The gross cost, accumulated amortization and impairment losses of intangible assets at December 31, 2009 and 2008 are as follows:

	Balance at December 31, 2009			
Millions of euros	Gross cost	Accumulated amortization	Impairment losses	Net intangible assets
Development costs	1,613	(1,451)	-	162
Service concession arrangements	14,074	(5,232)	-	8,842
Software	11,175	(8,226)	(1)	2,948
Customer base	5,476	(2,795)	-	2,681
Other intangible assets	2,143	(973)	(31)	1,139
Prepayments on intangible assets	74	-	-	74
Net intangible assets	**34,555**	**(18,677)**	**(32)**	**15,846**

	Balance at December 31, 2008			
Millions of euros	Gross cost	Accumulated amortization	Impairment losses	Net intangible assets
Development costs	1,613	(1,438)	-	175
Service concession arrangements	12,430	(3,733)	-	8,697
Software	9,207	(6,813)	-	2,394
Customer base	5,072	(2,026)	-	3,046
Other intangible assets	2,055	(822)	(4)	1,229
Prepayments on intangible assets	380	-	-	380
Net intangible assets	**30,757**	**(14,832)**	**(4)**	**15,921**

Within the "Additions" column, the main additions in 2009 and 2008 relate to investments in software.

"Additions" of service concession arrangements in 2009 include the renewal of the operator's license in Nicaragua for an amount equivalent to 10 million euros, and in 2008 the spectrum license at VIVO for 225 million euros and the operator's license in Ecuador for 90 million US dollars, equivalent to 62 million euros.

"Inclusion of companies" in 2008 mainly reflects the impact of the inclusion of the Telemig Group in the consolidation scope (see Note 5).

At December 31, 2009 and 2008, the Company carried intangible assets with indefinite useful lives of 111 and 104 million euros, respectively, related primarily to permanent licenses to operate wireless telecommunications services in Argentina.

Intangible assets are also subject to impairment tests whenever there are indications of a potential loss in value and, in any event, at the end of each year. There was no significant impairment recognized in the consolidated financial statements for 2009 or 2008 as a result of these impairment tests.

"Other intangible assets" includes the amounts allocated to trademarks acquired in business combinations, of 1,477 and 1,411 million euros at December 31, 2009 and 2008 (901 and 999 million euros net of the related accumulated amortization).

(7) GOODWILL

The movement in this heading assigned to each Group segment was the following:

Millions of euros					
2009	Balance at 12/31/08	Acquisitions	Disposals	Translation differences and hyperinflation adjustments	Balance at 12/31/09
Telefónica Spain	3,238	-	-	-	3,238
Telefónica Latin America	5,450	23	(209)	1,056	6,320
Telefónica Europe	9,452	-	-	358	9,810
Other	183	7	-	8	198
Total	**18,323**	**30**	**(209)**	**1,422**	**19,566**

Millions of euros				
2008	Balance at 12/31/07	Acquisitions	Translation differences and other	Balance at 12/31/08
Telefónica Spain	3,233	5	-	3,238
Telefónica Latin America	5,524	406	(480)	5,450
Telefónica Europe	10,830	5	(1,383)	9,452
Other	183	16	(16)	183
Total	**19, 770**	**432**	**(1,879)**	**18, 323**

Goodwill generated in the acquisition of foreign companies is treated as an asset denominated in the currency of the company acquired, and is therefore subject to exchange rate differences, which are included under "Translation differences."

The impairment tests carried out did not identify the need to recognize any material write-downs to goodwill at the 2009 and 2008 year ends as the recoverable amount, in all cases based on value in use, was higher than carrying amount.

In addition, sensitivity analyses were performed on changes reasonably expected to occur in the primary valuation variables, and the recoverable amount remained above the net carrying amount.

2009

The primary disposals in 2009 correspond to the measurement of the purchase commitment for non-controlling interests of Colombia de Telecomunicaciones, S.A. for 90 million euros (see Note 21) and the impact of the corporate restructuring carried out at the VIVO Group.

In addition, the favorable evolution of exchange rates applied to goodwill has led to an increase in this line item of 719 million euros in the year, and the impact of recognizing Venezuela as a hyperinflationary economy (see Note 2) led to an increase in goodwill of 713 million euros.

2008

The primary acquisitions of goodwill in 2008 correspond to the acquisition of the Telemig Group, which led to the recognition of 35 million euros of goodwill, and the first tranche of the buyout by CTC's non-controlling interests, which generated 277 million euros of goodwill.

In 2008, "Translation differences and other" had a major impact on the movement in the year owing to currency depreciation in several countries in which the Group operates, especially the pound sterling, which resulted in a decrease in goodwill of 1,343 million euros.

(8) PROPERTY, PLANT AND EQUIPMENT

The composition and movement of the items comprising net "Property, plant and equipment" in 2009 and 2008 was the following:

	Millions of euros							
	Balance at 12/31/08	Additions	Depreciation	Disposals	Transfers and other	Translation differences and hyperinflation adjustments	Inclusion of companies	Balance at 12/31/09
Land and buildings	7,031	34	(454)	(19)	(852)	352	-	6, 092
Plant and machinery	19,250	1,356	(4,980)	(100)	4,607	1,254	4	21,391
Furniture, tools and other items	1,546	285	(661)	(6)	362	134	-	1,660
Total PP&E in service	**27,827**	**1,675**	**(6,095)**	**(125)**	**4,117**	**1,740**	**4**	**29,143**
PP&E in progress	2,485	3,973	-	(4)	(3,937)	102	-	2, 619
Advance payments on PP&E	6	6	-	-	(2)	-	-	10
Installation materials	227	298	-	(3)	(297)	2	-	227
Net PP&E	**30,545**	**5,952**	**(6, 095)**	**(132)**	**(119)**	**1,844**	**4**	**31, 999**

	Millions of euros							
	Balance at 12/31/07	Additions	Depreciation	Disposals	Transfers and other	Translation differences	Inclusion of companies	Balance at 12/31/08
Land and buildings	7,289	68	(628)	(166)	850	(385)	3	7,031
Plant and machinery	20,814	2,520	(4,977)	(117)	2,352	(1,429)	87	19,250
Furniture, tools and other items	1,784	397	(654)	(15)	129	(162)	67	1,546
Total PP&E in service	**29,887**	**2,985**	**(6,259)**	**(298)**	**3,331**	**(1,976)**	**157**	**27,827**
PP&E in progress	2,274	3,406	-	(16)	(2,957)	(250)	28	2,485
Advance payments on PP&E	15	6	-	-	(15)	-	-	6
Installation materials	284	373	(44)	28	(403)	(11)	-	227
Net PP&E	**32,460**	**6,770**	**(6,303)**	**(286)**	**(44)**	**(2,237)**	**185**	**30,545**

The gross cost, accumulated depreciation and impairment losses of property, plant and equipment at December 31, 2009 and 2008 are as follows:

	Balance at December 31, 2009			
	Gross cost	Accumulated depreciation	Impairment losses	Net PP&E
Land and buildings	11,560	(5,456)	(12)	**6,092**
Plant and machinery	87,017	(65,548)	(78)	**21,391**
Furniture, tools and other items	6,184	(4,534)	10	**1,660**
Total PP&E in service	**104,761**	**(75,538)**	**(80)**	**29,143**
PP&E in progress	2,619	-	-	**2,619**
Advance payments on PP&E	10	-	-	**10**
Installation materials	260	-	(33)	**227**
Net PP&E	**107,650**	**(75,538)**	**(113)**	**31,999**

	Balance at December 31, 2008			
	Gross cost	Accumulated depreciation	Impairment losses	Net PP&E
Land and buildings	11,752	(4,703)	(18)	**7,031**
Plant and machinery	75,414	(56,077)	(87)	**19,250**
Furniture, tools and other items	5, 286	(3,737)	(3)	**1,546**
Total PP&E in service	**92,452**	**(64,517)**	**(108)**	**27,827**
PP&E in progress	2,486	-	(1)	**2,485**
Advance payments on PP&E	6	-	-	**6**
Installation materials	317	(57)	(33)	**227**
Net PP&E	**95,261**	**(64,574)**	**(142)**	**30, 545**

Among the main investments in 2009 and 2008 were additions by Telefónica de España of 1,276 million euros (1,042 million euros in the fixed line and 234 million euros in the wireline business) and 1,681 million euros, respectively. In the fixed line business, investments mainly went to broadband, Imagenio and data service for large corporate customers, and to maintenance of the traditional business. Investment in the wireless business mainly went to the deployment of 3G.

Telefónica Latin America's investments in 2009 and 2008 amounted to 3,187 million and 3,393 million euros, respectively. Investment in 2009 centered on driving wireline technologies, namely the transformation in growth businesses (broadband and pay-TV), and in the wireless business on extending coverage and capacity for the rollout of GSM networks.

Investment by Telefónica Europe in 2009 and 2008 amounted to 1,356 million and 1,634 million euros, respectively. Investment here in 2009 focused primarily on all the operators' 3G networks to continue expanding coverage, with further amounts earmarked for investment in the ADSL business in the UK, Germany and the Czech Republic.

"Inclusion of companies" in 2008 reflects the 182 million euros impact of the consolidation of Telemig.

"Translation differences" reflects the impact of exchange rate movements on opening balances as well as the impact of the recognition of Venezuela as a hyperinflationary economy (see Note 2). The effect of exchange rates on movements in the year is included in the column corresponding to such movement.

Telefónica Group companies have purchased insurance policies to reasonably cover the possible risks to which their property, plant and equipment used in operations are subject, with suitable limits and coverage.

Property, plant and equipment deriving from finance leases amounted to 691 million euros at December 31, 2009 (733 million euros at December 31, 2008) (see Note 22).

The net amounts of "Property, plant and equipment" temporarily out of service at December 31, 2009 and 2008 were not significant.

(9) ASSOCIATES AND JOINT VENTURES

Associates

The breakdown of amounts recognized in the consolidated statement of financial position and income statement related to associates is as follows:

Description	Millions of euros	
	12/31/09	12/31/08
Investments in associates	4,936	2,777
Long-term loans to associates	3	49
Short-term loans to associates	15	77
Receivables from associates for current operations (Note 11)	189	120
Loans granted by associates (Note 14)	149	109
Payables to associates for current operations (Note 14)	113	73
Revenue from operations with associates	204	212
Work performed by associates and other operating expenses	484	533

In addition, the Telefónica Group, through its stake in Telco S.p.A., has an indirect equity interest in Telecom Italia S.p.A. equivalent to 7.21% of its voting shares. Key information on the balances and transactions between the Telefónica Group and Telecom Italia S.p.A. and group companies is as follows:

Description	Millions of euros	
	12/31/09	12/31/08
Receivables from current operations (Note 11)	73	65
Payables from current operations (Note 14)	25	54
Operating revenue	379	406
Operating expenses	420	504

Balances and transactions with Portugal Telecom, SGPS, S.A. through Brasilcel, N.V. group companies are shown at 50%.

The breakdown of the main associates and key financial highlights for the last 12-month periods available at the time of preparation of these consolidated financial statements are as follows:

December 31, 2009	Millions of euros						
COMPANY	% Holding	Total Assets	Total liabilities	Operating income	Profit/(loss) for the year	Carrying amount	Fair value
Telco S.p.A. (Italy) (*)	46.18%	7,111	3,703	-	(39)	2,026	2,026
Portugal Telecom, SGPS, S.A. (Portugal)	9.86%	14,948	12,965	6,674	516	458	764
China Unicom (Hong Kong) Limited	8.37%	37,397	16,203	21,490	3,687	2,301	2,301
Hispasat, S.A. (Spain)	13.23%	841	383	151	71	56	N/A
Other						95	
TOTAL						4,936	

December 31, 2008	Millions of euros						
COMPANY	% Holding	Total Assets	Total liabilities	Operating income	Profit/(loss) for the year	Carrying amount	Fair value
Telco S.p.A. (Italy) (*)	42.30%	7,241	3,688	-	(1,556)	2,082	2,082
Portugal Telecom, SGPS, S.A. (Portugal)	9.86%	13,713	12,513	6,734	582	456	544
Medi Telecom, S.A. (Morocco)	32.18%	1,217	951	464	30	95	N/A
Hispasat, S.A. (Spain)	13.23%	716	335	138	47	50	N/A
Other						94	
TOTAL						2,777	

(*) Through this company, Telefónica effectively has an indirect stake in Telecom Italia S.p.A.'s voting shares at December 31, 2009 and 2008 of approximately 10.49%, representing 7.21% of the dividend rights.

The detail of the movement in investments in associates in 2009 and 2008 was the following:

Investments in associates	Millions of euros
Balance at 12/31/07	**3,188**
Acquisitions	4
Disposals	(55)
Inclusion of companies	1
Translation differences	(45)
Income (loss)	(161)
Dividends	(65)
Transfers and other	(90)
Balance at 12/31/08	**2,777**
Acquisitions	772
Disposals	(114)
Translation differences	103
Income (loss)	47
Dividends	(58)
Transfers and other	1,409
Balance at 12/31/09	**4,936**

Changes at December 31, 2009 and 2008 reflect the amounts from transactions detailed in the changes to the consolidation scope (see Appendix I and Note 2). The figure for 2009 reflects the inclusion in the consolidation scope of the equity investment in China Unicom Limited for 2,301 million euros. Of this amount, 1,467 million euros were transferred from "Non-current financial assets – Equity investments" (see Note 13) following the acquisition of an additional 2.68% of this company.

Disposals in 2009 include the sale by Telefónica Móviles España, S.A.U., a wholly owned subsidiary of Telefónica, S.A., of its 32.18% stake in Moroccan operator Medi Telecom, S.A., along with outstanding loans to shareholders, for a total amount of 400 million euros. The net gain from this transaction before tax amounts to 220 million euros (see Note 19).

Disposals in 2008 included the disposal of a 0.476% stake in Portugal Telecom, SGPS, S.A. The Telefónica Group's effective shareholding in this company at December 31, 2008 was 9.857%.

Results for 2008 include the impact of the write-down of Telco S.p.A.'s investment in Telecom Italia S.p.A. To estimate the impact, the Telefónica Group took the estimated synergies to be obtained by improving certain processes in its European operations through the alliances reached with Telecom Italia S.p.A. The amount shown in "Share of profit (loss) of associates" in the

income statement for 2008 reflects a 209 million euros loss in this respect (146 million euros after the related tax effect) at Telefónica, S.A..

Joint ventures

On December 27, 2002, Telefónica Móviles, S.A. and PT Movéis Servicios de Telecomunicaçoes, S.G.P.S., S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V., via the contribution of 100% of the groups' direct and indirect shares in Brazilian cellular operators. This company is integrated in the consolidated financial statements of the Telefónica Group using proportionate consolidation.

The contributions of Brasilcel, N.V. to the Telefónica Group's 2009, 2008 and 2007 consolidated statements of financial position and income statements are as follows:

	Millions of euros		
	2009	2008	2007
Current assets	1,170	1,234	1,193
Non-current assets	5,617	4,616	4,358
Current liabilities	1,170	1,351	1,328
Non-current liabilities	1,505	1,212	644
Operating revenue	2,743	2,662	2,152
Operating expenses	2,046	2,063	1,778

(10) RELATED PARTIES

Significant shareholders

The main transactions between Telefónica Group companies and significant shareholders of Telefónica, S.A. are described below. All of these transactions were carried out at market prices.

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

- Financing transactions arranged under market conditions, with approximately 531 million euros drawn down at December 31, 2009 (436 million euros at December 31, 2008).
- Time deposits amounting to 878 million euros at December 31, 2009 (355 million euros at December 31, 2008).
- Derivative transactions contracted under market conditions, for a total nominal amount of approximately 7,824 million euros at December 31, 2009 (6,930 million euros at December 31, 2008).
- Guarantees granted by BBVA for approximately 237 million euros at December 31, 2009 (13 million euros at December 31, 2008).
- Dividends and other benefits paid to BBVA in 2009 for 287 million euros (279 million euros in 2008).
- Services, mainly telecommunications and telemarketing, rendered by Telefónica Group companies to the BBVA Group, under market conditions.

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

- Financing transactions arranged under market conditions, with approximately 643 million euros drawn down at December 31, 2009 (682 million euros at December 31, 2008).
- Time deposits amounting to 1,293 million euros at December 31, 2009 (368 million euros at December 31, 2008).

- Derivative transactions arranged under market conditions, for a total nominal amount of approximately 800 million euros in 2009, with no amounts in 2008.
- Dividends and other benefits paid to la Caixa in 2009 for 260 million euros (237 million euros in 2008).
- Guarantees granted for 17 million euros at December 31, 2009 (1 million euros in 2008).
- Telecommunications services rendered by Telefónica Group companies to la Caixa group companies under market conditions.

Associates and joint ventures

The most significant balances and transactions with associates and joint ventures and their contributions to the consolidated statement of financial position and income statement are detailed in Note 9.

Directors and senior executives

During the financial year to which these accompanying annual financial statements refer, the directors and senior executives did not perform any transactions with Telefónica or any Telefónica Group company other than those in the Group's normal trading activity and business.

Compensation and other benefits paid to members of the Board of Directors and senior executives, as well as the detail of the equity interests held in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors for their own account or for third parties, are detailed in Note 21 of these consolidated financial statements.

(11) TRADE AND OTHER RECEIVABLES

The breakdown of this consolidated statement of financial position heading at December 31, 2009 and 2008 is as follows:

Millions of euros	Balance at 12/31/09	Balance at 12/31/08
Trade receivables	10,877	10,116
Receivables from associates (Note 9)	262	120
Other receivables	1,103	585
Allowance for uncollectibles	(2,589)	(2,196)
Short-term prepayments	969	690
Total	**10,622**	**9,315**

Public-sector trade receivables in the countries in which the Group operates at December 31, 2009 and 2008 amounted to 666 million and 539 million euros, respectively.

The breakdown of trade receivables at December 31, 2009 and 2008 is as follows:

Millions of euros	12/31/09	12/31/08
Trade receivables billed	7, 544	7,153
Trade receivables unbilled	3,333	2,963
Total	**10,877**	**10,116**

The movement in impairment losses in 2009 and 2008 is as follows:

	Millions of euros
Impairment losses at December 31, 2007	**2,070**
Allowances	1,232
Retirements/amount applied	(926)
Inclusion of companies	6
Translation differences	(186)
Impairment losses at December 31, 2008	**2,196**
Allowances	1,209
Retirements/amount applied	(970)
Translation differences	154
Impairment losses at December 31, 2009	**2,589**

The balance of trade receivables billed net of impairment losses at December 31, 2009 amounted to 4,955 million euros (4,957 million euros at December 31, 2008), of which 2,981 million euros were not yet due (2,642 million euros at December 31, 2008).

Of the amounts due, only net amounts of 204 and 216 million euros are over 360 days at December 31, 2009 and 2008, respectively. They are mainly with the public sector.

(12) EQUITY

a) Share capital and share premium

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

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

In addition, at the May 10, 2007 Shareholders' Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of

debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. As at December 31, 2009, the Board of Directors had exercised these powers, approving three programs to issue corporate promissory notes for 2008, 2009 and 2010.

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

Finally, on December 28, 2009, the deed of capital reduction formalizing the implementation by the Company's Board of Directors of the resolution adopted by the Shareholders' Meeting on June 23, 2009, was executed. Capital was reduced through the cancellation of treasury shares previously acquired by the Company as authorized by the Shareholders' Meeting. As a result, 141,000,000 Telefónica, S.A. treasury shares were cancelled and the Company's share capital was reduced by a nominal amount of 141,000,000 euros. Article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,563,996,485 euros. At the same time, a reserve was recorded for the cancelled shares for 141 million euros. The balance of this reserve at December 31, 2009 was 498 million euros. The cancelled shares were delisted on December 30, 2009.

Proposed appropriation of profit attributable to equity holders of the parent

Telefónica, S.A. obtained 6,252 million euros of profit in 2009.

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

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2009 profit for approval at the Shareholders' Meeting:

	Millions of euros
Total distributable profit	6,252
Interim dividend (paid in May 2009)	2,277
Goodwill reserve	2
Voluntary reserves	3,973
Total	**6,252**

b) Dividends

Dividends paid in 2009

At its meeting held on June 23, 2009, the Company's Board of Directors resolved to pay a dividend charged to unrestricted reserves for a fixed gross amount of 0.5 euros per outstanding

share carrying dividend rights. This dividend was paid in full on November 11, 2009, and the total amount paid was 2,280 million euros.

In addition, as indicated above, in May 2009 an interim dividend against 2009 profit of a gross 0.50 euros per share was paid, entailing a total payment of 2,277 million euros.

In accordance with Article 216 of the Spanish Corporations Law, the following table shows the provisional statement issued substantiating the existence of sufficient liquidity at the time the resolution to distribute this dividend was adopted.

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

The Company manages its liquidity risks (see Note 16) in order to have cash available for the following year.

Dividends paid in 2008

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

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

Dividends paid in 2007

At its meeting held on May 10, 2007, the Company's Board of Directors resolved to pay an additional dividend charged against 2006 profit of a gross 0.30 euros per share. A total of 1,425 million euros was paid in May.

In addition, in November an interim dividend against 2007 profit of a gross 0.35 euros per share was paid, entailing a total payment of 1,652 million euros.

c) Reserves

Legal reserve

According to the revised text of Spanish Corporation Law, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20%

of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2009, the Company had duly set aside this reserve.

Revaluation reserves

The balance of "Revaluation reserves" arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7.

The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized.

The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, an amount of 15 million euros in 2009 (8 million euros in 2008 and 1,178 million euros in 2007) corresponding to revaluation reserves subsequently considered unrestricted has been reclassified to "Retained earnings."

Retained earnings

These reserves include undistributed profits of companies comprising the consolidated Group less interim dividends paid against profit for the year, actuarial gains and losses, and the impact of the asset ceiling on defined-benefit plans.

d) Translation differences

The translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad after the elimination of intra-group balances and transactions (see Note 3.b). They also include exchange rate differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange rate risk on these investments and the impact of the restatement of financial statements of companies in hyperinflationary economies.

Group companies took an exemption that allows all translation differences generated up to the IFRS transition date to be reset to zero, with the impact on prior years recognized as retained earnings.

The breakdown of the accumulated contribution of translation differences at December 31 is as follows:

Millions of euros	2009	2008	2007
Telefónica Latin America	1,052	(834)	669
Telefónica Europe	(2,524)	(2,793)	(619)
Other adjustments and intra-group eliminations	99	16	47
Total Telefónica Group	**(1,373)**	**(3,611)**	**97**

e) Treasury shares

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

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

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

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

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

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

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

f) Non-controlling interests

"Non-controlling interests" represents the share of non-controlling interests in the equity and income or loss for the year of fully consolidated Group companies. The movements in this heading of the 2009, 2008 and 2007 consolidated statement of financial position are as follows:

Millions of euros	Balance at 12/31/08	Capital contributions and inclusion of companies	Profit (loss) for the year	Change in translation differences	Acquisitions of non-controlling interests and exclusion of companies	Dividends paid	Other movements	Balance at 12/31/09
Telefónica O2 Czech Republic, a.s.	1,095	-	114	21	-	(186)	-	1,044
Telefónica Chile, S.A.	23	1	1	6	(8)	(1)	-	22
Telesp Participaçoes, S.A.	385	-	101	118	-	(64)	2	542
Brasilcel (Holdings)	774	-	46	214	(108)	(41)	-	885
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	20	-	3	-	-	-	-	23
Iberbanda, S.A.	9	-	(3)	-	-	-	-	6
Colombia Telecomunicaciones, S.A., ESP	-	-	(104)	-	-	-	104	-
Other	25	-	3	(2)	(7)	(3)	2	18
Total	**2,331**	**1**	**161**	**357**	**(123)**	**(295)**	**108**	**2,540**

Millions of euros	Balance at 12/31/07	Capital contributions and inclusion of companies	Profit (loss) for the year	Change in translation differences	Acquisitions of non-controlling interests and exclusion of companies	Dividends paid	Other movements	Balance at 12/31/08
Telefónica O2 Czech Republic, a.s.	1,192	-	112	(12)	-	(197)	-	1,095
Telefónica Chile, S.A.	473	-	25	(72)	(397)	(7)	1	23
Telesp Participaçoes, S.A.	464	-	127	(93)	-	(113)	-	385
Brasilcel (Holdings)	545	348	61	(163)	-	(12)	(5)	774
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	19	-	4	-	-	(2)	(1)	20
Iberbanda, S.A.	11	8	(10)	-	-	-	-	9
Colombia Telecomunicaciones, S.A., ESP	-	-	(89)	-	-	-	89	-
Other	26	-	4	(3)	(1)	(2)	1	25
Total	**2,730**	**356**	**234**	**(343)**	**(398)**	**(333)**	**85**	**2,331**

Millions of euros	Balance at 12/31/06	Profit (loss) for the year	Change in translation differences	Acquisitions of non-controlling interests and exclusion of companies	Dividends paid	Other movements	Balance at 12/31/07
Telefónica O2 Czech Republic, a.s.	1,239	92	14	-	(153)	-	1,192
Telefónica Chile, S.A.	515	25	(28)	(31)	(8)	-	473
Telesp Participaçoes, S.A.	445	119	35	-	(135)	-	464
Endemol, N.V.	54	11	-	(45)	(20)	-	-
Brasilcel (Holdings)	493	19	35	-	(2)	-	545
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	17	4	-	-	(2)	-	19
Iberbanda, S.A.	21	(12)	-	-	-	2	11
Colombia Telecomunicaciones, S.A., ESP	-	(50)	-	-	-	50	-
Other	39	5	(4)	(19)	(4)	9	26
Total	**2,823**	**213**	**52**	**(95)**	**(324)**	**61**	**2,730**

2009

The reorganization of Brasilcel Group companies in 2009 following the acquisition of the Telemig Group in 2008, decreased the balance of "Non-controlling interests" by 108 million euros.

Also noteworthy was the impact of the dividends paid during the year by Telefónica O2 Czech Republic, a.s. and Telesp Participaçoes, S.A.

2008

The main variation in 2008 relates to the acquisition of Telefónica Chile, S.A.'s non-controlling interests (see Note 2), which decreased the balance of "Non-controlling interests" by 397 million euros, and to the acquisition of the Telemig Group companies, which increased the balance by 335 million euros.

Also worth highlighting was the movement caused by the dividends paid by Telefónica O2 Czech Republic, a.s. operators, of 197 million euros, and by Telesp Participaçoes, S.A., of 113 million euros.

2007

Movements in non-controlling interests in 2007 included the dividends paid by Telefónica O2 Czech Republic, a.s. and Telesp Participaçoes, S.A., as well as the profit (loss) for the year attributable to non-controlling interests.

(13) FINANCIAL ASSETS AND LIABILITIES

1. Financial assets

The breakdown of financial assets of the Telefónica Group at December 31, 2009 and 2008 is as follows:

	December 31, 2009									
	Fair value through profit or loss				Measurement hierarchy					
Millions of euros	Held for trading	Fair value option	Available-for-sale	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Amortized cost	Total carrying amount	Total fair value
Non-current financial assets	**930**	**233**	**1,248**	**1,572**	**1,508**	**2,475**	**-**	**2,005**	**5,988**	**5,988**
Equity investments	-	-	654	-	570	84	-	-	654	654
Long-term credits	91	233	594	-	918	-	-	1,022	1,940	1,940
Deposits and guarantees given	-	-	-	-	-	-	-	1,496	1,496	983
Derivative instruments	839	-	-	1,572	20	2,391	-	-	2,411	2,411
Impairment losses	-	-	-	-	-	-	-	(513)	(513)	-
Current financial assets	**859**	**134**	**237**	**59**	**769**	**520**	**-**	**9,730**	**11,019**	**11,019**
Financial investments	859	134	237	59	769	520	-	617	1,906	1,906
Cash and cash equivalents	-	-	-	-	-	-	-	9,113	9,113	9,113
Total financial assets	**1,789**	**367**	**1,485**	**1,631**	**2,277**	**2,995**	**-**	**11,735**	**17,007**	**17,007**

	December 31, 2008									
	Fair value through profit or loss				Measurement hierarchy					
Millions of euros	Held for trading	Fair value option	Available-for-sale	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Amortized cost	Total carrying amount	Total fair value
Non-current financial assets	**1,182**	**92**	**2,327**	**2,404**	**2,334**	**3,671**	**-**	**1,371**	**7,376**	**7,642**
Equity investments	-	-	1,584	-	1,503	81	-	-	1,584	1,585
Long-term credits	-	88	743	-	831	-	-	863	1,694	1,562
Deposits and guarantees given	-	-	-	-	-	-	-	905	905	905
Derivative instruments	1,182	4	-	2,404	-	3,590	-	-	3,590	3,590
Impairment losses	-	-	-	-	-	-	-	(397)	(397)	-
Current financial assets	**700**	**273**	**181**	**388**	**275**	**1,267**	**-**	**4,951**	**6,493**	**6,605**
Financial investments	700	273	181	388	275	1,267	-	674	2,216	2,328
Cash and cash equivalents	-	-	-	-	-	-	-	4,277	4,277	4,277
Total financial assets	**1,882**	**365**	**2,508**	**2,792**	**2,609**	**4,938**	**-**	**6,322**	**13,869**	**14,247**

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

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

a) Non-current financial assets

The movement in items composing "Non-current financial assets" and the related impairment losses at December 31, 2009 and 2008 are as follows:

Millions of euros							
	Investments	Long-term credits	Derivative financial assets	Deposits and guarantees	Long-term prepayments	Impairment losses	Total
Balance at 12/31/07	**2,235**	**1,572**	**1,483**	**813**	**97**	**(381)**	**5,819**
Acquisitions	1,124	793	1,049	201	42	(40)	3,169
Disposals	(664)	(433)	-	(66)	(18)	22	(1,159)
Inclusion of companies	-	9	-	63	-	(1)	71
Translation differences	(8)	(114)	131	(107)	(4)	2	(100)
Fair value adjustments	(1,095)	(34)	1,172	-	(7)	1	37
Transfers	(8)	(191)	(245)	1	(18)	-	(461)
Balance at 12/31/08	**1,584**	**1,602**	**3,590**	**905**	**92**	**(397)**	**7,376**
Acquisitions	3	921	-	842	35	(114)	1,687
Disposals	(33)	(503)	(1,118)	(364)	(26)	-	(2,044)
Inclusion of companies	-	-	-	-	-	-	-
Translation differences	9	90	(38)	146	6	(2)	211
Fair value adjustments	565	(53)	(5)	-	-	-	507
Transfers	(1,474)	(221)	(18)	(33)	(3)	-	(1,749)
Balance at 12/31/09	**654**	**1,836**	**2,411**	**1,496**	**104**	**(513)**	**5,988**

"Investments" includes the market value of investments in companies where Telefónica does not exercise significant control and for which there is no specific disposal plan for the short term (see Note 3.i).

Among these is the Telefónica Group's shareholding in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 of 468 million euros (314 million euros at December 31, 2008), representing 0.98% of its share capital.

In 2009, the Telefónica Group's stake in China Unicom was transferred to "Investments in associates" following the share exchange described in Note 2. The amount transferred was 1,467 million euros.

In January 2008, Telefónica, S.A., through its Telefónica Internacional, S.A.U. subsidiary, signed an agreement to acquire an additional stake of approximately 2.22% in Chinese telecommunications company China Netcom Group Corporation (Hong Kong) Limited (CNC). On September 22, it carried out this purchase for approximately 313 million euros.

In addition, in September 2008, Telefónica Internacional, S.A.U. reached another agreement to acquire an additional stake of approximately 5.74% of CNC's share capital.

This acquisition was structured in two tranches: the first, carried out in September 2008, entailed shares representing 2.71% of CNC for approximately 374 million euros, and the second, carried out after the merger between CNC and China Unicom (Hong Kong) Limited ("CU"), entailed shares of the new company representing up to 3.03% of CNC's share capital.

On October 14, 2008 the merger between these companies was carried out. The exchange ratio applied in calculating the number of shares corresponding to the new company arising from the merger between CNC and CU was 1.508 shares of the new company for each year of the former company.

Once the merger was completed, the second tranche was carried out, requiring an investment by the Telefónica Group of approximately 413 million euros.

After these acquisitions and the merger, the Telefónica Group's stake in CU at December 31, 2008 stood at approximately 5.38%, recognized at December 31, 2008 at approximately 1,102 million euros.

In addition, in 2008, Telefónica tendered all the shares it owned in Sogecable, S.A. in the takeover bid launched for this company by the Prisa Group. The amount received from the sale was 648 million euros. This investment was included in the statement of financial position at December 31, 2007 in "Equity investments" under "Non-current financial assets," for 634 million euros. The gain obtained on the sale was 143 million euros, recognized under "Other income" in the accompanying consolidated income statement (see Note 19).

Given the poor situation of financial markets, at year-end the Group assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any impairment losses.

"Long-term credits" includes mainly the investment of the net level premium reserves of the Group's insurance companies, primarily in fixed-income securities, amounting to 1,023 million and 792 million euros at December 31, 2009 and 2008, respectively. It also includes the long-term loans to associates described in Note 9.

"Derivative financial assets" includes the fair value of economic hedges of assets or liabilities in the consolidated statement of financial position whose maturity is 12 months or greater, as part of the Group's financial risk-hedging strategy (see Note 16).

"Deposits and guarantees" consists mainly of balances to cover guarantees and stood at 1,496 million euros at December 31, 2009 (905 million euros at December 31, 2008). These deposits will decrease as the respective obligations they guarantee are reduced.

b) Current financial assets

This heading in the accompanying consolidated statement of financial position at December 31, 2009 and 2008 includes mainly the following items:

- "Current financial assets" recognized at fair value to cover commitments undertaken by the Group's insurance companies, amounting to 140 million euros at December 31, 2009 (276 million euros at December 31, 2008). The maturity schedule for these financial assets is established on the basis of payment projections for the commitments.
- Derivative financial assets with a short-term maturity or not used to hedge non-current items in the consolidated statement of financial position, which amounted to 537 million euros (1,086 million euros in 2008). The variation in the balance between the two years was due to exchange- and interest-rate fluctuations (see Note 16).
- Short-term deposits and guarantees amounting to 470 million euros at December 31, 2009 (125 million euros at December 31, 2008).
- Current investments of cash surpluses which, given their characteristics, have not been classified as "Cash and cash equivalents."

Current financial assets that are highly liquid and are expected to be sold within three months or less are recorded under "Cash and cash equivalents" on the accompanying consolidated statement of financial position.

2. Financial liabilities

The composition of this heading at December 31, 2009 and 2008 is as follows:

Millions of euros	Balance at 12/31/09	Balance at 12/31/08
Issues	35,843	30,079
Interest-bearing debt	20,948	22,926
Other financial liabilities	-	183
Total	**56,791**	**53,188**
Total non-current	47,607	45,088
Total current	9,184	8,100

The maturity profile of financial liabilities at December 31, 2009 is as follows:

(Millions of euros)	Maturity						
	2010	2011	2012	2013	2014	Subsequent years	Total
Debentures and bonds	5,090	3,275	1,749	4,174	4,763	13,911	**32,962**
Promissory notes & commercial paper	812	-	-	-	-	-	**812**
Other marketable debt securities	61	54	-	-	-	1,954	**2,069**
Loans and other payables	1,789	6,132	3,695	1,433	513	4,396	**17,958**
Derivative financial liabilities	1,432	255	106	65	63	1,069	**2,990**
TOTAL	**9,184**	**9,716**	**5,550**	**5,672**	**5,339**	**21,330**	**56,791**

- The estimate of future interest that would accrue on the Group's financial liabilities at December 31, 2009 is as follows: 2,382 million euros in 2010, 2,074 million euros in 2011, 1,818 million euros in 2012, 1,620 million euros in 2013, 1,355 million euros in 2014 and 8,190 million euros in years after 2014. For variable rate financing, the Group mainly estimates future interest using the forward curve of the various currencies at December 31, 2009.
- The amounts shown in this table take into account the fair value of derivatives classified as financial liabilities (i.e., those with a negative market value) and exclude the fair value of derivatives classified as current financial assets (i.e., those with a positive market value, of 537 million euros).

The composition of the Group's financial liabilities at December 31, 2009 and 2008 is as follows:

	December 31, 2009								
	Fair value through profit or loss			Measurement hierarchy					
Millions of euros	Held for trading	Fair value option	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	-	-	-	-	-	-	35,843	35,843	37, 890
Interest-bearing debt	705	-	2,285	147	2,843	-	17,958	20,948	20,840
Total financial liabilities	**705**	**-**	**2,285**	**147**	**2,843**	**-**	**53,801**	**56,791**	**58,730**

Millions of euros	December 31, 2008								
	Fair value through profit or loss			Measurement hierarchy					
	Held for trading	Fair value option	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	-	-	-	-	-	-	30,079	30,079	28,203
Interest-bearing debt	1,013	3	1,980	-	2,996	-	19,930	22,926	22,253
Other financial liabilities	-	-	-	-	-	-	183	183	183
Total financial liabilities	**1,013**	**3**	**1,980**	**-**	**2,996**	**-**	**50,192**	**53,188**	**50,639**

Some of the financing arranged by various Telefónica group companies is subject to compliance with certain financial covenants. All the covenants were being complied with at the date of these consolidated financial statements.

a) Issues

The movement in issues of debentures, bonds and other marketable debt securities in 2009 and 2008 is as follows:

Millions of euros	Domestic currency issues	Foreign currency issues	Short-term promissory notes and commercial paper	Other long-term marketable debt securities	Total
Balance at 12/31/07	**11,716**	**14,058**	**2,202**	**2,081**	**30,057**
New issues	1,247	70	14	15	**1,346**
Redemptions, conversions and exchanges	(737)	(448)	(643)	(22)	**(1,850)**
Changes in consolidation scope	-	4	-	-	**4**
Revaluation and other movements	1,405	(885)	22	(20)	**522**
Balance at 12/31/08	**13,631**	**12,799**	**1,595**	**2,054**	**30,079**
New issues	5,750	2,855	105	-	**8,710**
Redemptions, conversions and exchanges	(1,152)	(802)	(909)	-	**(2,863)**
Changes in consolidation scope	-	-	-	-	**-**
Revaluation and other movements	(654)	535	82	(46)	**(83)**
Balance at 12/31/09	**17,575**	**15,387**	**873**	**2,008**	**35,843**

Debentures, bonds and other marketable debt securities

Telefónica, S.A. has a full and unconditional guarantee on issues made by Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V., both of which are wholly owned subsidiaries of Telefónica, S.A.

Appendix II presents the characteristics of all outstanding debentures and bond issues at year-end 2009 and 2008, as well as the significant issues made in each year.

Promissory notes & commercial paper

At December 31, 2009 and 2008, Telefónica, S.A. had a promissory note program for issuance of up to 2,000 million euros. The outstanding balances at December 31, 2009 and 2008 were 254 million euros and 741 million euros, respectively, carrying average interest rates of 1.318% and 4.49%, respectively.

At December 31, 2009, Telefónica Europe, B.V. had a commercial paper program secured by Telefónica, S.A. for issuance of up to 2,000 million euros. The outstanding balances on this program at December 31, 2009 and 2008 were 551 million euros and 840 million euros, respectively, carrying average interest rates of 1.17% and 3.70%, respectively.

Other marketable debt securities

This heading consists mainly of preferred shares issued by Telefónica Finance USA, LLC, with a redemption value of 2,000 million euros. These shares were issued in 2002 and have the following features:

- Interest rate up to December 30, 2012 of 3-month Euribor, and maximum and minimum effective annual rates of 7% and 4.25%, respectively, and from then 3-month Euribor plus a 4% spread.
- Interest is paid every three calendar months provided the Telefónica Group generates consolidated net income.

b) Interest-bearing debt

The detail of "Interest-bearing debt" is as follows:

Millions of euros	Balance at 12/31/09			Balance at 12/31/08		
	Current	Non-current	Total	Current	Non-current	Total
Loans and other payables	1,789	16,169	17,958	3,752	16,178	19, 930
Derivative financial liabilities (Note 16)	1,432	1,558	2,990	747	2,249	2,996
Total	**3,221**	**17,727**	**20,948**	**4,499**	**18,427**	**22,926**

The average interest rate on outstanding loans and other payables at December 31, 2009 was 3.58% (4.28% in 2008). This percentage does not include the impact of hedges arranged by the Group.

The main financing transactions included under "Interest-bearing debt" outstanding at December 31, 2009 and 2008 and their nominal amounts are provided in Appendix IV.

Interest-bearing debt arranged in 2009 and 2008 mainly includes the following:

- On February 13, 2009, Telefónica, S.A. executed, with a group of participating banks in the 6,000 million euro syndicated line of credit dated June 28, 2005 maturing on June 28, 2011, an extension of 4,000 million euros of the 6,000 million euros available at such date, for an additional period of one year for 2,000 million euros and two years for the remaining 2,000 million euros.

- On December 28, 2009, Colombia de Telecomunicaciones, S.A., ESP. signed a loan for 310,000 million Colombian pesos (equivalent to 105 million euros at December 31, 2009) maturing on December 28, 2014.

- On January 15, 2008, Telefónica Móviles Colombia, S.A. drew down the entire amount of financing arranged on December 10, 2007, which was structured in two tranches. Tranche A, for 125 million US dollars, entailed bilateral financing with the Inter-American Development Bank (IDB) maturing in 7 years. Tranche B entailed a 5-year 475 million US dollar syndicated credit facility with a group of banks, in which the IDB acted as agent bank.

- On January 30, 2008, Telefónica Finanzas, S.A.U. (Telfisa) drew down the 450 million euros of facilities arranged with the European Investment Bank (EIB) related to the "Telefónica Mobile Telephony II" project, of which 375 million euros mature in seven years and the remaining 75 million euros in eight years.

- On May 1, 2008, Vivo, S.A. drew down an additional 750 million Brazilian reais of the financing arranged with the Brazilian Development Bank (BNDES) on August 9, 2007

and maturing on August 15, 2014. In 2009, an additional 89 million Brazilian reais were drawn down.

- On June 9, 2008, Compañía de Telecomunicaciones de Chile, S.A. (CTC) extended the maturity of a 150 million US dollar syndicated loan to May 13, 2013.
- On October 28, 2008, Telesp drew down an additional 886 million Brazilian reais of the financing arranged with the BNDES on October 23, 2007 and maturing on May 15, 2015. In 2009, an additional 273 million Brazilian reais were drawn down.

The main repayments or maturities of bank interest-bearing debt in 2009 and 2008 are as follows:

- On July 6, 2009, the syndicated loan facility arranged by Telefónica, S.A. with a group of banks on July 6, 2004, for 3,000 million euros, matured as scheduled.
- Telefónica Finanzas, S.A.U. (Telfisa) made the payments corresponding to 2009 on certain finance deals arranged with the EIB for an amount equal to approximately 77 million euros (502 million euros in 2008), of which 26 million euros relate to financing matured (440 million euros in 2008).

At December 31, 2009, the Telefónica Group had total unused credit facilities from various sources amounting to over 7,200 million euros (over 7,400 million euros at December 31, 2008).

Loans by currency

The breakdown of loans by at December 31, 2009 and 2008, along with the equivalent value of foreign-currency loans in euros, are as follows:

	Outstanding balance (in millions)			
	Currency		Euros	
Currency	12/31/09	12/31/08	12/31/09	12/31/08
Euros	10,835	11,592	10,835	11,592
US dollars	2,498	3,267	1,734	2,444
Brazilian reais	3,114	3,228	1,242	992
Argentine pesos	603	51	110	11
Colombian pesos	7,675,200	7, 819,166	2,610	2,502
Yen	17,258	58,832	130	467
Chilean peso	151,943	176,163	208	199
New soles	1,120	1,096	269	251
Pounds sterling	708	1,383	798	1, 452
Czech crown	301	389	11	14
Other currencies			11	6
Total Group	**N/A**	**N/A**	**17,958**	**19,930**

(14) TRADE AND OTHER PAYABLES

The composition of "Trade and other payables" is as follows:

Millions of euros	12/31/09		12/31/08	
	Non-current	Current	Non-current	Current
Trade payables	-	6,963	-	7,845
Advances received on orders	-	115	-	94
Other payables	752	5,130	582	4,316
Deferred income	497	1,528	535	1,214
Payable to associates (Note 9)	-	287	-	182
Total	1,249	14,023	1,117	13,651

"Deferred income" principally includes the amount of connection fees not yet recognized in the income statement, customer loyalty programs, and advance payments received on prepay contracts. These will be recognized as revenue over the estimated customer relationship period (see Note 3.o) or as the purchases related to the revenue are incurred.

The detail of "Other payables" under "Current liabilities" at December 31, 2009 and 2008 is as follows:

Millions of euros	Balance at 12/31/09	Balance at 12/31/08
Dividends payable by Group companies	157	157
Payables to suppliers of property, plant and equipment, current	3,598	2,915
Accrued employee benefits	695	595
Other non-financial non-trade payables	680	649
Total	5,130	4,316

(15) PROVISIONS

The amounts of provisions in 2009 and 2008 are as follows:

Millions of euros	12/31/09			12/31/08		
	Current	Non-current	Total	Current	Non-current	Total
Employee benefits:	667	3,594	4,261	791	4,002	4, 793
- Post-employment plan	*652*	*2, 418*	*3,070*	*781*	*2,993*	*3,774*
- Post-employment defined benefit plans	*-*	*911*	*911*	*-*	*741*	*741*
- Other benefits	*15*	*265*	*280*	*10*	*268*	*278*
Other provisions	296	1,399	1,695	315	1,419	1,734
Total	963	4,993	5,956	1,106	5,421	6,527

Employee benefits

a) Post-employment plans

In the last few years, Telefónica has carried out early retirement plans in order to adapt its cost structure to the prevailing environment in the markets where it operates, making certain strategic decisions relating to its size and organization.

In this respect, on July 29, 2003, the Ministry of Labor and Social Affairs approved a labor force reduction plan for Telefónica de España through various voluntary, universal and non-discriminatory programs, which was announced on July 30, 2003. The plan concluded on December 31, 2007, with 13,870 employees taking part for a total cost of 3,916 million euros.

Provisions recorded for this plan at December 31, 2009 and 2008 amounted to 2,295 and 2,689 million euros, respectively.

Furthermore, at December 31, 2009, the Group had recorded provisions totaling 775 million euros (1,085 million euros at December 31, 2008) for other planned adjustments to the workforce and plans prior to 2003.

The companies bound by these commitments calculated provisions required at 2009 and 2008 year-end using actuarial assumptions pursuant to current legislation, including the PERM/F-2000 C mortality tables and a variable interest rate based on market yield curves.

The Group made efforts in 2007 to adapt headcount in line with the integration of its businesses, for which it recorded provisions of 838 million euros, mainly in Latin America (306 million euros), Spain (325 million euros) and Europe (158 million euros) (see Note 19).

The movement in provisions for post-employment plans in 2009 and 2008 is as follows:

Millions of euros	Total
Provisions for post-employment plans at 12/31/07	**4,584**
Additions	321
Retirements/amount applied	(1,121)
Transfers	1
Translation differences and accretion	(11)
Provisions for post-employment plans at 12/31/08	**3,774**
Additions	109
Retirements/amount applied	(1,021)
Transfers	59
Translation differences and accretion	149
Provisions for post-employment plans at 12/31/09	**3, 070**

b) Post-employment defined benefit plans

The Group has a number of defined-benefit plans in the countries where it operates. The following tables present the main data of these plans:

12/31/09	Spain		Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	451	191	922	37	159	11	1,771
Assets	-	-	(744)	(58)	(116)	-	(918)
Net provision before asset ceiling	451	191	178	(21)	43	11	853
Asset ceiling	-	-	-	15	12	-	27
Net provision	451	191	178	-	80	11	911
Net assets	-	-	-	6	25	-	31

12/31/08	Spain		Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	485	188	587	33	104	12	1,409
Assets	-	-	(579)	(51)	(78)	-	(708)
Net provision before asset ceiling	485	188	8	(18)	26	12	701
Asset ceiling	-	-	-	13	19	-	32
Net provision	485	188	10	-	46	12	741
Net assets	-	-	2	5	1	-	8

The movement in the present value of obligations in 2009 and 2008 is as follows:

	Spain		Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Present value of obligation at 12/31/07	**483**	**152**	**947**	**37**	**99**	**40**	**1,758**
Translation differences	-	-	(199)	-	(38)	(30)	(267)
Current service cost	-	7	39	3	1	1	51
Interest cost	22	7	50	2	9	-	90
Actuarial losses and gains	35	26	(235)	(8)	40	1	(141)
Benefits paid	(55)	(4)	(21)	-	(7)	-	(87)
Plan curtailments:	-	-	6	(1)	-	-	5
Present value of obligation at 12/31/08	**485**	**188**	**587**	**33**	**104**	**12**	**1,409**
Translation differences	-	-	42	-	38	(4)	76
Current service cost	-	7	22	2	1	2	34
Interest cost	16	7	42	2	12	1	80
Actuarial losses and gains	3	(4)	241	-	11	-	251
Benefits paid	(53)	(7)	(18)	-	(7)	-	(85)
Plan curtailments:	-	-	6	-	-	-	6
Present value of obligation at 12/31/09	**451**	**191**	**922**	**37**	**159**	**11**	**1,771**

Movements in the fair value of plan assets in 2009 and 2008 are as follows:

	Europe		Latin America		
Millions of euros	UK	Germany	Brazil	Other	Total
Fair value of plan assets at 12/31/07	**970**	**44**	**89**	**65**	**1,168**
Translation differences	(189)	-	(24)	(63)	(276)
Expected return on plan assets	67	2	9	-	78
Actuarial losses and gains	(327)	(1)	5	-	(323)
Company contributions	81	6	2	1	90
Employee contributions	1	-	-	-	1
Benefits paid	(24)	-	(3)	(3)	(30)
Fair value of plan assets at 12/31/08	**579**	**51**	**78**	**-**	**708**
Translation differences	42	-	29	(3)	68
Expected return on plan assets	43	2	7	3	55
Actuarial losses and gains	59	(2)	5	-	62
Company contributions	36	7	2	-	45
Employee contributions	1	-	-	-	1
Benefits paid	(16)	-	(5)	-	(21)
Fair value of plan assets at 12/31/09	**744**	**58**	**116**	**-**	**918**

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with the asset ceilings of these plans in 2009, 2008 and 2007, before the related tax effect, are as follows:

Millions of euros	2009	2008	2007
Spain	1	(61)	25
Europe	(184)	(85)	36
Latin America	(6)	(36)	(7)
Total	**(189)**	**(182)**	**54**

The Group's principal defined-benefit plans are:

a) *Plans in Spain:*

a. ITP: Telefónica Spain reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP (Institución Telefónica de Previsión). Once the aforementioned supplementary pension payments had been quantified, they became fixed, lifelong and non-updateable and sixty percent (60%) of the payments are transferable to the surviving spouse, recognized as such as of June 30, 1992, and to underage children.

   The amount for this provision totaled 451 million euros at December 31, 2009 (485 million euros at December 31, 2008).

b. Survival: Survivors of serving employees who did not join the defined pension plan are still entitled to receive survivorship benefits at the age of 65.

   The amount for this provision totaled 191 million euros at December 31, 2009 (188 million euros at December 31, 2008).

   These plans do not have associated assets which qualify as "plan assets" under IAS 19.

   The main actuarial assumptions used in valuing these plans are as follows:

	Survival		ITP	
	12/31/09	12/31/08	12/31/09	12/31/08
Discount rate	0.382%-3.903%	2.596%-3.900%	0.382%-3.903%	2.596%-3.900%
Expected rate of salary increase	2.50%	2.50%	-	-
Mortality tables	PERM/F-2000C Combined with OM77	PERM/F-2000C Combined with OM77	92% PERM 2000C/100% PERF 2000 C	PERM/F 2000 C

b) *Plans in the rest of Europe:*

The various O2 Group companies consolidated within the Telefónica Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2009 and 2008 is as follows:

Employees	2009	2008
UK	4,613	4,636
Germany	5,594	4,964
Other	401	393
Total	**10,608**	**9,993**

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/09		12/31/08	
	UK	Germany	UK	Germany
Nominal rate of salary increase	4.6%	3.80%	4.0%	3.25% -3.80%
Nominal rate of pension payment increase	3.6%	1.0%-4.0%	2.8%-3.0%	2.0%-4.0%
Discount rate	5.8%	6.1%	6.6%	6.2%
Expected inflation	3.6%	1.0%-4.0%	3.0%	2%
Expected return on plan assets				
- Shares	8.0%	N/A	7.4%	N/A
- UK government bonds	4.4%	N/A	3.6%	N/A
- Other bonds	5.3%	N/A	6.6%	N/A
- Rest of assets	4.4% -8.8%	4.25%-4.30%	3.6% -7.6%	4.25%-4.30%
Mortality tables	Pa00mcfl0.5	Prf. Klaus Heubeck (RT 2005 G)	Pa00mcfl0.5	Heubeck RT 2005 G

c) Plans in Latin America:

Subsidiary Telecomunicações de São Paulo, S.A. and its subsidiaries, and group companies of Brasilcel, N.V. had various pension plan, medical insurance and life insurance obligations with employees.

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/09	12/31/08
Discount rate	9.8%	10.14%
Nominal rate of salary increase	6.14% - 6.79%	6.44% - 7.10%
Expected inflation	4.6%	4.90%
Cost of health insurance	7.74%	8.04%
Expected return on plan assets	9.83% - 14.94%	10.88% - 11.15%
Mortality tables	AT 83	AT 83

The valuations used to determine the value of obligations and plan assets, where appropriate, were performed as of December 31, 2009 by external and internal actuaries. The projected unit credit method was used in all cases.

c) Other benefits

This heading mainly includes the amount recorded by Telefónica Spain related to the amount accrued of long-service bonuses to be awarded to employees after 25 years' service.

Other provisions

The movement in "Other provisions" in 2009 and 2008 is as follows:

	Millions of euros
Other provisions at December 31, 2007	**1,866**
Additions	448
Retirements/amount applied	(518)
Transfers	(5)
Inclusion of companies	64
Translation differences	(121)
Other provisions at December 31, 2008	**1,734**
Additions	381
Retirements/amount applied	(571)
Transfers	(29)
Translation differences	180
Other provisions at December 31, 2009	**1,695**

"Other provisions" includes the amount recorded in 2007 in relation to the 171 million euro fine imposed on Telefónica de España, S.A.U. by the EC anti-trust authorities.

Also included are the provisions for dismantling of assets recognized by Group companies in the amount of 270 million euros (200 million euros in 2008).

Finally, "Other Provisions" in 2009 and 2008 also includes the provisions recorded (or used) by the Group companies to cover the risks inherent in the realization of certain assets, the contingencies arising from their respective business activities and the risks arising from commitments and litigation acquired in other transactions, recognized as indicated in Note 3.l.

Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments, if any.

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

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

The main market risks affecting Telefónica are as follows:

1. Exchange rate risk

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

2. Interest rate risk

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

3. Share price risk

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

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

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

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

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of our cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of our liquidity. For a more detailed description on reconciliation of net debt and net financial debt to gross financial debt (see Note 2).

Exchange rate risk

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

At December 31, 2009, net debt in Latin American currencies was equivalent to approximately 5,622 million euros. However, the composition of this net debt in the various Latin American currencies is not proportional to the cash flows generated at any given moment. The future effectiveness of the strategy described above as a hedge of exchange rate risks therefore depends on which currencies depreciate relative to euro.

Telefónica aims to protect itself against declines in Latin American currencies relative to the euro affecting our asset values through the use of dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent. At December 31, 2009, Telefónica net debt denominated in dollars was equivalent to 1,744 million euros, of which 981 million euros was related to assets in Latin America and the remaining 763 million euros was related to its investment in China Unicom.

At December 31, 2009, pound sterling-denominated net debt was approximately 2.3 times the value of our 2009 OIBDA from the Telefónica Europe business unit in the United Kingdom. Telefónica's aim is to maintain this same proportion of pound sterling-denominated net debt to OIBDA as the Telefónica net debt to OIBDA ratio, on a consolidated basis, in order to help them to reduce its sensitivity to changes in the pound sterling to euro exchange rate. Pound sterling-denominated net debt at December 31, 2009, was equivalent to 3,799 million euros, less than the 3,855 million euros at December 31, 2008.

To protect our investment in the Czech Republic, Telefónica has net debt denominated in Czech crowns, which at December 31, 2009 was equivalent to 2,513 million euros, almost 59% of the original cost of the investment and less than 2.3 times the OIBDA of Telefónica Europe's business in the Czech Republic, down from approximately 3,034 million euros at December 31, 2008.

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

In 2009, exchange rate management resulted in negative exchange rate differences totaling 209 million euros, compared to 24 million euros in positive differences in 2008.

To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2009 were constant during 2010 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that exchange gains or losses recorded for 2010 would be 46 million euros less. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

Telefónica financial expenses are exposed to changes in interest rates. In 2009, the rates applied to the largest amount of our short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. In nominal terms, at December 31, 2009, 52.6% of Telefónica's net debt (or 50% of long-term net debt) was at rates fixed for more than one year, compared to 43.8% of net debt (46.3% of long-term net debt) in 2008. Of the remaining 47.4% (net debt at floating or fixed rates maturing in less than one year), the interest rate on 24 percentage points was set for a period of more than one year (10.7% of long-term net debt), compared to 28 percentage points on debt at floating or fixed rates maturing in less than one year (17% of long-term debt) at December 31, 2008. This decrease in 2009 from 2008 is due to the cancellation and maturity (without renewal) of an amount equivalent to 2,234 million euros of caps and floors euros, US dollars and pounds sterling in anticipation of a fall in interest rates.

In addition, early retirement liabilities were discounted to present value over the year, using the curve on the swap rate markets. The decrease in interest rates has increased the market value of these liabilities. However, this increase was nearly completely offset by the increase in the value of the hedges on these positions.

Net financial expenses rose 18.2% to 3,307 million euros in 2009 from 2,797 million euros de 2008, mainly due to the impact of Venezuela. Stripping out exchange-rate effects, net financial expense for 2009 totaled 2,767 million euros, a 1.9% decrease from the 2,821 million euros recorded in 2008.

To illustrate the sensitivity of net financial expense to variability in short-term interest rates, assuming a 100 basis point increase in interest rates in all currencies in which there are financial positions and no change in the currency make-up and balance of the position at year end, we estimate that net financial expense at December 31, 2009 would have been 124 million euros higher.

Share price risk

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

As part of the shareholder remuneration policy, in 2008, Telefónica announced plans to buy back up to 150 million of our shares. This buyback plan was finished on March 31, 2009.

According to the Telefónica, S.A. share option plan, *Performance Share Plan* (PSP) -(see Note 20)- the shares delivered under such plan may be either the parent company treasury shares, acquired by them or any of its Group companies; or newly-issued shares. The possibility of delivering shares to employees in the future, in accordance with relative total shareholders' return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each cycle, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for our ordinary shareholder as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk to us associated with variations in share price under this plan, Telefónica has acquired derivatives that replicate the risk profile of some of the shares derivable under the plan as explained in Note 20.

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

Additionally, at the Ordinary General Shareholders' Meeting of 2009, an incentive plan for Group employees to purchase Telefónica shares was approved. The cost of this plan will not exceed 60 million euros. The plan is expected to be implemented during the first half of 2010. Telefónica will assess if will have to take any action in order to reduce any risk related to the future delivery of shares.

Liquidity risk

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

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

As of December 31, 2009, the average maturity of 43,551 million euros of net financial debt was 6.55 years. Telefónica would need to generate approximately 6,649 million euros per year to repay the debt in this period if we used all our cash for this purpose.

At December 31, 2009, gross financial debt scheduled maturities in 2010 amounted to approximately 8,647 million euros (including the net position of derivative financial instruments), which is lower than the amount of funds available, calculated as the sum of: (i) current financial assets and cash at December 31, 2009 (10,482 million euros excluding derivative financial instruments), (ii) annual cash generation projected for 2010; and (iii) undrawn credit facilities arranged with banks whose original maturity is over one year (an aggregate of more than 4,480 million euros at December 31, 2009). This gives us flexibility with regard to accessing capital or credit markets in the next 12 months. For a further description of our liquidity and capital resources, see Note 13.2 Financial Liabilities and Appendix III.

Country risk

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

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

Regarding the first point, at December 31, 2009, its Latin American companies had net financial debt not guaranteed by the parent company of 4,044 million euros, which represents 9.29% of our consolidated net financial debt.

Regarding the repatriation of funds to Spain, it has received 1,790 million euros from our Latin America companies in 2009, of which 766 million euros was from dividends and 1,024 million

euros from intra-group loans (payments of interest and repayments of principal) and capital reductions. These amounts were equally offset by additional amounts invested in its Latin American companies, mainly in Peru (27 million euros), in Argentina (2 million euros) and in Colombia (1 million euros). As a result of the foregoing, net funds repatriated to Spain from our Latin America companies amounted to the equivalent of 1,760 million euros as of December 31, 2009.

In this regard, it is worth noting that since February 2003, Venezuela has had an exchange control mechanism in place, managed as indicated above by the Currency Administration Commission (CADIVI). The body has issued a number of regulations ("*providencias*") governing the modalities of currency sales in Venezuela at official exchange rates. Foreign companies which are duly registered as foreign investors are entitled to request approval to acquire currencies at the official exchange rate by the CADIVI, in line with regulation number 029, article 2, section c) "Remittance of earnings, profits, income, interest and dividends from international investment." Telcel, its subsidiary in Venezuela, obtained the aforementioned requested approval on Venezuelan Bolivar fuerte 295 million in 2006, Venezuelan Bolivar fuerte 473 million in 2007 and Venezuelan Bolivar fuerte 785 million in 2008. At December 31, 2009, payment of a dividend in the amount of Venezuelan Bolivar fuerte 1,152 million is pending approval.

Credit risk

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

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

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

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

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

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 11 and 13) and the guarantees given by Telefónica.

Capital management

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

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

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

Derivatives policy

At December 31, 2009, the nominal value of outstanding derivatives with external counterparties amounted to 131,614 million equivalent, a 7.3% decrease from December 31, 2008 (141,984 million euros equivalent). This figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying liability. For example, a foreign currency loan can be hedged into floating rate, and then each interest rate period can be fixed using a fixed rate hedge, or FRA (forward rate agreement). Even using such techniques to reduce the position, it is still necessary to take extreme care in the use of derivatives to avoid potential problems arising through error or a failure to understand the real position and its associated risks.

Telefónica's derivatives policy emphasizes the following points:

1) Derivatives based on a clearly identified underlying.

   Acceptable underlyings include profits, revenues and cash flows in either a company's functional currency or another currency. These flows can be contractual (debt and interest payments, settlement of foreign currency payables, etc.), reasonably certain or foreseeable (investment program, future debt issues, commercial paper programs, etc.). The acceptability of an underlying asset in the above cases does not depend on whether it complies with accounting rules requirements for hedge accounting, as is required in the case of certain intra-group transactions, for instance. Parent company investments in subsidiaries with functional currencies other than the euro also qualify as acceptable underlying assets.

   Economic hedges, which are hedges with a designated underlying asset and which in certain circumstances offset fluctuations in the underlying asset value, do not always meet the requirements and effectiveness tests laid down by accounting standards for treatment as hedges. The decision to maintain positions that cease to qualify as effective or fail to meet other requirements will depend on the marginal impact on the income statement and how far this might compromise the goal of a stable income statement. In any event, the variations are recognized in the income statement.

2) Matching of the underlying to one side of the derivative.

   This matching basically applies to foreign currency debt and derivatives hedging foreign currency payments by Telefónica's subsidiaries. The aim is to eliminate the risk arising from changes in foreign currency interest rates. Nonetheless, even when the aim is to achieve perfect hedging for all cash flows, the lack of liquidity in certain markets, especially in Latin American currencies, has meant that historically there have been mismatches between the terms of the hedges and those of the debts they are meant to

hedge. Telefónica intends to reduce these mismatches, provided that doing so does not involve disproportionate costs. In this regard, if adjustment does prove too costly, the financial timing of the underlying asset in foreign currency will be modified in order to minimize interest rate risk in foreign currency.

In certain cases, the timing of the underlying as defined for derivative purposes may not be exactly the same as the timing of the contractual underlying.

3) Matching the company contracting the derivative and the company that owns the underlying.

Generally, the aim is to ensure that the hedging derivative and the hedged asset or liability belong to the same company. Sometimes, however, the holding companies (Telefónica, S.A. and Telefónica Internacional, S.A.) have arranged hedges on behalf of a subsidiary that owns the underlying asset. The main reasons for separating the hedge and the underlying asset were possible differences in the legal validity of local and international hedges (as a result of unforeseen legal changes) and the different credit ratings of the counterparties (whether Telefónica group companies or the banks).

4) Ability to measure the derivative's fair value using the valuation systems available to us.

Telefónica uses a number of tools to measure and manage risks in derivatives and debt. The main ones are Kondor+, licensed by Reuters, which is widely used by financial institutions, and MBRM specialist financial calculator libraries.

5) Sale of options only when there is an underlying exposure.

Telefónica considers the sale of options when: i) there is an underlying exposure (on the consolidated statement of financial position or associated with a highly probable cash outflow) that would offset the potential loss for the year if the counterparty exercised the option, or ii) the option is part of a structure in which another derivative offsets any loss. The sale of options is also permitted in option structures where, at the moment they are taken out, the net premium is either positive or zero.

For instance, it would be possible to sell short-term options on interest rate swaps that entitle the counterparty to receive a certain fixed interest rate, below the level prevailing at the time the option was sold. This would mean that if rates fell and the counterparty exercised its option, we would swap part of our debt from floating rate to a lower fixed rate, having received a premium.

6) Hedge accounting.

The main risks that may qualify for hedge accounting are as follows:

- Variations in market interest rates (either money-market rates, credit spreads or both) that affect the value of the underlying asset or the measurement of the cash flows;
- Variations in exchange rates that change the value of the underlying asset in the company's functional currency and affect the measurement of the cash flow in the functional currency;
- Variations in the volatility of any financial variable, asset or liability that affect either the valuation or the measurement of cash flows on debt or investments with embedded options, whether or not these options are separable; and
- Variations in the valuation of any financial asset, particularly shares of companies included in the portfolio of "Available-for-sale financial assets".

Regarding the underlying:

- Hedges can cover all or part of the value of the underlying;
- The risk to be hedged can be for the whole period of the transaction or for only part of the period; and
- The underlying may be a highly probable future transaction, or a contractual underlying (loan, foreign currency payment, investment, financial asset, etc.) or a combination of both that defines an underlying with a longer term.

This may on occasion mean that the hedging instruments have longer terms than the related contractual underlying. This happens when we enter into long-term swaps, caps or collars to protect ourselves against interest rate rises that may raise the financial expense of our promissory notes, commercial paper and some floating rate loans which mature earlier than their hedges. These floating rate financing programs are highly likely to be renewed and Telefónica commits to this by defining the underlying asset in a more general way as a floating rate financing program whose term coincides with the maturity of the hedge.

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instrument used is options and only the intrinsic value of the option is recognized as an effective hedge. Changes in the time value of options are recognized in the income statement. To prevent excessive swings in the income statement from changes in time value, the hedging ratio (amount of options for hedging relative to the amount of options not treated as hedges) is assigned dynamically, as permitted by the standard.
- Hedges of net investment in consolidated foreign subsidiaries. Generally such hedges are arranged by the parent company and the other Telefónica's holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. Often, however, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It may also be that the debt market in the currency concerned is too thin to accommodate the required hedge (for example, the Czech crown and pounds sterling), or that an acquisition is made in cash with no need for market finance. In these circumstances derivatives, either forwards or cross-currency swaps are used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

Management of accounting hedges is not static, and the hedging relationship may change before maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in market view. Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model.

The main guiding principles for risk management are laid down by Telefónica's Finance Department and implemented by company chief financial officer (who is responsible for balancing the interests of each company and those of Telefónica as a whole). The Corporate Finance Department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks. New companies joining us as a result of mergers or acquisitions may also need time to adapt.

The breakdown of the financial results recognized in 2009, 2008 and 2007 is as follows:

(Millions of euros)	2009	2008	2007
Interest income	528	589	524
Dividends received	45	67	72
Other financial income	151	217	107
Interest expenses	(3,036)	(3,333)	(3,175)
Ineffective portion of cash flow hedges	(17)	(71)	(43)
Accretion of provisions and other liabilities	(254)	(453)	(200)
Changes in fair value of financial assets at fair value through profit or loss	124	341	25
Changes in fair value of financial liabilities at fair value through profit or loss	(132)	(115)	(4)
Transfer from equity to profit and loss from cash flow hedges	77	(50)	(17)
Transfer from equity to profit and loss from available-for-sale assets	4	(2)	(107)
(Gain)/loss on fair value hedges	(427)	912	75
Loss/(gain) on adjustment to items hedged by fair value hedges	439	(883)	(102)
Other expenses	(269)	(40)	(6)
Net finance costs excluding foreign exchange differences	**(2,767)**	**(2,821)**	**(2,851)**

The breakdown of Telefónica's derivatives at December 31, 2009, their fair value at year-end and the expected maturity schedule is as set forth in the table below:

Millions of euros	Fair value: at 12/31/09 (**)	Maturity (notional amount) (*)				
Derivatives		2010	2011	2012	Subsequent	Total
Interest rate hedges	(282)	3,044	(103)	163	(2,520)	584
Cash flow hedges	147	1,769	1,143	659	3,024	6,595
Fair value hedges	(429)	1,275	(1,246)	(496)	(5,544)	(6,011)
Exchange rate hedges	1,055	1,792	788	112	4,900	7,592
Cash flow hedges	1,055	1,797	788	112	4,900	7,597
Fair value hedges	-	(5)	-	-	-	(5)
Interest and exchange rate hedges	157	14	(419)	(314)	(281)	(1,000)
Cash flow hedges	152	51	(426)	(171)	(360)	(906)
Fair value hedges	5	(37)	7	(143)	79	(94)
Hedge of net investment in foreign operations	(276)	(2,555)	(958)	(113)	(868)	(4,494)
Derivatives not designated as hedges	(612)	6,110	341	388	(744)	6,095
Interest rate	(299)	5,532	413	483	(1,770)	4,658
Exchange rate	(270)	738	(9)	(28)	1,026	1,727
Interest and exchange rate	(43)	(160)	(63)	(67)	-	(290)

The Company also has debt assigned to the investment of 944 million dollars, 2,643 million pound sterling and 302 million Czech crowns (data in equivalent euros).

The breakdown of Telefónica's derivatives at December 31, 2008, their fair value at year-end and the expected maturity schedule is as set forth in the table below:

Millions of euros	Fair value: at 12/31/08 (**)	Maturity (notional amount) (*)				
Derivatives		2009	2010	2011	Subsequent	Total
Interest rate hedges	**(612)**	**2,031**	**1,747**	**520**	**72**	**4,370**
Cash flow hedges	183	2,028	493	1,749	3,505	7,775
Fair value hedges	(795)	3	1,254	(1,229)	(3,433)	(3,405)
Exchange rate hedges	**519**	**985**	**2,382**	**793**	**3,717**	**7,877**
Cash flow hedges	519	985	2,382	793	3,717	7,877
Fair value hedges	0	0	0	0	0	0
Interest and exchange rate hedges	**(173)**	**12**	**458**	**18**	**399**	**887**
Cash flow hedges	(71)	18	232	4	288	542
Fair value hedges	(102)	(6)	226	14	111	345
Hedge of net investment in foreign operations	**(546)**	**(2,830)**	**(517)**	**(1,125)**	**(751)**	**(5,223)**
Derivatives not designated as hedges	**(868)**	**7,328**	**(627)**	**(578)**	**(164)**	**5,959**
Interest rate	(271)	8,587	(303)	(609)	(1,100)	6,575
Exchange rate	(395)	(839)	(137)	96	1,026	146
Interest and exchange rate	(202)	(420)	(187)	(65)	(90)	(762)

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

A list of derivative products entered into at December 31, 2009 and 2008 is provided in Appendix III.

17) INCOME TAX MATTERS

Consolidated tax group

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns for certain Group companies. The consolidated tax group comprised 40 companies in 2009 (39 in 2008).

Modification of tax rates

In 2009 and 2008, the impact of changes in the tax rates applicable to the income statements of the main Telefónica Group companies was not material.

Deferred tax

The movements in deferred taxes in 2009 and 2008 are as follows:

	Millions of euros	
	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2008	**6,980**	**3,576**
Increases	771	188
Decreases	(811)	(955)
Transfers	(864)	(51)
Net international movements	(106)	324
Company movements and others	1	-
Balance at December 31, 2009	**5,971**	**3,082**

	Millions of euros	
	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2007	**7,829**	**3,926**
Increases	1,308	571
Decreases	(1,979)	(526)
Transfers	(39)	(43)
Net international movements	(159)	(352)
Company movements and others	20	-
Balance at December 31, 2008	**6,980**	**3,576**

Tax credits for loss carryforwards

The tax loss carryforwards in Spain at December 31, 2009 at the main Group companies amounted to 3,968 million euros (3,643 million euros for companies belonging to the tax group).

The statement of financial position at December 31, 2009 includes a 500 million euro deferred tax asset corresponding to 1,666 million euros of tax loss carryforwards in Spain.

The 2002 tax return included a negative adjustment for 2,137 million euros from Telefónica Móviles, S.A. (now Telefónica, S.A.) arising through the transfer of certain holdings of Group companies acquired in previous years, which was questioned by the Spanish tax authorities. The challenging of this adjustment in the tax audit has not affected the consolidated financial statements as in accordance with past rulings by the tax authorities, which differed from the interpretation put forward by the Company, the Company decided then not to capitalize it.

In relation to the sale by Terra Networks, S.A. (now Telefónica, S.A.) of its stake in Lycos Inc. in 2004, the Company has begun procedures to recognize a higher tax loss of up to 7,418 million euros because of measuring as acquisition value for tax purposes, the market value of Lycos Inc. shares received, rather than their carrying amount, in conformity with Article 159 of the Spanish Corporation Law. No effect on the consolidated financial statements has been considered until the Company receives a definitive ruling on this procedure.

The O2 Germany group has tax credits and deductible temporary differences incurred in prior years amounting to 8,517 million euros, of which 426 million euros have been recognized as deferred tax assets in line with the prospects of generating future taxable earnings. These losses were generated by O2 Germany and the rest of the Germany subsidiaries of the Telefónica Group prior to the acquisition of the O2 Group. These tax credits do not expire.

Unused tax credits recognized in the consolidated statement of financial position at the Latin American subsidiaries at December 31, 2009 amounted to 461 million euros.

Deductions

In the consolidated statement of financial position at December 31, 2009, the Group had recognized 252 million euros of unused tax credits, mainly export activity tax credits.

Temporary differences

Temporary differences are generated as a result of the difference between tax bases of the assets and liabilities and their respective carrying amounts. Deductible temporary differences, tax deductions and credits and tax loss carryforwards give rise to deferred tax assets on the consolidated statement of financial position, whereas taxable temporary differences in tax bases give rise to deferred tax liabilities. The sources of deferred tax assets and liabilities from temporary differences recognized at December 31, 2009 and 2008 are as follows:

	Millions of euros			
	2009		2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	922	395	809	387
Intangible assets	225	2,084	239	2,085
Personnel commitments	1,088	3	1,325	1
Provisions	769	30	598	11
Investments in subsidiaries, associates and joint ventures	626	147	1,083	256
Other	702	423	620	836
Total	**4,332**	**3,082**	**4,674**	**3,576**

Tax payables and receivables

Current tax payables and receivables at December 31, 2009 and 2008 are as follows:

	Millions of euros	
	Balance at 12/31/09	Balance at 12/31/08
Taxes payable:		
Tax withholdings	118	91
Indirect taxes	897	704
Social security	178	187
Current income taxes payable	872	873
Other	701	420
Total	**2,766**	**2,275**

	Millions of euros	
	Balance at 12/31/09	Balance at 12/31/08
Tax receivables:		
Indirect tax	662	452
Current income taxes receivable	377	365
Other	207	153
Total	**1,246**	**970**

Reconciliation of book profit before taxes to taxable income

The reconciliation between accounting profit and the income tax expense for 2009, 2008 and 2007 is as follows:

	Millions of euros		
	2009	2008	2007
Accounting profit before tax	**10,387**	**10,915**	**10,684**
Tax expense at prevailing statutory rate	3,116	3,275	3,472
Effect of statutory rate in other countries	(20)	(99)	458
Variation in tax expense from new taxes	(15)	12	(22)
Permanent differences	(402)	243	(1,893)
Changes in deferred tax charge due to changes in tax rate	-	-	(36)
Capitalization of tax deduction and tax relief	(143)	(175)	(200)
Use of loss carryforwards	(5)	(106)	(203)
Decrease in tax expense arising from temporary differences	(82)	(2)	(8)
Consolidation adjustments	1	(59)	(3)
Income tax expense	**2,450**	**3,089**	**1,565**
Breakdown of current/deferred tax expense			
Current tax expense	3,848	3,371	2,152
Deferred tax benefit	(1,398)	(282)	(587)
Total income tax expense	**2,450**	**3,089**	**1,565**

Permanent differences arise mainly from events that produce taxable income not recognized in the consolidated income statement.

As described in Note 2.b), in December 2009, the European Commission released its decision regarding the investigation involving the Kingdom of Spain on the potential consideration of the deduction for tax amortization of the financial goodwill arising on certain foreign shareholding acquisitions as government aid under the provisions of article 12.5 of the revised Spanish Income Tax Law ("TRLIS"), deeming the deduction to be state aid. This decision does not affect investments made before December 21, 2007 (see Note 2). As a result of this decision, income tax in the Telefónica Group's consolidated income statement for the year ended December 31, 2009 is 591 million euros lower due to the reversal of this liability, included in "Permanent differences" for 2009 in the preceding table.

In 2007, the Company recognized a tax credit arising from the recognition of a higher tax loss carryforward amounting to 2,812 million euros generated on the disposal of the stake in Endemol Investment Holding, B.V. as a difference between the tax and carrying amount of the Endemol shares at the time of disposal. The positive impact recognized in "Income tax expense" in the consolidated income statement for the year amounted to 914 million euros, presented in the preceding table under "Permanent differences" for 2007. Also included under "Permanent differences" for 2007 are the accounting gain on this disposal, of 1,368 million euros, and the accounting gain on the disposal of Airwave for 1,296 million euros.

On September 25, 2002, tax inspections commenced at several companies included in tax group 24/90, of which Telefónica is the parent company. The taxes inspected were corporate income tax (for the years from 1998 to 2000) and VAT, tax withholdings and payments relating to personal income tax, tax on investment income, property tax and nonresident income tax (1998 to 2001).

The tax assessments related to this review, which included settlement agreements and imposed fines on Telefónica, were signed by the company in disagreement in October 2004 and July 2005. The total amount of these assessments was 140 euros. The final outcome of these assessments is not expected give rise to material additional liabilities on the Telefónica Group consolidated financial statements.

In April 2007, Telefónica, S.A. filed an administrative appeal before the National Court of Justice. The company also requested that the execution of the settlements and penalties appealed be suspended by providing the appropriate guarantees.

Telefónica presented in writing its conclusions on September 1, 2008.

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

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

A new tax inspection commenced in June 2006 and concluded in July 2008. The taxes subject to review were corporate income tax for the years 2001 to 2004, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the years 2002 to 2004.

In addition to the above, the Company has proposed additional adjustments to the tax amounts considered by Telefónica Móviles, S.A.U. in 2002 (of 2,137 million euros), of approximately 346 million euros. As a result, the inspection resolved the controversy with a new settlement of said tax, which was not accepted by Telefónica for the same reasons put forward before the Central Administrative Economic Court, which on September 10, 2009 ruled against the interests of the Company.

Telefónica filed an administrative appeal before the National Court of Justice against this resolution of September 10, 2009.

The assessment of this case has not uncovered the need to recognize additional liabilities in the Telefónica Group's consolidated financial statements.

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

Meanwhile, after the related inspections, four tax assessments were raised by the State Treasury of Sao Paulo against Telecomunicações de São Paulo, S.A. -Telesp ("Telesp") in relation to the Merchandise Circulation Tax (ICMS) -similar to the VAT levied on telecommunications services- for different periods between 2001 and 2007. The aggregate amount of the assessments is approximately 413 million euros.

After deciding on the actions to take against the Sao Paolo tax authorities, the Company lost one of the suits in administrative proceedings and is awaiting a decision in first instance in the court proceedings, while the other three in the second instance of administrative proceedings.

The company believes the arguments presented could reasonably lead to favorable rulings by the pertinent judicial bodies.

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain, as a result of the tax audit completed in 2008, the main companies of the tax group are open to inspection for all years from 2005.

In the other countries in which the Telefónica Group has a significant presence, the years open for inspection by the relevant authorities are generally as follows:

- The last five years in Argentina, Brazil, Mexico, Colombia, Venezuela and the Netherlands.
- The last four years in Ecuador, Nicaragua and Peru.
- The last three years in Chile, El Salvador, the US and Panama.
- The last two years in Uruguay.
- In Europe, O2 Group has the last three years open to inspection in the UK, the last five in Germany and the last two in the Czech Republic.