EXHIBIT F

AUDIT REPORT, CONSOLIDATED ANNUAL FINANCIAL STATEMENTS, AND CONSOLIDATED MANAGEMENT REPORT ALL FOR THE YEAR ENDED DECEMBER 31, 2009

AUDIT REPORT

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

ERNST & YOUNG

ERNST & YOUNG

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Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See note 25)

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

1. We have audited the consolidated financial statements of Telefónica, S.A. (the Parent Company) and its subsidiaries, which comprise the consolidated statement of financial position at December 31, 2009 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto for the year then ended, the preparation of which is the responsibility of the Parent Company's Directors. Our responsibility is to express an opinion on the aforementioned consolidated 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 consolidated 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 Parent Company's Directors have included for each of the headings presented in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto, in addition to the figures of 2009, those of 2008. Likewise for comparative purposes, the Parent Company's Directors have voluntarily included the 2007 figures of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the notes thereto. Our opinion refers only to the consolidated financial statements for 2009. On March 6, 2009 and February 28, 2008, we issued our audit reports on the 2008 and 2007 consolidated financial statements, respectively, in which we expressed an unqualified opinion.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116. C.I.F. B-78970506

3. In our opinion, the accompanying 2009 consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and the consolidated financial position of Telefónica, S.A. and its subsidiaries at December 31, 2009 and the consolidated results of its operations, changes in consolidated equity and consolidated cash flows and for the year then ended and contain the required information necessary for their adequate interpretation and understanding, in conformity with the International Financial Reporting Standards adopted by the European Union applied on a basis consistent with that of the preceding two years.

4. The accompanying 2009 consolidated management report contains such explanations as the Parent Company's Directors consider appropriate concerning the situation of Telefónica, S.A. and its subsidiaries, the evolution of their business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the consolidated financial statements. Our work as auditors is limited to verifying the consolidated 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 accounting records of Telefónica, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

José Luis Perelli Alonso

March 18, 2010

Telefónica

TELEFÓNICA, S.A. AND SUBSIDIARIES COMPOSING THE

TELEFÓNICA GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONSOLIDATED ANNUAL ACCOUNTS) AND CONSOLIDATED MANAGEMENT REPORT FOR 2009

Telefónica

TELEFÓNICA GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31

(MILLIONS OF EUROS)

ASSETS	NOTE	2009	2008
A) NON-CURRENT ASSETS		**84,311**	**81,923**
Intangible assets	(Note 6)	15,846	15,921
Goodwill	(Note 7)	19,566	18,323
Property, plant and equipment	(Note 8)	31,999	30,545
Investment properties		5	1
Investments in associates	(Note 9)	4,936	2,777
Non-current financial assets	(Note 13)	5,988	7,376
Deferred tax assets	(Note 17)	5,971	6,980
B) CURRENT ASSETS		**23,830**	**17,973**
Inventories		934	1,188
Trade and other receivables	(Note 11)	10,622	9,315
Current financial assets	(Note 13)	1,906	2,216
Tax receivables	(Note 17)	1,246	970
Cash and cash equivalents	(Note 13)	9,113	4,277
Non-current assets held for sale		9	7
TOTAL ASSETS (A + B)		**108,141**	**99,896**

EQUITY AND LIABILITIES	NOTE	2009	2008
A) EQUITY		**24,274**	**19,562**
Equity attributable to equity holders of the parent		21,734	17,231
Non-controlling interests	(Note 12)	2,540	2,331
B) NON-CURRENT LIABILITIES		**56,931**	**55,202**
Non-current interest-bearing debt	(Note 13)	47,607	45,088
Non-current trade and other payables	(Note 14)	1,249	1,117
Deferred tax liabilities	(Note 17)	3,082	3,576
Non-current provisions	(Note 15)	4,993	5,421
C) CURRENT LIABILITIES		**26,936**	**25,132**
Current interest-bearing debt	(Note 13)	9,184	8,100
Current trade and other payables	(Note 14)	14,023	13,651
Current tax payables	(Note 17)	2,766	2,275
Provisions	(Note 15)	963	1,106
TOTAL EQUITY AND LIABILITIES (A+B+C)		**108,141**	**99,896**

The accompanying Notes 1 to 25 and Appendices I to V are an integral part of these consolidated statements of financial position

Telefónica

TELEFÓNICA GROUP
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31
(MILLIONS OF EUROS)

INCOME STATEMENT	NOTE	2009	2008	2007
Revenue from operations	(Note 19)	56,731	57,946	56,441
Other income	(Note 19)	1,645	1,865	4,264
Supplies		(16,717)	(17,818)	(17,907)
Personnel expenses		(6,775)	(6,762)	(7,893)
Other expenses	(Note 19)	(12,281)	(12,312)	(12,081)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)		**22,603**	**22,919**	**22,824**
Depreciation and amortization	(Note 19)	(8,956)	(9,046)	(9,436)
OPERATING INCOME		**13,647**	**13,873**	**13,388**
Share of profit (loss) of associates	**(Note 9)**	**47**	**(161)**	**140**
Finance income		814	827	703
Exchange gains		3,085	6,189	4,645
Finance costs		(3,581)	(3,648)	(3,554)
Exchange losses		(3,625)	(6,165)	(4,638)
Net financial expense	**(Note 16)**	**(3,307)**	**(2,797)**	**(2,844)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**10,387**	**10,915**	**10,684**
Corporate income tax	(Note 17)	(2,450)	(3,089)	(1,565)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**7,937**	**7,826**	**9,119**
Profit after tax from discontinued operations	**(Note 18)**	-	-	-
PROFIT FOR THE YEAR		**7,937**	**7,826**	**9,119**
Non-controlling interests	**(Note 12)**	**(161)**	**(234)**	**(213)**
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**7,776**	**7,592**	**8,906**
Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent (euros)	**(Note 19)**	**1.71**	**1.63**	**1.87**
Basic and diluted earnings per share attributable to equity holders of the parent (euros)	**(Note 19)**	**1.71**	**1.63**	**1.87**

The accompanying Notes 1 to 25 and Appendices I to V are an integral part of these consolidated income statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Year ended December 31		
(MILLIONS OF EUROS)	2009	2008	2007
Profit for the year	**7,937**	**7,826**	**9,119**
Other comprehensive income			
Gain (loss) on measurement of available-for-sale investments	638	(1,167)	(75)
Reclassification of (losses) gains included in the income statement	(4)	(142)	107
Income tax impact	(105)	281	24
	529	(1,028)	56
(Losses) gains on hedges	(794)	1,302	875
Reclassification of (losses) gains included in the income statement	(77)	50	17
Income tax impact	262	(402)	(292)
	(609)	950	600
Translation differences	1,982	(4,051)	(1,375)
Actuarial gains and losses and impact of limit on assets for defined benefit pension plans	(189)	(182)	54
Income tax impact	53	55	(17)
	(136)	(127)	37
Share of income (loss) recognized directly in equity of associates	233	(59)	(3)
Income tax impact	2	(13)	(11)
	235	(72)	(14)
Total other comprehensive income	**2,001**	**(4,328)**	**(696)**
Total comprehensive income recognized in the year	**9,938**	**3,498**	**8,423**
Attributable to:			
Equity holders of the parent	9,418	3,612	8,158
Non-controlling interests	520	(114)	265
	9,938	**3,498**	**8,423**

The accompanying Notes 1 to 25 and Appendices I to V are an integral part of these consolidated statements of comprehensive income

Telefónica

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (MILLIONS OF EUROS)	Attributable to equity holders of the parent												
	Share capital	Share premium	Legal reserve	Revaluation reserve	Treasury shares	Retained earnings	Available-for-sale investments	Hedges	Equity of associates	Translation differences	Total	Non-controlling interests	Total equity
Financial position at December 31, 2008	4,705	460	984	172	(2,179)	16,069	(566)	1,413	(216)	(3,611)	17,231	2,331	19,562
Profit for the year	-	-	-	-	-	7,776	-	-	-	-	7,776	161	7,937
Other comprehensive income (loss)	-	-	-	-	-	(136)	527	(609)	235	1,625	1,642	359	2,001
Total comprehensive income						7,640	527	(609)	235	1,625	9,418	520	9,938
Dividends paid (Note 12)	-	-	-	-	-	(4,557)	-	-	-	-	(4,557)	(295)	(4,852)
Hyperinflation restatement to 01/01/09										613	613	-	613
Net movement in treasury shares	-	-	-	-	(656)	-	-	-	-	-	(656)	-	(656)
Acquisitions and disposals of Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(122)	(122)
Capital reduction (Note 12)	(141)	-	-	-	2,308	(2,167)	-	-	-	-	-	-	-
Other movements	-	-	-	(15)	-	(300)	-	-	-	-	(315)	106	(209)
Financial position at December 31, 2009	4,564	460	984	157	(527)	16,685	(39)	804	19	(1,373)	21,734	2,540	24,274
Financial position at December 31, 2007	4,773	522	984	180	(232)	13,025	457	463	(144)	97	20,125	2,730	22,855
Profit for the year	-	-	-	-	-	7,592	-	-	-	-	7,592	234	7,826
Other comprehensive income (loss)	-	-	-	-	-	(127)	(1,023)	950	(72)	(3,708)	(3,980)	(348)	(4,328)
Total comprehensive income						7,465	(1,023)	950	(72)	(3,708)	3,612	(114)	3,498
Dividends paid (Note 12)	-	-	-	-	-	(4,165)	-	-	-	-	(4,165)	(333)	(4,498)
Net movement in treasury shares	-	1,074	-	-	(3,151)	(232)	-	-	-	-	(2,309)	-	(2,309)
Acquisitions and disposals of Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(42)	(42)
Capital reduction (Note 12)	(68)	(1,136)	-	-	1,204	-	-	-	-	-	-	-	-
Other movements	-	-	-	(8)	-	(24)	-	-	-	-	(32)	90	58
Financial position at December 31, 2008	4,705	460	984	172	(2,179)	16,069	(566)	1,413	(216)	(3,611)	17,231	2,331	19,562
Financial position at December 31, 2006	4,921	2,869	984	1,358	(329)	5,717	401	(137)	(130)	1,524	17,178	2,823	20,001
Profit for the year	-	-	-	-	-	8,906	-	-	-	-	8,906	213	9,119
Other comprehensive income (loss)	-	-	-	-	-	37	56	600	(14)	(1,427)	(748)	52	(696)
Total comprehensive income						8,943	56	600	(14)	(1,427)	8,158	265	8,423
Dividends paid (Note 12)	-	-	-	-	-	(3,077)	-	-	-	-	(3,077)	(324)	(3,401)
Net movement in treasury shares	-	(13)	-	-	(2,105)	(13)	-	-	-	-	(2,131)	-	(2,131)
Acquisitions and disposals of Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(95)	(95)
Capital reduction (Note 12)	(148)	(2,054)	-	-	2,202	-	-	-	-	-	-	-	-
Other movements	-	(280)	-	(1,178)	-	1,455	-	-	-	-	(3)	61	58
Financial position at December 31, 2007	4,773	522	984	180	(232)	13,025	457	463	(144)	97	20,125	2,730	22,855

The accompanying Notes 1 to 25 and Appendices I to V are an integral part of these consolidated statements of changes in equity.

Telefónica

TELEFÓNICA GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31
(MILLIONS OF EUROS)

	NOTE	2009	2008	2007
Cash flows from operating activities				
Cash received from customers		67,358	69,060	67,129
Cash paid to suppliers and employees		(46,198)	(48,500)	(47,024)
Dividends received		100	113	124
Net interest and other financial expenses paid		(2,170)	(2,894)	(3,221)
Taxes paid		(2,942)	(1,413)	(1,457)
Net cash from operating activities	(Note 23)	16,148	16,366	15,551
Cash flows from investing activities				
Proceeds on disposals of property, plant and equipment and intangible assets		242	276	198
Payments on investments in property, plant and equipment and intangible assets		(7,593)	(7,889)	(7,274)
Proceeds on disposals of companies, net of cash and cash equivalents disposed		34	686	5,346
Payments on investments in companies, net of cash and cash equivalents acquired		(48)	(2,178)	(2,798)
Proceeds on financial investments not included under cash equivalents		6	31	14
Payments made on financial investments not included under cash equivalents		(1,411)	(114)	(179)
Interest (paid) received on cash surpluses not included under cash equivalents		(548)	76	74
Government grants received		18	11	27
Net cash used in investing activities	(Note 23)	(9,300)	(9,101)	(4,592)
Cash flows from financing activities				
Dividends paid	(Note 12)	(4,838)	(4,440)	(3,345)
Transactions with equity holders		(947)	(2,241)	(2,152)
Proceeds on issue of debentures and bonds	(Note 13)	8,617	1,317	4,209
Proceeds on loans, borrowings and promissory notes		2,330	3,693	6,658
Cancellation of debentures and bonds	(Note 13)	(1,949)	(1,167)	(1,756)
Repayments of loans, borrowings and promissory notes		(5,494)	(4,927)	(13,039)
Net cash flow used in financing activities	(Note 23)	(2,281)	(7,765)	(9,425)
Effect of foreign exchange rate changes on collections and payments		269	(302)	(261)
Effect of changes in consolidation methods and other non-monetary effects		-	14	-
Net increase (decrease) in cash and cash equivalents during the period		4,836	(788)	1,273
CASH AND CASH EQUIVALENTS AT JANUARY 1		4,277	5,065	3,792
CASH AND CASH EQUIVALENTS AT DECEMBER 31	(Note 13)	9,113	4,277	5,065
RECONCILIATION OF CASH AND CASH EQUIVALENTS WITH THE STATEMENT OF FINANCIAL POSITION				
BALANCE AT JANUARY 1		4,277	5,065	3,792
Cash on hand and at banks		3,236	2,820	2,375
Other cash equivalents		1,041	2,245	1,417
BALANCE AT DECEMBER 31	(Note 13)	9,113	4,277	5,065
Cash on hand and at banks		3,830	3,236	2,820
Other cash equivalents		5,283	1,041	2,245

The accompanying Notes 1 to 25 and Appendices I to V are an integral part of these consolidated statements of cash flow

TELEFÓNICA, S.A. AND SUBSIDIARIES COMPOSING THE TELEFÓNICA GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONSOLIDATED ANNUAL ACCOUNTS) FOR THE YEAR ENDED DECEMBER 31, 2009

(1) BACKGROUND AND GENERAL INFORMATION

Telefónica Group organizational structure

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies (the "Telefónica Group," "Telefónica", or "the Group") operating mainly in the telecommunications, media and contact center industries.

The parent company of this Group is Telefónica, S.A. ("Telefónica" or "the Company"), a public limited company incorporated on April 19, 1924 for an indefinite period. Its registered office is at Gran Vía 28, Madrid (Spain).

Appendix V lists the subsidiaries, associates and investees in which the Telefónica Group has direct or indirect holdings, their corporate purpose, country, functional currency, share capital, the Telefónica Group's effective shareholding and their method of consolidation.

Corporate structure of the Group

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.

The Telefónica Group follows a regional, integrated management model through three business areas defined by the geographical markets in which it operates, and with an integrated view of the wireline and wireless businesses:

- Telefónica Spain
- Telefónica Latin America
- Telefónica Europe

The business activities carried out by most of the Telefónica Group companies are regulated by broad ranging legislation, pursuant to which permits, concessions or licenses must be obtained in certain circumstances to provide the various services.

In addition, certain wireline and wireless telephony services are provided under regulated rate and price systems.

A more detailed segmentation of the activities carried out by the Group is provided in Note 4.

(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were prepared from the accounting records of Telefónica, S.A. and of each of the companies comprising the Telefónica Group, whose individuals financial statements were prepared in accordance with the generally accepted accounting principles prevailing in the various countries in which they are located, and for purposes of these consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, which for the purposes of the Telefónica Group are not different from those issued by the International Accounting Standards Board (IASB), to give a true and fair view of the consolidated equity and financial position at December 31, 2009, and of the consolidated results of operations, changes in consolidated equity and the consolidated cash flows obtained and used in the year then ended. The figures in these consolidated financial statements are expressed in millions of euros, unless otherwise indicated, and therefore may be rounded. The euro is the Group's reporting currency.

The accompanying consolidated financial statements for the year ended December 31, 2009 were prepared by the Company's Board of Directors at its meeting on February 24, 2010 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

Note 3 contains a description of the most significant accounting policies used to prepare these consolidated financial statements.

For comparative purposes, the accompanying financial statements for 2009 include the consolidated statement of financial position at December 31, 2008 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and the notes thereto for the years ended December 31, 2008 and, on a voluntary basis, 2007.

Comparative information and main changes in the consolidation scope

The accompanying consolidated statements of comprehensive income and consolidated statements of changes in equity for the year ended December 31, 2009 are presented in accordance with the amendment to IAS 1 "Revised Presentation of Financial Statements" (see Note 3.s). Accordingly, the information presented for the years ended December 31, 2008 and 2007 has been adapted to such amendment, and, therefore, differs, on a presentation basis, from the information contained in the approved 2008 and 2007 consolidated financial statements.

The main changes in the consolidation scope affecting comparability of the consolidated information for 2009 and 2008 (see Appendix I for a more detailed explanation of the changes in consolidation scope in both years and the main transactions in 2007) are as follows:

2009

a) Classification of Venezuela as a hyperinflationary economy

Throughout 2009 and in the first days of 2010, a number of factors arose in the Venezuelan economy that led the Telefónica Group to reconsider the treatment it follows with respect to the translation of the financial statements of investees, as well as the recovery of its financial investments in that country. Within these factors it is worth highlighting the level of inflation reached in 2009 and the cumulative inflation over the last three years; the restrictions to the official foreign exchange market and, finally, the devaluation of the Bolivar fuerte on January 8, 2010 (see Note 24).

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 their date of acquisition or inclusion in the

consolidated statement of financial position to the end of the year to reflect 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 reflected in the 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 of the income statement and statement of cash flows have been adjusted for the inflation index since their generation, with a balancing entry in financial results and a reconciling 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 Bolivares fuertes per dollar (3.1 Bolivares fuertes per euro).

The main effects on the Telefónica Group's consolidated financial statements for 2009 derived from the items mentioned above are as follows:

	Millions of euros
Revenue	267
OIBDA	64
Net profit	(548)
Translation differences	1,224
Impact on equity	676

b) ***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 state 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 Group, as a result of this uncertainty the Company deemed it necessary to recognize a liability as the deduction was applied in the consolidated 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, S.A., ESP and Telefónica O2 Czech Republic, a.s.) are not affected by this decision. As a result of this decision, and considering the corporate structure of these investments, the consolidated income statement of the Telefónica Group for the year ended December 31, 2009 reflects a lower income tax expense due to the reversal of this liability in an amount of 591 million euros.

c) ***Share exchange between Telefónica, S.A. and China Unicom Limited, and signing of strategic alliance agreement***

On September 6, 2009, Telefónica and the Chinese telecommunications company, China Unicom (Hong Kong) Limited ("China Unicom") entered into a wide strategic alliance which includes, among others, the areas of: the joint procurement of infrastructure and client equipment; common development of mobile service platforms; joint provision of services to multinational customers; roaming; research and development; co-operation and sharing of best practices and technical, operational and management know-how; joint development of strategic initiatives in the area of the network evolution and joint participation in international alliances; and exchange of senior management.

In addition, on the same date, Telefónica and China Unicom executed a mutual share exchange agreement through which each party agreed to invest the equivalent of 1,000 million US dollars in ordinary shares of the other party.

On October 21, 2009, the mutual share exchange was implemented through the subscription by Telefónica, S.A., through its wholly owned subsidiary Telefónica Internacional, S.A.U., of 693,912,264 newly issued shares of China Unicom, satisfied by a contribution in kind to China Unicom of 40,730,735 shares of Telefónica, S.A. (see Note 12).

Following the completion of the transaction, Telefónica increased its share of China Unicom's voting share capital from 5.38% to 8.06% and obtained the right to appoint a member to its board of directors, while China Unicom became owner of approximately 0.87% of Telefónica's voting share capital at that date. Subsequently, after a capital reduction carried out by China Unicom, the Telefónica Group reached a shareholding equivalent to 8.37% of the company's voting share capital.

The investment in China Unicom is now included in the consolidation scope under the equity method. The total amount of this investment at December 31, 2009 amounts to 2,301 million euros.

2008

a) ***Tender offer for all the remaining outstanding shares of Telefónica Chile, S.A.***

On September 17, 2008, Telefónica launched a tender offer through its subsidiary Inversiones Telefónica Internacional Holding, Ltda. to acquire all the outstanding shares of Telefónica Chile, S.A. ("CTC") that it did not control directly or indirectly, amounting to 55.1% of CTC's share capital.

Once the acceptance period had ended and the transaction had been settled, Telefónica's indirect ownership in CTC increased from 44.9% to 96.75%.

Subsequently, pursuant to Chilean law, on December 1, 2008, Inversiones Telefónica Internacional Holding, Ltda. launched a new tender offer for all the shares of CTC that it did not own directly or indirectly after settlement of the first offer, under the same economic terms as the initial offer. The acceptance period for the second offer ended on December 31, 2008, but was then extended to January 6, 2009, as allowed by Chilean law.

Upon the end of the acceptance period of the second tender offer, Telefónica's indirect ownership percentage in CTC's share capital increased from 96.75% of all of CTC's outstanding shares, reached in the first tender offer, to 97.89%. The total payment for the two tranches amounted to 558,547 million Chilean pesos, equivalent to 658 million euros.

Key performance indicators

The Group uses a series of indicators in its decision-making which it considers provide a better indication of its performance. These indicators, different from accounting measures, are as follows:

Operating income before depreciation and amortization (OIBDA)

Operating income before depreciation and amortization (OIBDA) is calculated by subtracting depreciation and amortization from operating income to eliminate the impact of investments in fixed assets that cannot be directly controlled by management in the short term. OIBDA is considered to be more important for investors as it provides a gauge of segment operating performance and profitability using the same measures utilized by management. This metric also allows for comparisons with other companies in the telecommunications sector without consideration of their asset structure.

OIBDA is used to track the performance of the business and establish operating and strategic targets. OIBDA is a commonly reported measure and is widely used among analysts, investors and other interested parties in the telecommunications industry, although not a measure explicitly defined in IFRS, and therefore, may not be comparable to similar indicators used by other companies. OIBDA should not be considered as an alternative to operating income as a measurement of our operating results or as an alternative to cash flows from operating activities as a measurement of our liquidity.

The following table presents the reconciliation of OIBDA to operating income for the Telefónica Group for the years ended December 31, 2009, 2008 and 2007:

Millions of euros	2009	2008	2007
OIBDA	**22,603**	**22,919**	**22,824**
Depreciation and amortization	(8,956)	(9,046)	(9,436)
OPERATING INCOME	**13,647**	**13,873**	**13,388**

The following table presents the reconciliation of OIBDA to operating income for each business segment for the years ended December 31, 2009, 2008 and 2007:

	2009				
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
OIBDA	**9,757**	**9,143**	**3,910**	**(207)**	**22,603**
Depreciation and amortization	(2,140)	(3,793)	(2,895)	(128)	(8,956)
OPERATING INCOME	**7,617**	**5,350**	**1,015**	**(335)**	**13,647**

2008					
Millions of euros	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Other and eliminations	Total Group
OIBDA	10,285	8,445	4,180	9	22,919
Depreciation and amortization	(2,239)	(3,645)	(3,035)	(127)	(9,046)
OPERATING INCOME	8,046	4,800	1,145	(118)	13,873

2007					
Millions of euros	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Other and eliminations	Total Group
OIBDA	9,448	7,121	4,977	1,278	22,824
Depreciation and amortization	(2,381)	(3,559)	(3,386)	(110)	(9,436)
OPERATING INCOME	7,067	3,562	1,591	1,168	13,388

Debt indicators

The following table presents the reconciliation between the Telefónica Group's gross interest-bearing debt, net interest-bearing debt and net debt at December 31, 2009, 2008 and 2007:

Millions of euros	12/31/09	12/31/08	12/31/2007
Gross interest-bearing debt	**56,791**	**53,188**	**53,928**
Other non-current payables (e.g. bills payable)	515	477	327
Cash and cash equivalents	(9,113)	(4,277)	(5,065)
Non-current financial investments	(2,736)	(4,439)	(2,284)
Current financial investments	(1,906)	(2,216)	(1,622)
Net interest-bearing debt	**43,551**	**42,733**	**45,284**
Guarantee contracts	71	365	365
Net personnel reorganization commitments	2,261	2,687	3,289
Net debt	**45,883**	**45,785**	**48,938**

The Company calculates net interest-bearing debt from gross consolidated interest-bearing debt by including other payables (e.g. bills payable) and the unpaid portion of equity investments, in an amount of 515 million euros, and subtracting 9,113 million euros of cash and cash equivalents and 4,642 million euros of temporary financial investments and certain investments in financial assets with a maturity of over one year, whose balance is included in the consolidated statement of financial position under "Non-current financial assets." After adjustment for these items, net interest-bearing debt rose to 43,551 million euros, an increase of 1.9% from 2008 (42,733 million euros).

(3) ACCOUNTING POLICIES

The principal accounting policies used in preparing the accompanying consolidated financial statements are as follows:

a) Translation methodology

The financial statements of the Group's foreign subsidiaries were translated to euros at the year-end exchange rates, except for:

1. Capital and reserves, which were translated at historical exchange rates.
2. Income statements, which were translated at the average exchange rates for the year.
3. Statements of cash flow, which were translated at the average exchange rate for the year.

Goodwill and statement of financial position items remeasured to fair value when a stake is acquired in a foreign operation are recognized as assets and liabilities of the company acquired and therefore translated at the closing exchange rate.

The exchange rate differences arising from the application of this method are included in "Translation differences" under "Equity attributable to equity holders of the parent" in the accompanying consolidated statements of financial position, net of the portion of said differences attributable to non-controlling interests, which is shown under "Non-controlling interests." When a foreign operation is sold, totally or partially, or contributions are reimbursed, cumulative translation differences since January 1, 2004 (the IFRS transition date) related to such operation recognized in equity are taken proportionally to the income statement as a gain or loss on the disposal.

The financial statements of Group companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedure described in the following paragraph prior to their translation to euros. Once restated, all the items of the financial statements are converted to euros using the closing exchange rate. Amounts shown for prior years for comparative purposes are not modified.

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years. The financial statements of companies whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the financial statement closing date, and all income and expense, profit and loss are restated monthly by applying appropriate adjustment factors. The difference between initial and adjusted amounts is taken to profit or loss.

b) Foreign currency transactions

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

All realized and unrealized exchange gains or losses are taken to the income statement for the year, with the exception of gains or losses arising from specific-purpose financing of investments in foreign investees designated as hedges of foreign currency risk to which these investments are exposed (see Note 3 i), and exchange gains or losses on intra-group loans considered part of the investment in a foreign operation, which are included under the "Translation differences" in the consolidated statement of financial position.

c) Goodwill

For acquisitions after January 1, 2004, the IFRS transition date, goodwill represents the excess of the acquisition cost over the acquirer's interest, at the acquisition date, in the fair values of identifiable assets, liabilities and contingent liabilities acquired from a subsidiary or joint venture. After initial measurement, goodwill is carried at cost, less any accumulated impairment losses.

In the transition to IFRS, Telefónica availed itself of the exemption allowing it not to restate business combinations taking place before January 1, 2004. As a result, the accompanying consolidated statements of financial position include goodwill net of amortization deducted until December 31, 2003, arising before the IFRS transition date, from the positive consolidation difference between the amounts paid to acquire shares of consolidated subsidiaries, and their carrying amounts plus increases in the fair value of assets and liabilities recognized in equity.

In all cases, goodwill is recognized as an asset denominated in the currency of the company acquired.

Goodwill 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.

The potential impairment loss is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates when originated. If this recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized in income (see Note 3 f).

d) 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. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 3 f).

Management reassesses the indefinite useful life classification of these assets on an annual basis.

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

Research and development costs

Research costs are expensed as incurred. Costs incurred in developing new products to be marketed or used for the Group's own network, and whose future economic viability is reasonably certain, are capitalized and amortized on a straight-line basis over the period during which the related project is expected to generate economic benefits, starting upon its completion.

Recoverability is considered to be reasonably assured when the Group can demonstrate the technical feasibility of completing the intangible asset, whether it will be available for use or sale, its intention to complete and its ability to use or sell the asset and how the asset will generate future economic benefits.

As long as intangible assets developed internally are not in use, the associated capitalized development costs are tested for impairment annually or more frequently if there are indications that the carrying amount may not be fully recoverable. Costs incurred in connection with projects that are not economically viable are charged to the consolidated income statement for the year in which this circumstance becomes known.

Service concession arrangements

These arrangements relate to the acquisition cost of the licenses granted to the Telefónica Group by various public authorities to provide telecommunications services and to the value assigned to licenses held by certain companies at the time they were included in the Telefónica Group.

These concessions are amortized on a straight-line basis over the duration of related licenses from the moment commercial exploitation commences.

Customer base

This represents the allocation of acquisition costs attributable to customers acquired in business combinations. Amortization is on a straight-line basis over the estimated period of the customer relationship.

Software

Software is stated at cost and amortized on a straight-line basis over its useful life, generally estimated at three years.

e) Property, plant and equipment

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

Cost includes external and internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as revenues under "Other income - Own work capitalized." Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when the Group is under obligation to incur such costs due to the use of the asset.

Interest and other financial expenses incurred and directly attributable to the acquisition or construction of qualifying assets are capitalized. Qualifying assets at the Telefónica Group are those assets that require a period of at least 18 months to bring the assets to their intended use or sale.

The costs of expansion, modernization or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalized when recognition requirements are met.

Upkeep and maintenance expenses are expensed as incurred.

The Telefónica Group 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 3 f).

The Group's subsidiaries depreciate their property, plant and equipment once they are in full working condition 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:

	Years of estimated useful life
Buildings	25 – 40
Plant and machinery	10 – 15
Telephone installations, networks and subscriber equipment	5 – 20
Furniture, tools and other items	2 – 10

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

f) Impairment of non-current assets

Non-current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, a recoverable amount is estimated, as the higher of fair value less costs to sell and *value in use*. In assessing *value in use*, the estimated future cash flows deriving from the use of the asset or 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. When 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. Each asset is assessed 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 Group 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 a period of three to 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. The growth rates used in 2009 are as follows:

Rates	2009
Businesses in Spain	0.88%-0.94%
Businesses in Latin America	1.21%-3.25%
Businesses in Europe	1.00%-2.00%

The main variables used by management to determine recoverable amounts are ARPU (average revenues per user), customer acquisition and retention costs, share of net adds in accesses, market shares, investments in non-current assets, growth rates and discount rates.

Pre-tax discount rates adjusted for country and business risks are applied. The following ranges of rates were used in 2009:

Rates	2009
Businesses in Spain	6.8%-7.3%
Businesses in Latin America	8.6%-19.4%
Businesses in Europe	6.3%-8.5%

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 profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

g) 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 Telefónica Group to the use of 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 Group. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. 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 reflected in the income statement over the lease term.

h) Investments in associates

The Telefónica Group's investments in companies over which it exercises significant influence (evidenced via representation on the board of directors or agreements with shareholders) but does not control or manage jointly with third parties are accounted for using the equity method. The carrying amount of investments in associates includes related goodwill and the consolidated income statement reflects the share of profit or loss from operations of the associate. If the associate recognizes any gains or losses directly in equity, the Group also recognizes the corresponding portion of these gains or losses directly in its own equity.

i) Financial assets and liabilities

Financial investments

All normal purchases and sales of financial assets are recognized in the statement of financial position on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Telefónica Group classifies its financial instruments into four categories for initial recognition purposes: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. When 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 returns as a result of price changes, are included in the category *financial assets at fair value through profit or loss* and presented as current assets. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. The Group also classifies certain financial instruments under this category when doing so eliminates or mitigates measurement or recognition inconsistencies that could arise from the application of other criteria for measuring assets and liabilities or for recognizing gains and losses on different bases. Also in this category are financial assets for which an investment and disposal strategy has been designed based on their fair value. Financial instruments included in this category are recorded at fair value and are remeasured at subsequent reporting dates at fair value, with any realized or unrealized gains or losses recognized in the income statement.

Financial assets with fixed maturities that the Group has the positive intention and ability (*legal and financial*) to hold until maturity are classified as *held-to-maturity* and presented as "*Current assets*" or "*Non-current assets*," depending on the time left until settlement. Financial assets falling into this category are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the investments are settlement or impaired, as well as through the amortization process.

Financial assets which the Group 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 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 at each financial year end until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognized in profit or loss. Dividends from *available-for-sale* investments are recognized in the income statement when the Group 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 include financial assets with fixed or determinable payments that are not quoted in an active market and do not fall into any of the previous categories. These assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A provision 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 assesses 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.

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 fair value at that date, less any impairment loss on that investment previously recognized in the income statement.

Financial assets are only fully or partially derecognized when:

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

Cash and cash equivalents

Cash and cash equivalents comprise 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 consolidated statement of cash flows, cash and cash equivalents are shown net of any outstanding bank overdrafts.

Preferred stock

Preferred shares are classified as a liability or equity instrument depending on the issuance terms. A preferred share issue is considered equity only when the issuer is not obliged to give cash or another financial instrument in the form of either principle repayment or dividend payment, whereas it is recorded as a financial liability on the statement of financial position whenever the Telefónica Group does not have the right to avoid cash payments.

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 Telefónica Group 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. Where an existing financial liability is replaced by another from the same lender under 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 between the respective carrying amounts is recognized in 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 assets when the fair value is positive and as 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 or liabilities, depending on their positive or negative values.

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 Group designates certain derivatives as:

1. *Fair value hedges*, when hedging the exposure to changes in the fair value of a recognized asset or liability;
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 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 asset or liability attributable to the risk being 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 similar manner to cash flow hedges.

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 Group 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. Transactions used to reduce the exchange rate risk relating to the income contributed by foreign subsidiaries are not treated as hedging transactions.

From inception, the Group formally documents the hedging 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.

j) Inventories

Materials stored for use in investment projects and inventories for consumption and replacement are valued at the lower of weighted average cost and net realizable value.

When the cash flows associated with the purchase of inventory are effectively hedged, the corresponding gains and losses accumulated in equity become part of the cost of the inventories acquired.

Obsolete, defective or slow-moving inventories have been written down to estimated net realizable value. The recoverable amount of inventory is calculated based on inventory age and turnover.

k) 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.

l) Provisions

Pensions and other employee obligations

Provisions required to cover the accrued liability for defined-benefit pension plans are determined using "the projected unit credit" actuarial valuation method. The calculation is based on demographic and financial assumptions for each country considering the macroeconomic environment. The discount rates are determined based on market yield curves. Plan assets are measured at fair value. Actuarial gains and losses on post-employment defined-benefit plans are recognized immediately in equity.

For defined-contribution pension plans, the obligations are limited to the payment of the contributions, which are taken to the income statement as accrued.

Provisions for post-employment benefits (e.g. early retirement or other) are calculated individually based on the terms agreed with the employees. In some cases, these may require actuarial valuations based on both demographic and financial assumptions.

Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group 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.

m) Share-based payments

The Group has compensation systems linked to the market value of its shares, providing employees share options. Certain compensation plans are cash-settled, while others are equity-settled.

For cash-settled share-based transactions, the total cost of the rights granted is recognized as an expense in the income statement over the vesting period with recognition of a corresponding liability ("Performance period"). The total cost of the options is measured initially at fair value at the grant date using statistical techniques, taking into account the terms and conditions established in each share option plan. At each subsequent reporting date, the Group reviews its estimate of fair value and the number of options it expects to be exercised, remeasuring the liability, with any changes in fair value recognized in the income statement

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.

n) Corporate income tax

This heading in the accompanying consolidated income statement includes all the expenses and credits arising from the corporate income tax levied on the Spanish Group companies and similar taxes applicable to the Group's foreign operations.

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred taxes are calculated based on a statement of financial position analysis of the temporary differences generated as a result of the difference between the tax bases of assets and liabilities and their respective carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and carrying amounts of plant, property and equipment, intangible assets, and non-deductible provisions, as well as differences in the fair value and tax bases of net assets acquired from a subsidiary, associate or joint venture.

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

The Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is 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 each 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 profit 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. Deferred tax assets and liabilities resulting from business combinations are recognized in connection with the purchase price allocation. Subsequent increases in required deferred tax assets are deducted from goodwill.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

o) 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 Telefónica Group principally obtains revenues from providing the following telecommunications services: traffic, connection fees, regular (normally monthly) network usage fees, interconnection, network and equipment leasing, handset sales and other services, value-added services (e.g. text or data messaging) and maintenance. Products and services may be sold separately or in promotional packages (bundled).

Revenues from calls carried on Telefónica's networks (traffic) entail an initial call establishment fee plus a variable call rate, based on call length, distance and type of service. Both wireline and wireless traffic is recognized as revenue as service is provided. For prepaid calls, the amount of unused traffic generates a deferred revenue recognized in "Trade and other payables" on the statement of financial position. Prepaid cards generally expire within 12 months and any deferred revenue from prepaid traffic is taken directly to the income statement when the card expires as the Group has no obligation to provide service after this date.

Revenue from traffic sales and services at a fixed rate over a specified period of time (flat rate) are recognized on a straight-line basis over the period of time covered by the rate paid by the customer.

Connection fees arising when customers connect to the Group's network are deferred and taken to the income statement throughout the average estimated customer relationship period, which varies by type of service. All related costs, except those related to network enlargement expenses, administrative expenses and overhead, are recognized in the income statement as incurred.

Installment fees are taken to the income statement on a straight-line basis over the related period. Equipment leases and other services are taken to profit or loss as they are consumed.

Interconnection fees from wireline-wireless and wireless-wireline calls and other customer services are recognized in the period in which the calls are made.

Revenues from handset and equipment sales are recognized once the sale is considered complete, i.e., generally when delivered to the end customer.

In the wireless telephony business there are loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are exchanged and recognized as sales or services based on the product or service chosen by the customer. This exchange can be for discounts on the purchase of handsets, traffic or other types of services based on the number of points earned and the type of contract involved. The accompanying consolidated statements of financial position include the related deferred revenue, based on an estimate of the value of the points accumulated at year end, under "Trade and other payables."

Bundle packages, which include different elements, are sold in the wireline, wireless and internet businesses. They are assessed to determine whether it is necessary to separate the separately identifiable elements and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values (i.e. the fair value of each element relative to the total fair value of the package).

As connection or initial activation fees, or upfront non-refundable fees, cannot be separately identifiable as elements in these types of packages, any revenues received from customer for these items are allocated to the remaining elements. However, amounts contingent upon delivery of undelivered elements are not allocated to delivered elements.

All expenses related to mixed promotional packages are taken to the income statement as incurred.

p) Use of estimates, assumptions and judgments

The key assumptions concerning the future and other relevant sources of uncertainty in estimates at the reporting date that could have a significant impact on the consolidated financial statements within the next financial year are discussed below.

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

Property, plant and equipment, intangible assets and goodwill

The accounting treatment of investments in property, plant and equipment and intangible assets entails the use of estimates to determine the useful life for depreciation and amortization purposes and to assess fair value at their acquisition dates for assets acquired in business combinations.

Determining useful life requires making estimates in connection with future technological developments and alternative uses for assets. There is a significant element of judgment involved in making technological development assumptions, since the timing and scope of future technological advances are difficult to predict.

When an item of property, plant and equipment or an intangible asset is considered to be impaired, the impairment loss is recognized in the income statement for the period. The decision to recognize an impairment loss involves estimates of the timing and amount of the impairment, as well as analysis of the reasons for the potential loss. Furthermore, additional factors, such as technological obsolescence, the suspension of certain services and other circumstantial changes are taken into account.

The Telefónica Group evaluates its cash-generating units' performance regularly to identify potential goodwill impairments. Determining the recoverable amount of the cash-generating units to which goodwill is allocated also entails the use of assumptions and estimates and requires a significant element of judgment.

Income taxes

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Group'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 Group company income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Provisions

Provisions are recognized when the Group has a present obligation 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. This obligation may be legal or constructive, deriving from *inter alia* regulations, contracts, normal practices or public commitments that lead third parties to reasonably expect that the Group will assume certain responsibilities. The amount of the provision is determined based on the best estimate of the outflow of resources required to settle the obligation, bearing in mind all available information at the statement of financial position date, including the opinions of independent experts such as legal counsel or consultants.

Given the uncertainties inherent in the estimates used to determine the amount of provisions, actual outflows of resources may differ from the amounts recognized originally on the basis of the estimates.

Revenue recognition

Connection fees

Connection fees, generated when customers connect to the Group's network, are deferred and recognized as revenue over the average estimated customer relationship period.

The estimate of the average estimated customer relationship period is based on the recent history of customer churn. Potential changes in estimates could lead to changes in both the amount and timing of the future recognition of revenues.

Bundled offers

Bundled offers that combine different elements are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. Total package revenue is allocated among the identified elements based on their respective fair values.

Determining fair values for each identified element requires estimates that are complex due to the nature of our business.

A change in estimates of fair values could affect the apportionment of revenue among the elements and, as a result, revenues in future years.

q) Consolidation methods

The consolidation methods applied are as follows:

- Full consolidation method for companies over which the Company controls either by exercising effective control or by virtue of agreements with the other shareholders.
- Proportionate consolidation method for companies which are jointly controlled with third parties (joint ventures). Similar items are grouped together such that the corresponding proportion of these companies' overall assets, liabilities, expenses and revenues, and cash flows are integrated on a line by line basis into the consolidated financial statements.
- Equity method for companies in which there is significant influence, but not control or joint control with third parties.

In certain circumstances, some of the Group's investees may require a qualified majority to adopt certain resolutions. This, together with other factors, is taken into account when selecting the consolidation method.

All material accounts and transactions between the consolidated companies were eliminated on consolidation. The returns generated on transactions involving capitalizable goods or services by subsidiaries with other Telefónica Group companies were eliminated on consolidation.

The financial statements of the consolidated companies have the same financial year end as the parent company's individual financial statements and are prepared using the same accounting policies. In the case of Group companies whose accounting and valuation methods differed from those of Telefónica, adjustments were made on consolidation in order to present the consolidated financial statements on a uniform basis.

The consolidated income statement and consolidated statement of cash flows include the revenues and expenses and cash flows of companies that are no longer in the Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company was incorporated through year end.

Revenue and expenses associated with discontinued operations are presented in a separate line on the consolidated income statement. Discontinued operations are those with identifiable operations and cash flows (for both operating and management purposes) and that represent a line of business or geographic unit which has been disposed of or is available for sale.

The share of non-controlling interests in the equity and results of the fully consolidated subsidiaries is presented under "Non-controlling interests" on the consolidated statement of financial position and income statement, respectively.

r) Acquisitions and disposals of non-controlling interests

Acquisitions of equity shares of subsidiaries from non-controlling interests:

The Telefónica Group treats increases in equity investments of companies already controlled by the Group via purchases of non-controlling interests by recognizing any difference between the acquisition price and the carrying amount of the minority interest's participation as goodwill.

Disposals of investments in subsidiaries without relinquishing control:

In transactions involving the sale of investments in subsidiaries in which the Group retains control, the Telefónica Group derecognizes the carrying amount of the shareholding sold, including any related goodwill. The difference between this amount and the sale price is recognized as a gain or loss in the consolidated income statement.

Commitments to acquire non-controlling interests (put options):

Put options granted to non-controlling interests of subsidiaries are measured at the exercise price and classified as a financial liability, with a deduction from non-controlling interests on the consolidated statement of financial position. Where the exercise price exceeds the balance of non-controlling interests, the difference is recognized as an increase in the goodwill of the subsidiary. At each reporting date, the difference is adjusted based on the exercise price of the options and the carrying amount of non-controlling interests.

s) New IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

The accounting policies applied in the preparation of the financial statements for the year ended December 31, 2009 are consistent with those used in the preparation of the Group's consolidated annual financial statements for the year ended December 31, 2008, except for the adoption of new standards, amendments to standards and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), and adopted by the European Union, effective as of January 1, 2009, noted below:

- Amendment to IAS 23, *Borrowing costs*

  The amendment consists of the elimination of the possibility to immediately recognize in profit or loss the borrowing costs related to the production or development of qualifying assets. This amendment has had no impact on the accounting policies applied by Telefónica.

- Amendment to IAS 1, *Revised Presentation of Financial Statements*

  The revised standard separates owner from non-owner changes in equity. The statement of changes in equity includes only details of transaction with owners, with non-owner changes presented as a single line. In addition, the standard introduces the statement of comprehensive income which can be presented in one single statement or in two linked statements. Telefónica has elected to present two statements. This change is not mandatory, but the Group has decided to use the proposed titles, which are:

  - statement of financial position, instead of "balance sheet"
  - income statement
  - statement of comprehensive income, instead of "statement of recognized income and expense"
  - statement of changes in equity instead of "movements in equity"
  - statement of cash flows instead of "cash flow statement"

- Amendment to IFRS 2, *Share-based Payment: Vesting Conditions and Cancellations*

  This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is cancelled because a non-vesting condition is not met. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- Amendments to IAS 32, *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

  These amendments include a limited scope exemption for puttable financial instruments to be classified as equity if they fulfill specified criteria. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- *Improvements to IFRSs (May 2008)*

  These improvements establish a broad amount of amendments to current IFRSs with the aim of removing inconsistencies and clarifying wording. These improvements did not have any impact on the financial position or performance of the Group.

- Amendment to *IFRS 7, Financial Instruments: Disclosures*

  This amendment enhances the disclosure required about fair value measurements and liquidity risk. In addition, it introduces a three-level hierarchy of fair value measurement and the requirement to disclose any kind of change in the method of measuring fair value and the reasons behind it. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- Amendments to *IAS 39* and *IFRIC 9, Embedded derivatives*

  These amendments clarify the impact that a reclassification of a financial asset out of the *fair value through profit or loss* category has on the assessment of whether an embedded derivative shall be separated from its host contract. Additionally, it prohibits the reclassification when the embedded derivative is not subject to a separate valuation upon the moment of reclassification of a hybrid contract out of the aforementioned category. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- *IFRIC 12, Service Concession Arrangements*

  This interpretation provides guidance on the accounting by operators for obligations assumed and related rights acquired under service concession arrangements.The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- *IFRIC 13, Customer Loyalty Programmes*

  This interpretation establishes that entities that have programs which award points or credits to their customers as the result of a commercial transaction, which in the future will be redeemed for free or discounted products or services, must treat these points as part of the commercial transaction that generates them. In other words, it is a transaction with multiple components, combining the sale of the product or service itself and the sale of points or credits, therefore such that a part of the amount earned must be allocated to the points awarded and its recognition deferred until their redemption. The portion corresponding to the points will be determined by reference to their fair value. The adoption of this amendment has not had a significant impact on the financial position or performance of the Group.

- *IFRIC 15, Agreements for the Construction of Real Estate*

  This interpretation refers to agreements for the construction of real estate and addresses to related issues: it determines whether the construction of real estate is within the scope of IAS 11, *Construction Contracts*, or IAS 18, *Revenue* and, when revenue from the construction of real estate should be recognized. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- *IFRIC 16, Hedges of a Net Investment in a Foreign Operation*

  This interpretation establishes the criteria for the recognition of hedges of a net investment in foreign operations, including the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held and how an entity should determine the amount of foreign currency gain or loss relating to both the hedging instrument and the hedged item that must be recognized in profit or loss on disposal of the investment. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

- *IFRIC 18, Transfers of Assets from Customers*

  This interpretation applies to deliveries of assets from customers as of July 1, 2009. This interpretation establishes the criteria for accounting transactions in which an entity receives from a customer an item of property, plant and equipment (or cash for their acquisition or construction) that the entity must use either to connect the customer to a network and/or to provide the customer with ongoing access to a supply of goods or services. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

In addition, the Amendment to IAS 39 *Hedges of Transactions between Segments,* included in *Improvements to IFRS* published in April 2009, is effective for annual periods beginning on or after January 1, 2009, but has not been adopted by the European Union at the date of preparation of these consolidated financial statements. This amendment clarifies that hedge accounting may not be applied to transactions between segments in accordance with the principle of IAS 39, which does not allow hedge accounting to be applied to intragroup transactions in the consolidated financial statements. The application of this interpretation would not have had an impact on the 2009 consolidated financial statements.

New IFRS and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) not effective as of December 31, 2009

At the date of preparation of the accompanying consolidated financial statements, the following IFRS and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		Mandatory application: annual periods beginning on or after
IFRS 9	*Financial Instruments*	January 1, 2013
Revised IFRS 3	*Business Combinations*	July 1, 2009
Amendment to IAS 27	*Consolidated and Separate Financial Statements*	July 1, 2009
Improvements to IFRSs (April 2009)		January 1, 2010 (*)
Revised IAS 24	*Related Party Disclosures*	January 1, 2011
Amendments to IAS 39	*Eligible Hedged Items*	July 1, 2009
Amendment to IFRS 2	*Group Cash-Settled Share-Based Payment Transactions*	January 1, 2010
Amendments to IAS 32	*Classification of Rights Issues*	February 1, 2010

(*) The amendments to IFRS 2, IAS 38 (regarding intangible assets acquired in business combinations) IFRIC 9 and IFRIC 16 become effective for all annual periods beginning on or after July 1, 2009. In addition, no effective date has been established for the additional guidance to the appendix to IAS 18 for determining whether an entity is acting as a principal or as an agent, as this appendix does not form part of the standard.

Interpretations		Mandatory application: annual periods beginning on or after
IFRIC 17	*Distributions of Non-Cash Assets to Owners*	July 1, 2009
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*	July 1, 2010
Amendment to IFRIC 14	*Prepayment of Minimum Funding Requirements*	January 1, 2011

The Group is currently assessing the impact of the application of these standards, amendments and interpretations. Based on the analyses made to date, the Group estimates that their adoption will not have a significant impact on the consolidated financial statements in the initial period of application. However, the changes introduced by the revised IFRS 3 and amendments to IAS 27 will affect future acquisitions and transactions with non-controlling interests carried out on or after January 1, 2010, as well as the subsequent recognition of tax assets acquired in business combinations prior to that date, as provided for in the transitional provisions. Meanwhile, the changes introduced by IFRS 9 will affect financial assets and future transactions with financial assets carried out on or after January 1, 2013.

(4) SEGMENT INFORMATION

Combining the wireline and wireless telephony services underscores the need to manage the business by region in order to offer customers the best integrated solutions and support wireless-wireline convergence.

To implement this management model, the Group has three large business areas: Telefónica Spain, Telefónica Europe and Telefónica Latin America, with each overseeing the integrated business. This forms the basis of the segment reporting in these consolidated financial statements.

Telefónica Spain oversees the wireline and wireless telephony, broadband, internet, data, broadband TV, value added services operations and their development in Spain.

Telefónica Latin America oversees the same operations in Latin America.

Telefónica Europe oversees the wireline, wireless, broadband, value added services and data operations in the UK, Germany, the Isle of Man, Ireland, the Czech Republic and the Slovak Republic.

The Telefónica Group is also involved in the media and contact center businesses through investments in Telefónica de Contenidos and Atento, included under "Other and eliminations" together with the consolidation adjustments.

The segment reporting takes into account the impact of the purchase price allocation (PPA) to assets acquired and the liabilities assumed from the companies included in each segment. The assets and liabilities presented in each segment are those managed by the heads of each segment.

The Telefónica Group manages its borrowing activities and tax implications centrally. Therefore, it does not disclose the related assets, liabilities, revenue and expenses breakdown by reportable segments.

For the presentation of the segment reporting, revenue and expenses arising from the use of the trademark and management services and that do not affect the Group's consolidated results have been eliminated from the operating results of each Group segment.

Inter-segment transactions are carried out at market prices.

Key information for these segments is as follows:

2009					
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
Revenue from operations	19,703	22,983	13,533	512	56,731
External sales	*19,354*	*22,786*	*13,468*	*1,123*	*56,731*
Inter-segment sales	*349*	*197*	*65*	*(611)*	-
Other operating income and expenses	(9,946)	(13,840)	(9,623)	(719)	(34,128)
OIBDA	**9,757**	**9,143**	**3,910**	**(207)**	**22,603**
Depreciation and amortization	(2,140)	(3,793)	(2,895)	(128)	(8,956)
OPERATING INCOME	**7,617**	**5,350**	**1,015**	**(335)**	**13,647**
CAPITAL EXPENDITURE	1,863	3,450	1,728	216	7,257
INVESTMENTS IN ASSOCIATES	3	2,453	-	2,480	4,936
NON-CURRENT ASSETS	14,082	25,016	26,962	1,351	67,411
TOTAL ALLOCATED ASSETS	26,156	44,678	32,097	5,210	108,141
TOTAL ALLOCATED LIABILITIES	13,363	22,862	6,435	41,207	83,867

2008					
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
Revenue from operations	20,838	22,174	14,309	625	57,946
External sales	*20,518*	*21,974*	*14,253*	*1,201*	*57,946*
Inter-segment sales	*320*	*200*	*56*	*(576)*	-
Other operating income and expenses	(10,553)	(13,729)	(10,129)	(616)	(35,027)
OIBDA	**10,285**	**8,445**	**4,180**	**9**	**22,919**
Depreciation and amortization	(2,239)	(3,645)	(3,035)	(127)	(9,046)
OPERATING INCOME	**8,046**	**4,800**	**1,145**	**(118)**	**13,873**
CAPITAL EXPENDITURE	2,208	4,035	2,072	86	8,401
INVESTMENTS IN ASSOCIATES	99	107	-	2,571	2,777
NON-CURRENT ASSETS	14,372	21,959	27,265	1,193	64,789
TOTAL ALLOCATED ASSETS	32,273	37,942	32,726	(3,045)	99,896
TOTAL ALLOCATED LIABILITIES	20,754	21,998	6,420	31,162	80,334

2007					
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
Revenue from operations	20,683	20,078	14,458	1,222	56,441
External sales	*20,423*	*19,901*	*14,417*	*1,700*	*56,441*
Inter-segment sales	*260*	*177*	*41*	*(478)*	-
Other operating income and expenses	(11,235)	(12,957)	(9,481)	(*) 56	(33,617)
OIBDA	**9,448**	**7,121**	**4,977**	**1,278**	**22,824**
Depreciation and amortization	(2,381)	(3,559)	(3,386)	(110)	(9,436)
OPERATING INCOME	**7,067**	**3,562**	**1,591**	**1,168**	**13,388**
CAPITAL EXPENDITURE	2,381	3,343	2,125	178	8,027
INVESTMENTS IN ASSOCIATES	95	70	-	3,023	3,188
NON-CURRENT ASSETS	14,451	23,215	31,658	1,226	70,550
TOTAL ALLOCATED ASSETS	34,423	37,618	39,144	(5,312)	105,873
TOTAL ALLOCATED LIABILITIES	22,014	22,205	10,215	28,584	83,018

(*) "Other operating income and expenses" for the "Other and inter-group eliminations" segment includes the 1,368 million euro gain on the sale of Endemol (see Note 19).

The breakdown of the segment revenues from operations by business and the main countries in which the Group operates is as follows:

	Millions of euros											
	2009				2008				2007			
Country	Wireline	Wireless	Other and eliminations	Total	Wireline	Wireless	Other and eliminations	Total	Wireline	Wireless	Other and eliminations	Total
Spain	**12,167**	**8,965**	**(1,429)**	19,703	**12,581**	**9,684**	**(1,427)**	**20,838**	**12,401**	**9,693**	**(1,411)**	**20,683**
Latin America				22,983				22,174				**20,078**
Brazil	5,766	3,036	(426)	8,376	6,085	2,932	(411)	8,606	5,619	2,396	(353)	7,662
Argentina	1,047	1,643	(81)	2,609	1,027	1,585	(85)	2,527	984	1,353	(73)	2,264
Chile	893	1,010	(72)	1,831	974	1,051	(89)	1,936	974	930	(90)	1,814
Peru	1,006	840	(130)	1,716	977	773	(123)	1,627	1,031	603	(121)	1,513
Colombia	615	685	(31)	1,269	710	815	(35)	1,490	739	869	(39)	1,569
Mexico	N/A	1,552	N/A	1,552	N/A	1,631	N/A	1,631	N/A	1,431	N/A	1,431
Venezuela	N/A	3,773	N/A	3,773	N/A	2,769	N/A	2,769	N/A	2,392	N/A	2,392
Remaining operators and inter-segment eliminations				1,857				1,588				1,433
Europe				13,533				14,309				14,458
UK	70	6,442	-	6,512	33	7,019	N/A	7,052	10	7,393	N/A	7,403
Germany	558	3,188	-	3,746	496	3,099	N/A	3,595	353	3,188	N/A	3,541
Czech Republic	1,015	1,248	(3)	2,260	1,183	1,388	10	2,581	1,067	1,192	(2)	2,257
Ireland	1	904	N/A	905	N/A	957	N/A	957	N/A	991	N/A	991
Remaining operators and inter-segment eliminations				110				124				266
Other and inter-segment eliminations				512				625				1,222
Total				56,731				57,946				56,441

(5) BUSINESS COMBINATIONS AND ACQUISITIONS OF NON-CONTROLLING INTERESTS

Business combinations:

2009

No significant business combinations were carried out in 2009 that had been completed as of December 31, 2009.

2008

On April 8, 2008, VIVO, through its subsidiary Tele Centro Oeste IP, S.A. (TCO IP, S.A.), launched a voluntary tender offer for shares representing up to one third of the free float of the preferred stock of Telemig Celular Participaçoes, S.A. and its subsidiary Telemig Celular, S.A. at a price per share of 63.90 and 654.72 Brazilian reais, respectively. This offer, which concluded on May 15, 2008, reached a level of acceptance of close to 100%, which implied the acquisition by TCO IP, S.A. of 31.9% and 6% of the preferred shares of Telemig Celular Participaçoes, S.A. and Telemig Celular, S.A., respectively.

Furthermore, in accordance with Brazilian Corporations law, TCO IP, S.A. submitted a mandatory tender offer on July 15, 2008, for all the voting stock in Telemig Celular Participaçoes, S.A. and Telemig Celular, S.A. at a price per share equivalent to 80% of the purchase price of the voting stock of these companies. After this offer VIVO owned, directly and indirectly, 90.65% of the share capital of Telemig Celular, S.A. and 58.9% of the share capital of Telemig Celular Participaçoes, S.A. Both companies are included in the Telefónica Group's consolidation scope using proportionate consolidation.

After the acquisition of these shareholdings, the purchase price was allocated to the assets acquired and the liabilities assumed using generally accepted measurement methods for each type of asset and/or liability based on the best information available.

The fair value of the licenses was determined using the Multi-period Excess Earnings Method (MEEM) by discounting the estimated future cash flows of the company's wireless business based on the assumptions contained in the Business Economic Valuation (BEV) prepared in accordance with Brazilian corporation law.

The calculation only considered estimated revenue generated by new customers in the business plan and not existing customers in the portfolio at the time of the transaction. All applicable costs are deducted from the estimated revenue, while the impact on cash flows of changes in working capital and the acquisition of assets is also considered, thus obtaining the estimated net cash flow attributable to the asset.

The carrying amounts, fair values, goodwill and acquisition prices of the assets acquired and the liabilities assumed in this transaction at the date control was obtained bearing considering the effects of proportionality, were the following:

	Telemig Group	
Millions of euros (Data at 50%)	**Carrying amount**	**Fair value**
Intangible assets	18	562
Property, plant and equipment	126	183
Other assets	376	477
Deferred tax liabilities	3	208
Other liabilities	265	263
Net asset value	252	751
Non-controlling interests	119	335
Acquisition cost		451
Goodwill (Note 7)		**35**

The amount paid for the acquisition in 2008 was 522 million euros. Acquisition cost was calculated bearing in mind the exchange rate effect of the difference between the exchange rate applied upon the initial inclusion of Telemig's assets and liabilities in the Telefónica Group's consolidated financial statements and the average exchange rate of the payments made in the acquisition of the shareholding.

The impact of this acquisition on cash and cash equivalents was as follows:

Millions of euros	**Telemig Group**
Cash and cash equivalents of companies acquired	175
Cash paid in the acquisition plus related costs	522
Total net cash outflow (Note 23)	**347**

Acquisitions of non-controlling interests:

2009

There were no acquisitions of significant non-controlling interests in 2009. The detail of transactions carried out in the year is provided in Appendix I.

2008

The effect of the tender offer for CTC's non-controlling interests was recognized in 2008. The impact of this acquisition on equity attributable to non-controlling interests amounted to 397 million euros (see Note 12); while the related goodwill was 277 million euros (see Note 7).

(6) INTANGIBLE ASSETS

Movements in the items comprising net intangible assets in 2009 and 2008 are as follows:

	Millions of euros						
	Balance at 12/31/08	Additions	Amortization	Disposals	Transfers and other	Translation differences and hyperinflation adjustments	Balance at 12/31/09
Development costs	175	84	(81)	(2)	(14)	-	162
Service concession arrangements	8,697	10	(786)	-	(8)	929	8,842
Software	2,394	964	(1,312)	-	772	130	2,948
Customer base	3,046	-	(512)	-	24	123	2,681
Other intangible assets	1,229	81	(170)	(1)	(51)	51	1,139
Prepayments on intangible assets	380	166	-	-	(479)	7	74
Net intangible assets	**15,921**	**1,305**	**(2,861)**	**(3)**	**244**	**1,240**	**15,846**

	Millions of euros								
	Balance at 12/31/07	Additions	Amortization	Disposals	Transfers and other	Translation differences and hyperinflation adjustments	Inclusion of companies	Exclusion of companies	Balance at 12/31/08
Development costs	177	96	(81)	-	(14)	(3)	-	-	175
Service concession arrangements	9,670	293	(757)	-	50	(1,103)	544	-	8,697
Software	2,452	933	(1,111)	(15)	276	(160)	22	(3)	2,394
Customer base	4,153	1	(585)	-	(136)	(387)	-	-	3,046
Other intangible assets	1,534	16	(209)	(3)	108	(218)	3	(2)	1,229
Prepayments on intangible assets	334	292	-	-	(233)	(14)	1	-	380
Net intangible assets	**18,320**	**1,631**	**(2,743)**	**(18)**	**51**	**(1,885)**	**570**	**(5)**	**15,921**