

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

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

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

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

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

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

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

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

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

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

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

With respect to network and technology, in Venezuela, we operate in digital network. Our digital network is based on the CDMA and GSM standard. In 2009, we deployed an overlay based in UMTS /HSDPA. At December 31, 2009, approximately 66.2% of accesses in Venezuela were based on the GSM network and the UMTS subscribers counted 0.2 million accesses. Also, we

Telefonica

offer HSUPA technology that offers higher speed to upload data to the web, especially while loading images, e-mails, videos, etc.

Argentina

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

	At December 31,		
	2007	2008	2009
	(in thousands)		
Fixed telephony accesses.....	4,682.5	4,603.1	4,607.7
Fixed wireless accesses.....	104.3	22.4	36.2
Internet and data accesses.....	1,149.9	1,284.3	1,351.0
Narrowband accesses.....	312.2	182.8	112.7
Broadband accesses.....	819.3	1,082.0	1,238.3
Other accesses.....	18.4	19.5	
Mobile accesses.....	13,629.7	14,829.6	15,931.9
Pre-pay accesses.....	8,836.0	9,687.6	10,736.8
Final clients accesses.....	19,462.1	20,717.0	21,890.7
Wholesale accesses.....	9.3	10.0	9.3
Total accesses.....	19,471.4	20,726.9	21,900.0

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

Argentina fixed business – Telefónica de Argentina, S.A.

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

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

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

Regarding marketing, in Argentina, Telefónica de Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its fixed telephony products and services. Telefónica de Argentina continued answering customers' needs through the development of its broadband business and by providing them new value added services. Telefónica de Argentina also focused its product strategy on bundles, and packages supported by commercial offerings like flat-rate plans (*tarifa*

Telefonica

plana). In 2009, we continued commercializing long distance flat-rate plans. The flat-rate plan was primarily sold with the bundling of broadband access together with a local traffic plan. At December 31, 2009 approximately 67.0% of the broadband customer base subscribed to broadband through a bundled package.

In terms of competition, Telefónica de Argentina is the incumbent provider of fixed telephony services in the southern region of Argentina. However, other licensees currently providing fixed telephony services include Telecom Argentina, S.A., Telmex Argentina, S.A., Impsat S.A. (acquired by Global Crossing in May 2007) and Port-Hable (Hutchison Telecommunications Argentina S.A.). Claro, a mobile phone company owned by America Móvil, also competes in the fixed telephony market.

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

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

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

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

Argentina mobile business – Telefónica Móviles Argentina, S.A.

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

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

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

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

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

Regarding marketing, in Argentina, Telefónica Móviles Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2009, approximately 32.6% of our accesses

Telefonica

in Argentina were contract accesses. Telefónica Móviles Argentina during 2009 offered the Internet Mobile service with plans with limited or unlimited usage.

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

Telefónica Móviles Argentina's estimated market share in the Argentine mobile market in terms of mobile accesses was approximately 33.0% at December 31, 2009, down from approximately 34.0% at December 31, 2008.

With respect to network and technology, in Argentina we operate on digital networks based upon GSM and UMTS technology. At December 31, 2009, GSM accesses represented 98.6% of Telefónica Móviles Argentina's accesses. Also, Telefónica Móviles Argentina developed its mobile broadband business through UMTS technology by increasing coverage.

Chile

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

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

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

Chilean fixed business – Telefónica Chile, S.A.

Telefónica Latin America conducts its Chilean fixed business through Telefónica Chile, S.A., or Telefónica Chile (formerly Compañía de Telecomunicaciones de Chile, or CTC Chile), the leading fixed line telecommunications operator in Chile based on number of accesses, according to information provided by its competitors and regulatory authorities. Telefónica Chile's accesses decreased 0.3% to 3.1 million accesses at December 31, 2009.

Telefónica Chile's fixed telephony accesses decreased by 4.4% from December 31, 2008 to 2.0 million accesses at December 31, 2009. Broadband and pay TV accesses continued to grow in

Telefonica

2009, and Telefónica Chile managed 0.8 million broadband accesses at December 31, 2009 compared to 0.7 million at December 31, 2008.

Telefónica Chile's pay TV business grew to 0.3 million accesses at December 31, 2009. Telefónica Chile established itself as the third pay TV operator in Chile, by number of accesses.

Regarding marketing, one of our main priorities is to satisfy customer needs by improving the quality of our customer service. We continued our strategy of segmenting our customers in order to tailor our services to best meet the specific needs of each customer segment. With respect to broadband, Telefónica Chile launched bundle services of broadband and voice to satisfy our customers demand. Also double and triple play bundles represented one of the drivers of revenue growth.

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

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

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

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

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

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

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

Telefónica

Chilean mobile business – Telefónica Móviles Chile, S.A.

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

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

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

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

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

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

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

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

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

Mexico

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

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

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

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

Telefonica

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

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

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

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

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

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

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

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

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

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

Peru

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

	At December 31,		
	2007	2008	2009
	(in thousands)		
Fixed telephony accesses	2,843.4	2,986.5	2,971.2
Fixed wireless accesses.....	290.0	485.5	582.7
Internet and data accesses.....	623.1	728.9	800.6
Narrowband accesses.....	40.3	17.7	16.9
Broadband accesses.....	572.1	698.4	768.0
Other accesses.....	10.7	12.8	15.6
Mobile accesses.....	8,067.3	10,612.7	11,458.2
Pre-pay accesses.....	7,238.1	9,575.2	10,214.2
Pay TV accesses.....	640.0	654.5	686.3
Final clients accesses.....	12,173.8	14,982.6	15,916.3
Wholesale accesses.....	0.5	0.4	0.5
Total accesses.....	12,174.3	14,983.0	15,916.8

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

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

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

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

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

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

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

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

Telefonica

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

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

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

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

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

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

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

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

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

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

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

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

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

Colombia

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

	At December 31,		
	2007	2008	2009
	(in thousands)		
Fixed telephony accesses	2,328.5	2,299.2	1,639.8
Internet and data accesses.....	200.3	395.9	428.4
Narrowband accesses.....	—	0.3	5.9
Broadband accesses	200.3	393.9	420.3
Other accesses.....	—	1.7	2.2
Mobile accesses	8,372.1	9,963.1	8,964.6
Pre-pay accesses	6,612.9	8,327.3	7,203.2
Pay TV accesses	72.9	142.3	127.2
Final clients accesses.....	10,973.8	12,800.5	11,159.9
Wholesale accesses.....	—	2.9	3.3
Total accesses	10,973.8	12,803.4	11,163.2

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

Colombian fixed business - Colombia Telecomunicaciones, S.A. ESP

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

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

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

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

Telefonica

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

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

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

Colombian mobile business – Telefónica Móviles Colombia, S.A.

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

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

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

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

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

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

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

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

Telefonica

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

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

Central America

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

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

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

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

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

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

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

Ecuador

Ecuadorian mobile business – Otecel, S.A.

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

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

Telefonica

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

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

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

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

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

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

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

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

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

INFORMATION BY BUSINESS LINE

Telefonica Europe

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

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

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

(1) VoIP and Naked ADSL accesses are included

(2) As of 1 January 2008, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses. In addition, the accounting criteria for prepaid access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

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

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

- Revenues derived from Telefónica O2 UK decreased to €6,512 million in 2009 from €7,052 million in 2008 (an increase of 3.5% in local currency). The local currency increase in revenue was primarily driven by an increase in Telefónica O2 UK's customer base and partially offset by a decrease in ARPU.
- Revenues derived from Telefónica O2 Germany increased 4.2% to €3,746 million in 2009 from €3,595 million in 2008. The positive evolution was mainly the result of an increase in the customer base due to new offerings (O2o, My O2 Handy and broadband), but was adversely impacted by lower MTRs.
- Revenues derived from Telefónica O2 Czech Republic, including Slovakia operations, decreased by 12.4% to €2,260 million in 2009 from €2,581 million in 2008 (a decrease of 7.3% in local currency). Slovakia continued to grow mobile revenues while Czech revenues from fixed and mobile services decreased (9.3% and 6.3% in local currency

respectively) due to MTR cuts, customers reducing spending and fixed to mobile substitution.

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

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

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

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

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

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

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

United Kingdom – Telefonica O2 UK

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

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

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

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

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

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

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

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

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

Contract ARPU decreased to €40.8 in 2009 from €48.6 in 2008 (a decrease of 5.9% in local currency). Pre-pay ARPU decreased to €12.3 in 2009 from €15.5 in 2008 (a decrease of 11.0% in

Telefonica

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

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

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

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

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

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

A proposed *joint venture* between France Telecom and Deutsche Telekom's UK operators (Orange UK and T-Mobile UK, respectively) is currently being scrutinized by regulators.

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

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

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

Germany – Telefonica O2 Germany

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

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

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

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

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

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

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

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

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

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

Telefonica

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

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

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

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

Czech Republic and Slovakia – Telefonica O2 Czech Republic and Telefonica O2 Slovakia

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

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

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

(1) VOIP and naked ADSL accesses are included.

(2) As of 1 January 2008, the accounting criteria for Pre-Pay access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).

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

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

Telefonica

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

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

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

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

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

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

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

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

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

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

Slovakia

At December 31, 2009, Telefónica O2 Slovakia's total number of mobile accesses amounted to 0.6 million accesses, an increase of 69.9% compared to December 31, 2008. Contract accesses

Telefonica

accounted for 35.4% of these accesses at December 31, 2009 compared to 30.4% at December 31, 2008. Throughout 2009 Telefonica O2 Slovakia continued with "O2 Fér" plan, a simple tariff which unifies pre-pay and contract rates and offers SIM-only products without a handset subsidy.

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

Ireland – Telefonica O2 Ireland

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

	At December 31,		
	2007	2008	2009
	(in thousands)		
Total mobile accesses.....	1,646.1	1,727.7	1,714.3
Pre-pay accesses	1,090.9	1,084.6	1,022.5
	Year ended December 31,		
	2007	2008	2009
MOU (minutes).....	248	245	n.a.
Traffic (million of minutes)	n.a.	4,867	4,672
ARPU (in euros).....	45.9	43.2	39.6

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

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

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

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

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

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

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

With respect to network and technology, Telefonica O2 Ireland's digital network in Ireland is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with

Telefonica

Telefónica O2 Ireland's international roaming agreements, enables Telefónica O2 Ireland customers to make and receive calls in more than 200 countries worldwide.

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

INFORMATION BY BUSINESS LINE

Other companies

Atento - Call Center Business

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

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

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

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

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

RESEARCH, DEVELOPMENT AND INNOVATION

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCING

The main financing transactions undertaken in 2009 are the following:

- On February 13, 2009, Telefónica, S.A. executed, with a group of participating banks in the 6,000 million euro syndicated line of credit dated June 28, 2005 maturing on June 28, 2011, an extension of 4,000 million euros, rescheduling 2,000 million euros for 2012 and another 2,000 million euros for 2013.
- Under Telefónica Emisiones, S.A.U.'s European Medium Term Note ("EMTN"), Telefónica, S.A. guaranteed the issues of debt instruments for a global amount equivalent to 6,482 million euros, with the following features:

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

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

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

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

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

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

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

(1) Date of renegotiation of certain conditions

RATING AGENCIES

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

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

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

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

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

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

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

TRANSACTIONS WITH TREASURY SHARES

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

	No. of shares	Euros per share		Market Value Millions of euros	%
		Acquisition price	Trading price		
<i>Treasury shares at 12/31/09</i>	6,329,530	16.81	19.52	124	0.13868%
<i>Treasury shares at 12/31/08</i>	125,561,011	16.68	15.85	1,990	2.66867%
<i>Treasury shares at 12/31/07</i>	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.

RISKS AND UNCERTAINTIES FACING THE COMPANY

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

Group related risks

- *Country risk (investments in Latin America).* At December 31, 2009, approximately 35.7% of the Group's assets were located in Latin America. In addition, around 40.6% of its revenues from operations for 2009 were derived from its Latin American operations. The Group's investments and operations in Latin America (including the revenues generated by these operations, their market value, and the dividends and management fees expected to be received from them) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:
 - government regulation or administrative policies may change unexpectedly and negatively affect the economic conditions or business environment in which it operates, and, therefore our interests in such countries;
 - currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
 - the effects of inflation or currency depreciation may lead certain of its subsidiaries to a negative equity situation, requiring them to undertake a mandatory recapitalization or commence dissolution proceedings;
 - governments may expropriate or nationalize assets or increase their participation in the economy and companies;
 - governments may impose burdensome taxes or tariffs;
 - political changes may lead to changes in the economic conditions and business environment in which it operates; and
 - economic downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations in such countries.

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

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

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

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

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

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

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

The current situation of financial markets in terms of liquidity, cost of credit and volatility has improved since the second half of 2008 and during 2009. However, there are still uncertainties surrounding the pace of the economic recovery, the health of the international banking system, the increasing concerns regarding the burgeoning deficits of some governments, etc. which could

Telefónica

affect the normal development of financial markets. Worsening conditions in international financial markets due to any of these factors may make it more difficult and expensive for the Telefónica Group to refinance its debt or take on additional debt if necessary.

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

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

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

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

Risks related to our industry

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

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

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

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and

- well-established relationships with current and potential customers.

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

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

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

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

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

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

In some European countries, the Telefónica Group may also face increased pressure from regulatory initiatives aimed at reallocating spectrum rights of use and changing the policies

regarding spectrum allocation which could lead to new procedures for awarding spectrum in Europe.

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

- *Services are provided under licenses or concessions.* Most of Telefónica's operating companies require licenses, authorizations or concessions from the governmental authorities of the various countries. These licenses, authorizations and concessions specify the types of services Telefónica is permitted to offer under each circumstance.

The terms of its licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to possible interpretation, modification or termination by these authorities. Moreover, authorizations, licenses and concessions, as well as their renewal terms and conditions, may be directly affected by political and regulatory factors.

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

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

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

The Telefónica Group must continue to upgrade its existing mobile and fixed line networks in a timely and satisfactory manner in order to retain and expand its customer base in each of its markets, to enhance its financial performance and to satisfy regulatory requirements. Among other

things, the Telefónica Group could be required to upgrade the functionality of its networks to achieve greater service customization, to increase coverage of some of its markets, or expand and maintain customer service, network management and administrative systems.

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

- *Limitations on spectrum capacity could curtail growth.* Telefónica's mobile operations in a number of countries may rely on the availability of spectrum. The Company's failure to obtain sufficient or appropriate capacity and spectrum coverage, and, albeit to a lesser extent, the related cost of obtaining this capacity could have an adverse impact on the quality of our services and on its ability to provide new services, adversely affecting its business, financial position, results of operations and cash flow.
- *Supplier failures.* The Telefónica Group depends upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Further, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, this could have an adverse impact on the Telefónica Group's businesses and the results of its operations. Similarly, interruptions in the supply of telecommunications equipment for its networks could impede network development and expansion, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements.
- *Risks associated with unforeseen network interruptions.* Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, fines or other types of measures imposed by regulatory authorities and could harm the Telefónica Group's reputation. Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and it is not possible to foresee every incident or action that could damage or interrupt the Telefónica Group's networks. Although the Telefónica Group carries business interruption insurance, its insurance policy may not provide coverage in amounts sufficient to compensate it for any losses it may incur.
- *Certain studies suggest that electromagnetic radio emissions are harmful.* Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has hindered the deployment of the infrastructures necessary to ensure quality of service.

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

Whether or not other research or studies conclude there is a link between radiofrequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location

Telefónica

and operation of cell sites, either or both of which could have a detrimental impact on the Telefónica Group's mobile companies and consequently on its financial position, results of operations and cash flow. While the Telefónica Group is not aware of any evidence confirming a link between radio-frequency emissions and health problems and it continues to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

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

Other risks

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

TREND EVOLUTION

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

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

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

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

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

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

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

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

Telefonica

continue to play a very important role in all areas of management, both in commercial and operational areas, including systems, networks and processes.

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

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

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

EVENTS AFTER THE REPORTING PERIOD

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

Financing

a) Maturity of debentures and bonds

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

b) Voluntary early redemptions:

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

- On January 29, 2010, Telefónica, S.A. made a voluntarily repayment ahead of schedule of 500 million euros on the 6,000 million euro syndicated loan arranged on June 28, 2005 and amended on February 13, 2009 to extend the maturity of 4,000 million euros from June 28, 2011 by one year for 2,000 million euros and two years for the other 2,000 million euros.
- Similarly, on February 11, 2010, Telefónica, S.A. made a voluntary repayment of 500 million euros on the same loan.

c) Financing of Telco

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

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

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

d) Financing of ECAs

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

Devaluation of the Venezuelan Bolivar fuerte

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

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

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

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

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

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

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

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

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

Acquisition of JAJAH

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

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

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

a.- Capital structure.

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

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

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

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

b.- Restrictions on the transfer of securities.

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

c.- Significant shareholdings.

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

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

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

(2) Based on information provided by Caja de Ahorros y Pensiones de Barcelona, "la Caixa" as at December 31, 2009 for the 2009 Annual Report on Corporate Governance. The 5.16% indirect shareholding in Telefónica is owned by Criteria CaixaCorp, S.A.

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

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