim Roudani, Casablanca</i>	100.00%	-	-	N/D	-	N/D	N/D	-
Terra Networks Serviços de Acesso a Internet e Trading Ltd. (PORTUGAL) (2) <i>Dormant company</i> <i>Avda. Arriaga, 73-2º andar, sala 212 - Freguesia de Se, Concelho do Funchal (Madeira)</i>	100.00%	-	-	N/D	-	N/D	N/D	-
Fisatel Mexico, S.A. de C.V. (MEXICO) <i>Boulevard Manuel Avila Camacho, 24 - 16ª Plta. - Lomas de Chapultepec - 11000 Mexico D.F.</i>	100.00%	-	-	1	-	-	-	-
Telefónica Participaciones, S.A. (SPAIN) <i>Issuance of preferred securities and/or other debt financial instruments</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	-	-	-	-	-	-
Telefónica Emisiones, S.A.U. (SPAIN) <i>Issuance of preferred securities and/or other debt financial instruments</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	-	-	1	-	(2)	1	-
Telefónica Europe, B.V. (NETHERLANDS) <i>Fund raising in capital markets</i> <i>Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX - Amsterdam</i>	100.00%	-	-	5	2	(1)	2	-

Name and corporate purpose	% Ownership		Share capital	Reserves	Dividends received	Profit (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Internacional USA Inc. (USA) <i>Financial advisory services</i> 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100.00%	-	-	1	-	-	-	-
Omicron Ceti, S.L. (SPAIN) (3) <i>Dormant company</i> José Abascal – 28013 Madrid	100.00%	-	N/D	N/D	-	N/D	N/D	-
Telefónica Internacional Wholesale Services II, S.L. (SPAIN) <i>Telecommunications service provider and operator</i> Ronda de la Comunicación, s/n – 28050 Madrid	100.00%	-	-	-	-	(1)	-	-
Casiopea Reaseguradora, S.A. (LUXEMBURG) <i>Reinsurance</i> 6D, route de Trèves, L-2633 Senningerberg, Luxemburg	99.97%	0.03%	4	205	-	6	22	3
Telefónica Telecomunicaciones México, S.A. de C.V. (MEXICO) <i>Holdíng company</i> Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, Mexico D.F. CP.05349	94.90%	-	-	-	-	-	-	-
Telefónica Internacional Wholesale Services, S.L. (SPAIN) <i>International services provider</i> Gran Vía, 28 - 28013 Madrid	92.51%	7.49%	230	8	-	16	15	213
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) <i>Life insurance, pensions and health insurance</i> Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid	89.99%	10.01%	51	47	-	1	1	59
Corporation Real Time Team, S.L. (SPAIN) <i>Internet design, advertising and consulting</i> Claudio Coello, 32, 1º ext. - Madrid	87.96%	12.04%	-	N/D	-	N/D	N/D	12

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (Loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica International Wholesale Services America, S.A. (URUGUAY) <i>Provision of high bandwidth communications services</i> <i>Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>	76.85%	23.15%	562	(220)	-	(14)	(15)	325
Telefonica O2 Czech Republic, a.s. (CZECH REPUBLIC) (1) (4) <i>Telecommunications service provider</i> <i>Olsanska 55/5 - Prague 3, 130 34</i>	69.41%	-	1,073	1,278	340	570	441	3,428
Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA) <i>Holding company</i> <i>Av. Francisco de Miranda, Edif. Parque Cristal, Torre Oeste, Piso 14</i>	65.14%	34.86%	-	-	-	-	-	-
Telefónica Móviles Panamá, S.A. (PANAMA) <i>Wireless telephony services</i> <i>Edificio Magna Corp. Calle 51 Este y Avda Manuel Maria Icaza, Panama City</i>	56.32%	43.69%	52	41	15	57	40	301
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725 – 1077 XX - Amsterdam</i>	50.00%	43.99%	40	11	2	-	3	21
Brasil Celular, N.V. (NETHERLANDS) (1) <i>Joint Venture and holding company for wireless communications services</i> <i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>	50.00%	-	-	5,802	-	651	163	2,106
MobiPay Internacional, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i> <i>Avenida de Europa 20, Alcobendas, Madrid</i>	50.00%	-	4	(5)	-	-	-	5
Telefónica Móviles Colombia, S.A. (COLOMBIA) (1) <i>Wireless operator</i> <i>Calle 100, N° 7-33, Piso 15, Bogotá, Colombia</i>	49.42%	50.58%	-	698	-	69	(12)	272

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (Loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Móviles del Uruguay, S.A. (URUGUAY) <i>Wireless communications and services operator</i> <i>Constituyente 1467 Piso 23, Montevideo 11200</i>	32.00%	68.00%	6	86	-	56	44	13
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. (SPAIN) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid</i>	16.67%	83.33%	-	2	1	3	3	-
Telefónica Móviles Argentina, S.A. (ARGENTINA) (1) <i>Holding company</i> <i>Ing Enrique Butty 240, piso 20-Capital Federal-Argentina</i>	15.40%	84.60%	317	358	7	509	278	139
Telefónica Móviles Guatemala, S.A. (GUATEMALA) <i>Provision of wireless, wireline and radio paging communications services</i> <i>Bulevar Los Próceres 20-09 Zona 10. Edificio Iberoplaza. Guatemala City</i>	13.60%	86.38%	-	-	-	-	-	38
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) <i>Management and administrative services rendered</i> <i>Av. Ing. Huergo 723 PB - Buenos Aires</i>	4.99%	95.00%	-	1	-	-	-	-
OMTP Limited (Open Mobile Terminal Platform) (UK)	2.04%	-	N/D	N/D	-	N/D	N/D	N/D
Telefónica de Argentina, S.A. (1) <i>Telecommunications service provider</i> <i>Av. Ingeniero Huergo, 723, PB - Buenos Aires</i>	1.80%	98.20%	624	(338)	-	232	116	23
Telefónica Brasil Sul Celular Participações, Ltda. (BRAZIL) (5) <i>Holding company</i> <i>Avda. Martiniano de Carvalho, 851, 20 andar, parte Sao Paulo, Sao Paulo</i>	1.12%	98.79%	-	-	-	-	-	1

Telefonica

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (Loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica del Perú, S.A.A. (PERU) (1) (4) <i>Operator of local, domestic and international long distance telephony services in Peru</i> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i>	0.16%	98.18%	2,962	(2,292)	-	152	197	2
Telcel, C.A. (VENEZUELA) (1) <i>Wireless operator</i> <i>Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060</i>	0.08%	99.92%	905	1,503	-	1,291	598	124
Telefónica Factoring España, S.A. (SPAIN) <i>Factoring</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i>	50.00%	-	5	2	2	6	4	3
Telco, S.p.A. (ITALY) <i>Holding company</i> <i>Galleria del Corso, 2 - Milan</i>	46.18%	-	3,588	(106)	-	(2)	(60)	2,314
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) <i>Factoring</i> <i>Mexico City</i>	40.50%	9.50%	2	-	-	-	-	1
Telefónica Factoring Perú, S.A.C. (PERU) <i>Factoring</i> <i>Lima</i>	40.50%	9.50%	1	1	-	-	-	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) <i>Factoring</i> <i>Bogota</i>	40.50%	9.50%	1	-	-	-	-	1
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) <i>Factoring</i> <i>Avda. Paulista, 1106 - Sao Paulo</i>	40.00%	10.00%	1	-	2	(1)	8	1

Name and corporate purpose	% Ownership		Capital	Reserves	Dividends received	Profit (Loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Torre de Collçerola, S.A. (SPAIN) <i>Operation of a telecommunications mast and technical assistance and consulting services</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	30.40%	-	6	-	-	-	-	2
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) (4) (6) <i>Holding company</i> <i>Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	8.51%	1.49%	27	506	44	769	372	642
Amper, S.A. (SPAIN) (1) (4) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i>	6.10%	-	29	342	2	1	(6)	12
ZON Multimedia - Serviços de Telecomunicações e Multimédia, SGPS, S.A. (PORTUGAL) (4) <i>Multimedia business</i> <i>Avda. 5 de Outubro, 208 - Lisbon</i>	4.80%	0.66%	3	323	-	31	49	103
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (4) (6) <i>Banking</i> <i>San Nicolás, 4 - 48005 Bilbao (Vizcaya)</i>	0.98%	-	1,837	23,981	13	15,378	4,179	559
Other investments	N/A	-	N/A	N/A	-	N/A	N/A	13

(1) Consolidated data

(2) Dormant company

(3) Company in liquidation

(4) Companies listed on international stock exchanges at December 31, 2009

(5) Data under local GAAP

(6) Data as of September 2009.

N/D No data available

N/A Not applicable

(*) Data as of December 31, 2008.

TOTAL GROUP COMPANIES AND JOINT VENTURES	70,667
TOTAL ASSOCIATES	2,965
TOTAL NON-CURRENT FINANCIAL INVESTMENTS	687

**2009 MANAGEMENT REPORT
TELEFÓNICA, S.A.**

ECONOMIC RESULTS

Against a complex backdrop, the Telefónica Group's commercial and financial results in 2009 underscore the benefits of its unique profile: extensive business diversification, operating integration in key markets, strong competitive positioning in main markets, proven capacity to deliver and financial strength.

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. 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.

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). 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.

We also increased **broadband accesses** by 8.2% to 13.5 million at December 31, 2009 from 12.5 million at December 31, 2008. 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. 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. This fact has had no impact in Telefónica, S.A.'s 2009 standalone financial statements though it has had impact in Telefónica Group's consolidated financial statements as of December 31, 2009.

Results of Telefónica, S.A.

Telefónica, S.A. obtained net profit of 6,252 million euros in 2009. Highlights of the 2009 income statement include:

- Growth in revenue from operations because most of the contracts signed in 2008 for use of the Telefónica brand entailing royalties stipulated an increasing percentage for the years 2008 to 2011. The 2009 income statement included 369 million euros of revenue from royalties for use of the brand (274 million in 2008).

In accordance with provisions of BOICAC N° 79, the following items were reclassified from "Revenue from operations" in 2009:

- Dividends received from group companies and associates, of which the largest came from Telefónica O2 Europe, plc. (1,352 million euros), Telefónica de España, S.A.U. (1,193 million euros) and Telefónica Móviles España (2,602 million euros).
 - Interest income on loans to group companies and associates, the main amounts of which relate to interest from Telefónica Móviles México, S.A. de C.V. (215 million euros), Telefónica de España, S.A.U. (187 million euros) and Telefónica Móviles España, S.A.U. (214 million euros).
- Net financial expense totaled 1,870 million euros in 2009, compared to 2,856 million in 2008. This was mainly due to finance costs with group companies and associates, of which the largest came from Telefónica Europe, B.V., (518 million euros) and Telefónica Emisiones, S.A.U. (981 million euros).

Investment activity

2009

In 2009, Telefónica, S.A. did not carry out any significant capital increases in subsidiaries:

On June 11, 2009, Telefónica, S.A. recognized the capitalization of part of the loans granted in prior years and the accrued interest payable to Telefónica Móviles México, S.A. de C.V. for 1,381 million euros.

Telefonica

On June 5, 2009 and November 2, 2009, Telefónica, S.A. contributed to its subsidiary Latin American Cellular Holding, S.A. receivables in favor of Telcel, C.A. amounting to 58 million strong Venezuelan bolivars (19 million euros) and 49 million strong bolivars (15 million euros) for this company to subsequently make payments on the loan granted to it by Telcel, C.A.

In December 2009, following approval by the *Comisión Nacional de Valores de la República Argentina* (“CNV”), the Argentine securities regulatory, Telefónica, S.A. acquired shares representing 1.8% of the share capital of Telefónica de Argentina, S.A. held by minority shareholders. The total investment amounted to 23 million euros.

Investments classified as available for sale increased by 197 million euros in 2009 thanks to the recovery in the share prices of Banco Bilbao Vizcaya Argentaria, S.A. and Amper, S.A. The after-tax impact had a balancing entry in “Equity - Net unrealized gains (losses) reserve.”

At June 30, 2009, Telefónica, S.A. took a 34 million euro impairment loss on its shareholding in Zon Multimedia, S.G.P.S. as a result of the steady decline in its market price, estimating that it would not be recoverable. This impairment was recognized in the income statement under “Gain (loss) on available-for-sale financial assets recognized in the period.”

2008

On May 9, 2008, Telefónica, S.A. announced its decision to accept the takeover bid launched by Promotora de Informaciones, S.A. (“PRISA”) for Sogecable, S.A. This disposal added 11 million euros to the Company’s income statement.

Investments classified as available for sale declined by 273 million euros in 2008 due to falls in the share prices of Banco Bilbao Vizcaya Argentaria, S.A., Amper, S.A. and Zon Multimedia Serviços de Telecomunicações e Multimedia, S.G.P.S., S.A. The after-tax impact had a balancing entry in “Equity - Net unrealized gains (losses) reserve.”

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 focused on profitable innovation, process efficiency, creation of new revenue streams, 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 addition, 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.

FINANCING

The main financing transactions in 2009 carried out by Telefónica, S.A. or guaranteed by Telefónica, S.A. were as follows:

- 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	12-10-22	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 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%

2008

Telefónica, S.A. guaranteed the issue held on June 12, 2008 of 1,250 million euros of bonds maturing on June 12, 2013 by Telefónica Emisiones, S.A.U. This issue was made under the terms and conditions established in Telefónica Emisiones, S.A.U.'s European Medium Term Note (EMTN) program registered on July 8, 2005 with the London Stock Exchange.

TRANSACTIONS WITH TREASURY SHARES

At December 31, 2009 and 2008, Telefónica, S.A. held the following treasury shares:

	No. of shares	Euros per share		Market Value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.13868%

(1) Millions of euros

	No. of shares	Euros per share		Market Value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/08	125,561,011	16.68	15.85	1,990	2.66867%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2009 and 2008 is as follows:

	No. of shares
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
Disposals	(40,730,735)
Delivery PSP Phase I	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	6,329,530

The amount paid to acquire own equity instruments in 2009 and 2008 was 1,005 million and 2,225 million euros, respectively.

On October 16, 2009, Telefónica, S.A. sold 40.7 million treasury shares to Telefónica Internacional, S.A.U. under an agreement entered into between the Telefónica Group and China Unicom Hong Kong Limited. On October 21, 2009, this agreement was executed with the mutual share exchange between Telefónica Internacional, S.A.U. and China Unicom amounting to 1,000 million dollars. The treasury shares were sold to Telefónica Internacional, S.A.U. at a price of 766 million euros.

Treasury shares sold in 2009 and 2008 amounted to 766 million and 1 million euros, respectively.

At December 31, 2009, Telefónica, S.A. held call options on 150 million treasury shares. At December 31, 2008, Telefónica, S.A. held put options on 6 million treasury shares.

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 policies 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 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. 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.

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.* The mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, N.V., jointly controlled by Telefónica and Portugal Telecom, S.G.P.S., 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 it 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.

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 or 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.

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 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.

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.

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. This fact 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.

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.

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

Telefonica

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.

EVENTS AFTER THE REPORTING PERIOD

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

- 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.

- On December 3, 2009, Telefónica’s subsidiary in Germany, Telefónica Deutschland GmbH (“Telefónica Deutschland”), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH (“HanseNet”). The purchase price agreed by the parties was based on the firm value of 900 million euros, subject to a series of adjustments upon completion of the transaction.

The purchase and sale was subject to compliance with a series of conditions, including approval of the transaction by the pertinent competition authorities, which was obtained on January 29, 2010. The transaction was completed in February 2010; hence the outstanding payment commitment was fulfilled.

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.

- 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.
- 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.
- On February 11, 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.

- 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.
- 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 was subject, among other conditions, to the obtainment of the appropriate regulatory authorizations.

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	-	-
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	177,257,649	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.

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.

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.

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.

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.

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.

**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

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

% of total voting rights held by the Board of Directors	0.139
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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- Pallette 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.		Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A.
	Corporate	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%

Brief 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
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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 the Ordinary General Shareholders Meeting of the Company on April 22, 2008.”

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
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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
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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:

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
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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

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

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	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> - 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.

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
	Telecomunicações 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	Telecomunicações 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
	Telecomunicações 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	Telecomunicações de Sao Paulo, S.A.	Director
	Telefónica Internacional, S.A.U.	Director
Mr. Peter Erskine	Telefónica Europe, Plc.	Director

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
<p>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.</p> <p>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.</p>

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

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

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

Is the General Shareholders' Meeting informed of such clauses?	Yes
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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.

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.

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

Role of the Remunerations Committee
<ul style="list-style-type: none"> - 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. <p>The annual report regarding the Director compensation policy of Telefónica, S.A. deals with the following:</p> <ul style="list-style-type: none"> - 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
Mr. 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"
Mr. 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.
Mr. José Fernando de Almansa Moreno-Barreda	Banco Bilbao Vizcaya Argentaria, S.A.	Director of Serveis Informàtics de la Caixa, S.A. (SILK)
		Alternate Director of BBVA Bancomer México, S.A. de C.V.

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
Vitalino Manuel Nafría Aznar	Banco Bilbao Vizcaya Argentaria, S.A.	Early retirement. Formerly Retail Banking Manager for Spain and Portugal.
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.

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 after 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.

- 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 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.

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 Director 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	-
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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
<p>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, Ms. 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.</p> <p>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 Ms. María Luz Medrano Aranguren as the Deputy Secretary General and of the Board of Directors of Telefónica.</p>

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.

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.

- 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

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

B.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or 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
<p>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.</p> <p>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.</p>

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
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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
<p>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.</p> <p>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.</p>

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	<p>Summary Proceedings 7721/2002 Magistrate's Court no. 32 of Madrid</p>	<p>Ruling dated July 17, 2009 by Section 17 of the Madrid Regional Court absolving César Alierta Izuel</p>

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.

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

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

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

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.

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.

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.

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.

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.

- 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.

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.

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.

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.

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

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

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

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.

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 policies 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 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. 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.

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 it 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.

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.

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 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.

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. 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

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, the 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

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	<p>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.</p> <p>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.</p> <p>Occasionally, as mentioned above, other managers from within the Group are invited to inform the Committee on specific areas of interest to it.</p> <p>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.</p> <p>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.</p> <p>Likewise, within the Group, Committees have been set</p>

	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
<p>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.</p> <p>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.</p> <p>Notwithstanding the provisions of the preceding paragraph, no shareholder may cast a</p>

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

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.

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
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> - 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. <p>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).</p>

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:

Date of general meeting	Attendance data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
06/23/09	0.168	60.463	0.000	0	60.631

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
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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.

* 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.

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.

- 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

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;**

- 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 than 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

- 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.

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.**

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

See section: B.1.34

Complies

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

See section: B.1.29

Complies

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

See sections: B.1.28 and B.1.30

Complies

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

Complies

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

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

See section: B.1.19

Complies

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

See section: B.1.42

Complies

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

See section: B.1.41

Complies

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

Complies

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

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

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

Complies

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

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

See section: B.1.2

Complies

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

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

- d) **The date of their first and subsequent appointments as a company director; and;**
- e) **Shares held in the Company and any options on the same.**

Complies

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

See section: B.1.2

Complies

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

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

Complies

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

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

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

Complies

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

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

See sections: B.1.43, B.1.44

Complies

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

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

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

Complies

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

See section: B.1.5

Not applicable

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

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

- d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:**
- i) Duration;**
 - ii) Notice periods; and**
 - iii) Any other clauses covering hiring bonuses, as well as indemnities or ‘golden parachutes’ in the event of early termination of the contractual relation between company and executive director.**

See section: B.1.15

Complies

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

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

See sections: A.3, B.1.3

Complies

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

Complies

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

Not applicable

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

Complies

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

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

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

See section: B.1.16

Partially complies

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

- 41. The notes to the Annual Accounts should list individual directors' remuneration in the year, including:**

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

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

Partially complies

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

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

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

See sections: B.2.1 and B.2.6

Complies

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

Complies

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

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

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

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

See sections: B.2.1 and B.2.3

Complies

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

Complies

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

Complies

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

Complies

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

Complies

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

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

See section: D

Complies

50. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

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

2. With respect to the external auditor:

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

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

Complies

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

Complies

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

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

See sections: B.2.2 and B.2.3

Complies

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

See section: B.1.38

Complies

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

See section: B.2.1

Complies

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

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

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

See section: B.2.3

Complies

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

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

Complies

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

a) Make proposals to the Board of Directors regarding:

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

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

See sections: B.1.14, B.2.3

Complies

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

Complies

G OTHER INFORMATION OF INTEREST

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

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

- **Note 1 to Section A.2.]**

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

- **Note 2 to Section A.3.]**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Board Members	Board of Directors	Executive Commission	Other Board Committees		TOTAL
			Fixed payment	Per diems	
<u>Chairman</u>					
Mr. César Alierta Izuel	300,000	100,000	-	-	400,000
<u>Vice chairmen</u>					
Mr. Isidro Fainé Casas	250,000	100,000	-	-	350,000
Mr. Vitalino Manuel Nafría Aznar	250,000	-	56,000	22,500	328,500
<u>Members</u>					
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)

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’s senior executives for each of the periods is 130,911 shares for the second phase, 306,115 shares for the third phase and 394,779 shares for the fourth phase. Similarly, as explained above, these senior executives received a total of 284,248 shares in the first phase of the Plan.

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

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

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

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

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

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

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

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

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

Financial year 1983 was the first audited by an external auditor. Prior to that, the financial 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.

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
