# EXHIBIT H

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

**Commission file number: 001-09531**

# TELEFÓNICA, S.A.
(Exact name of Registrant as specified in its charter)

**KINGDOM OF SPAIN**
(Jurisdiction of incorporation or organization)

**Distrito C, Ronda de la Comunicación, s/n**
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(Address of principal executive offices)

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(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Ordinary Shares, nominal value €1.00 per share*** | **New York Stock Exchange** |
| **American Depositary Shares, each representing three Ordinary Shares** | **New York Stock Exchange** |
| **Guarantees** by Telefónica, S.A. of the $1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $1,250,000,000 Fixed Rate Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,000,000,000 Fixed Rate Notes Due 2019; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U.** | **New York Stock Exchange** |

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

** Not for trading, but only in connection with the listing of the $1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $1,250,000,000 Fixed Rate Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,000,000,000 Fixed Rate Notes Due 2019; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U. (a wholly-owned subsidiary of Telefónica, S.A.)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2009 was:

**Ordinary Shares, nominal value €1.00 per share: 4,563,996,485**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

**Yes ☒ No ☐**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

**Yes ☐ No ☒**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

**Yes ☒ No ☐**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

**Yes ☐ No ☐**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer** ☒ **Accelerated filer** ☐ **Non-accelerated filer** ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ **International Financial Reporting Standards as Issued by the International Accounting Standards Board** ☒ **Other** ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

**Item 17** ☐ **Item 18** ☐

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes** ☐ **No** ☒

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report can be identified, in some instances, by the use of words such as "will", "expect", "aim", "hope", "anticipate", "intend", "believe" and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Annual Report including, without limitation, certain statements made in "Item 3. Key Information—Risk Factors", "Item 4. Information on the Company", "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of competition in telecommunications markets;
- trends affecting our financial condition or results of operations;
- acquisitions or investments which we may make in the future;
- our capital expenditures plan;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the telecommunications sectors where we have significant operations;
- our strategic partnerships; and
- the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our business that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business or political conditions in the domestic or international markets (particularly in Latin America) in which we operate or have material investments that may affect demand for our services;
- changes in currency exchange rates, interest rates or in credit risk in our treasury investments or in some of our financial transactions;
- general economic conditions in the countries in which we operate;
- existing or worsening conditions in the international financial markets;
- failure to maintain satisfactory working relationships with our joint venture partners;
- the actions of existing and potential competitors in each of our markets;
- the impact of current, pending or future legislation and regulation in countries where we operate;
- failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations;

- the potential effects of technological changes;
- the impact of limitations in spectrum capacity;
- failure of suppliers to provide necessary equipment and services on a timely basis;
- the impact of unanticipated network interruptions;
- the effect of reports suggesting that radio frequency emissions cause health problems;
- the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business or political environment; and
- the outcome of pending litigation.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

## CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value €1.00 per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol "TEF". They are also listed on various foreign stock exchanges such as the London, Buenos Aires and Tokyo stock exchanges and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. American Depositary Shares ("ADSs"), each representing the right to receive three ordinary shares, are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts ("ADRs") issued under a Deposit Agreement with Citibank, N.A., as Depositary. Brazilian Depositary Receipts ("BDRs"), each representing the right to receive one ordinary share, are listed on the São Paulo Stock Exchange and are issued under a Deposit Agreement with Banco Bradesco, S.A., as Depositary.

As used herein, "Telefónica", "Telefónica Group", "Group" and terms such as "we", "us" and "our" mean Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, "Atento" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Annual Report:

- "Access" refers to a connection to any of the telecommunications services offered by us. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control or joint control. The following are the main categories of accesses:

  - Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

  - Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line "ADSL", satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits. "Naked ADSL" allows customers to subscribe for a broadband connection without a monthly fixed line fee.

  - Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

  - Mobile accesses: includes contract and pre-pay mobile telephony. In 2009 in order to align the criteria for the key performance indicators of our mobile operations, the definition of mobile accesses (and, therefore, of total accesses) was revised to include machine-to-machine accesses. In addition, we revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile accesses throughout the Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting. As a result of both revisions, we restated 2008 mobile accesses. 2007 information is presented based on our prior classifications.

  - Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, "shared UL").

  - Wholesale ADSL: means wholesale asymmetrical digital subscriber line.

  - Other: includes other circuits for other operators.

Certain technical terms used with respect to our business are as follows:

- "ARPU" is the average revenue per user per month. ARPU is calculated by dividing total service revenue (excluding inbound roaming revenue) from sales to customers for the preceding 12 months by the weighted average number of customers for the same period, and then divided by 12 months. ARPU is calculated using gross service revenue before deduction of wholesale discounts.

- "CDMA" means Code Division Multiple Access, which is a type of radio communication technology.

- "Commercial activity" includes the addition of new lines, replacement of handsets and changes in types of contracts.

- "Customer revenue" means service revenue less interconnection revenue.

- "Duo bundle" means broadband plus voice service. We measure "duo bundles" in terms of units, where each bundle of broadband and voice service counts as one unit.

- "Final clients accesses" means accesses provided to residential and corporate clients.

- "Gross adds" means the gross increase in the customer base measured in terms of accesses in a period.

- "HSDPA" means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfers speeds and capacity.

- "Interconnection revenue" means revenues received from other operators which use our networks to connect to our customers.

- "ISP" means Internet service provider.

- "LMDS" means local multipoint distribution service.

- "Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

- "MOU", or minutes of use, is calculated by dividing the total number of voice minutes for the preceding 12 months by the weighted average number of mobile accesses for the same period, and then divided by 12 months. Over the past several years, we have experienced strong growth in mobile accesses related primarily to data services (such as accesses related to machine-to-machine and mobile broadband devices). Such growth in mobile accesses related to data services limits the use of MOU as an indicator of usage as it increases the total number of mobile accesses in the relevant period without any corresponding increase in the number of voice minutes related to such accesses for the relevant period. As a result, for 2009 and 2008 we have decided to publish traffic evolution in absolute minutes of use terms rather than MOU.

- "MVNO" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers. There are two types of MVNOs: (i) pure MVNOs, which are typically telecommunications companies without licensed frequency allocation and want to complete their telecommunications service portfolio (for example, ONO in Spain); and (ii) reseller MVNOs which are companies that purchase wholesale mobile minutes and resell to end-users, and use their brand and distribution channel (for example, Carrefour in Spain).

- "Net adds" means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of a period.

- "Revenues" means net sales and rendering of services.

- "Service revenues" means revenues less revenues from handset sales.
- "Traffic" means voice minutes used by our customers over a given period, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic (free minutes included in commercial promotions) is included. Traffic not associated with our mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. To arrive at the aggregate traffic for a given period, the individual components of traffic are not rounded.
- "Trio bundle" means broadband plus voice service plus IPTV. We measure "trio bundles" in terms of units, where each bundle of broadband, voice service and IPTV counts as one unit.
- "UMTS" means Universal Mobile Telecommunications System.
- "VoIP" means voice over Internet protocol.
- "Wholesale accesses" means accesses we provide to our competitors, who then sell such accesses to their residential and corporate clients.

In this Annual Report we make certain comparisons in local currency or on a "constant euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of our results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, we compare financial items in the relevant local currency for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant euro basis" or "excluding foreign exchange rate effects", we convert the relevant financial item into euros using the prior year's average euro to relevant local currency exchange rate. In addition, we present certain financial information excluding the effects of Venezuela being considered a hyperinflationary economy in 2009 by eliminating all of the adjustments made as a result of such consideration.

## PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to "U.S. dollars", "dollars" or "$", are to United States dollars, references to "pounds sterling", "sterling" or "£" are to British pounds sterling, references to "reais" refer to Brazilian reais and references to "euro" or "€" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Our consolidated financial statements as of December 31, 2008 and 2009, and for the years ended December 31, 2007, 2008 and 2009 included elsewhere in this Annual Report including the notes thereto (the "Consolidated Financial Statements"), are prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which do not differ for the purposes of the Telefónica Group from IFRS as adopted by the European Union.

## PART I

**Item 1. Identity of Directors, Senior Management and Advisors**

**A. Directors and Senior Management**

Not applicable.

**B. Advisers**

Not applicable.

**C. Auditors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

The following table presents our selected consolidated financial data. It is to be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2007, 2008 and 2009 and the consolidated statement of financial position data as of December 31, 2008 and 2009 set forth below are derived from, and are qualified in their entirety by reference to, the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2005 and 2006 and the consolidated statement of financial position data as of December 31, 2005, 2006 and 2007 set forth below are derived from Telefónica, S.A.'s consolidated financial statements for such years, which are not included herein.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

The basis of presentation and principles of consolidation are described in detail in Notes 2 and 3.q., respectively, to our Consolidated Financial Statements.

| | As of or for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005(1) | 2006(1) | 2007 | 2008 | 2009 |
| | (in millions of euros, except share data) | | | | |
| Revenues | 37,383 | 52,901 | 56,441 | 57,946 | 56,731 |
| Other income | 1,416 | 1,571 | 4,264 | 1,865 | 1,645 |
| Supplies | (9,999) | (16,629) | (17,907) | (17,818) | (16,717) |
| Personnel expenses | (5,532) | (7,622) | (7,893) | (6,762) | (6,775) |
| Other expenses | (8,212) | (11,095) | (12,081) | (12,312) | (12,281) |
| Depreciation and amortization | (6,693) | (9,704) | (9,436) | (9,046) | (8,956) |
| **Operating income** | **8,363** | **9,422** | **13,388** | **13,873** | **13,647** |
| Share of profit (loss) of associates | (128) | 76 | 140 | (161) | 47 |
| Net financial expenses | (1,790) | (2,795) | (2,851) | (2,821) | (2,767) |
| Net exchange differences | 162 | 61 | 7 | 24 | (540) |
| **Net financial income (expense)** | **(1,628)** | **(2,734)** | **(2,844)** | **(2,797)** | **(3,307)** |
| **Profit before taxes from continuing operations** | **6,607** | **6,764** | **10,684** | **10,915** | **10,387** |
| Corporate income tax | (1,904) | (1,781) | (1,565) | (3,089) | (2,450) |
| **Profit for the year from continuing operations** | **4,703** | **4,983** | **9,119** | **7,826** | **7,937** |
| Profit from discontinued operations after taxes | 124 | 1,596 | — | — | — |
| **Profit for the year** | **4,827** | **6,579** | **9,119** | **7,826** | **7,937** |
| Non-controlling interests | (381) | (346) | (213) | (234) | (161) |
| **Profit for the year attributable to equity holders of the parent** | **4,446** | **6,233** | **8,906** | **7,592** | **7,776** |
| Weighted average number of shares (thousands) | 4,870,852 | 4,778,999 | 4,758,707 | 4,645,852 | 4,552,656 |
| Basic and diluted earnings per share from continuing operations attributable to equity holders (euros)(2) | 0.90 | 0.97 | 1.87 | 1.63 | 1.71 |
| Basic and diluted earnings per share attributable to equity holders of the parent (euros)(2) | 0.91 | 1.30 | 1.87 | 1.63 | 1.71 |
| Earnings per ADS (euros)(2)(3) | 2.74 | 3.91 | 5.62 | 4.90 | 5.12 |
| Weighted average number of ADS (thousands) | 1,623,617 | 1,592,999 | 1,586,236 | 1,548,617 | 1,517,552 |
| Cash dividends per ordinary share (euros) | 0.50 | 0.55 | 0.65 | 0.90 | 1.00 |
| **Consolidated Statement of Financial Position Data** | | | | | |
| Cash and cash equivalents | 2,213 | 3,792 | 5,065 | 4,277 | 9,113 |
| Property, plant and equipment | 27,993 | 33,887 | 32,460 | 30,545 | 31,999 |
| Total assets | 73,174 | 108,982 | 105,873 | 99,896 | 108,141 |
| Non-current liabilities | 35,126 | 62,645 | 58,044 | 55,202 | 56,931 |
| Equity (net) | 16,158 | 20,001 | 22,855 | 19,562 | 24,274 |
| Capital stock | 4,921 | 4,921 | 4,773 | 4,705 | 4,564 |
| **Consolidated Cash Flow Data** | | | | | |
| Net cash from operating activities | 11,139 | 15,414 | 15,551 | 16,366 | 16,148 |
| Net cash used in investing activities | (9,592) | (28,052) | (4,592) | (9,101) | (9,300) |
| Net cash (used in) from financing activities | (435) | 14,572 | (9,425) | (7,765) | (2,281) |

(1) Telefónica Publicidad e Información, S.A. (TPI) was sold in 2006 and its results of operations for 2006 and the gain we recorded on its sale are included under "Profit from discontinued operations after taxes" for 2006. Figures for 2005 have been restated to present TPI's results under the same caption.

(2) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.

(3) Each ADS represents the right to receive three ordinary shares. Figures do not include any charges of the Depositary.

**Exchange Rate Information**

As used in this Annual Report, the term "Noon Buying Rate" refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on March 19, 2010 was $1.3530 = €1.00. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| **Year ended December 31,** | **Period end** | **Average(1)** | **High** | **Low** |
| 2005 | 1.1842 | 1.2400 | 1.3476 | 1.1667 |
| 2006 | 1.3197 | 1.2661 | 1.3327 | 1.1860 |
| 2007 | 1.4603 | 1.3797 | 1.4862 | 1.2904 |
| 2008 | 1.3919 | 1.4698 | 1.6010 | 1.2446 |
| 2009 | 1.4332 | 1.3955 | 1.5100 | 1.2547 |
| 2010 (through March 19, 2010) | 1.3530 | 1.3687 | 1.4536 | 1.3476 |

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day reported of each month during the relevant period.

| | Noon Buying Rate | |
|---|---|---|
| **Month ended** | **High** | **Low** |
| October 31, 2009 | 1.5029 | 1.4532 |
| November 30, 2009 | 1.5085 | 1.4658 |
| December 31, 2009 | 1.5100 | 1.4243 |
| January 31, 2010 | 1.4536 | 1.3870 |
| February 28, 2010 | 1.3955 | 1.3476 |
| March 31, 2010 (through March 19, 2010) | 1.3758 | 1.3516 |

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADSs on conversion by the depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, the Venezuelan Bolivar fuerte (see "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Significant Factors Affecting the Comparability of our Results of Operations in the Periods Under Review—Classification of Venezuela as a hyperinflationary economy"), pounds sterling, the Czech koruna (crown), the Argentine peso, the Chilean peso, the Peruvian nuevo sol, the Mexican peso and the Colombian peso).

**B. Capitalization and Indebtedness**

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. Risk Factors

In addition to the other information contained in this Annual Report, prospective investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition, results of operations and cash flow could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

#### Risks Relating to Our Business

***A material portion of our operations and investments are located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.***

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

- government regulation or administrative polices may change unexpectedly and negatively affect 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 result in certain of our subsidiaries having negative equity, which would require 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 we operate; and
- economic downturns, political instability and civil disturbances may negatively affect our operations.

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 our subsidiaries in that country, notably the level of inflation reached in 2009, the cumulative inflation rate over the last three years, restrictions placed on the official foreign exchange market and the devaluation of the Venezuelan Bolivar fuerte on January 8, 2010. As a result, in accordance with IFRS, Venezuela was considered a hyperinflationary economy in 2009, which has had a series of effects on our consolidated financial statements as of and for the year ended December 31, 2009 and will have additional effects on our consolidated financial statements as of and for the year ended December 31, 2010. A more detailed description of these effects is included in "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Significant Factors Affecting the Comparability of our Results of Operations in the Periods Under Review—Classification of Venezuela as a hyperinflationary economy" and Note 2 to our Consolidated Financial Statements.

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

***Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to foreign currency exchange rate, interest rate or financial investment risks.***

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in foreign currency exchange rates and the impact of changes in interest rates, as well as the impact of changes of credit risk in our treasury investments (in cash and cash equivalents) or in some of our financial transactions. We employ risk management strategies to manage this exposure, 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 our risk management purposes, or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to currency exchange rate fluctuations and interest rate fluctuations or if our counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect our financial condition, results of operations and cash flow. Also, our other risk management strategies may not be successful, which could adversely affect our financial condition, results of operations and cash flow. Finally, if the rating of our counterparties in treasury investments or in our structured financial transactions deteriorates significantly or if any of such counterparties were to fail in its obligations to us, we may suffer a loss of value in our investments, incur unexpected losses and assume additional financial obligations under these transactions, and such failure could adversely affect our business, financial condition, results of operations and cash flow.

For a more detailed description of our financial derivatives transactions, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Note 16 to our Consolidated Financial Statements.

***Adverse economic conditions could reduce purchases of our products and services.***

Our business is impacted by general economic conditions and other similar factors in each of the countries in which we operate. The current adverse global economic environment and uncertainty about an economic recovery may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. Other factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other general macroeconomic factors. Spanish gross domestic product, or GDP, contracted by 3.6% in 2009 and, according to the Stability Program 2009-2013 forecasts from the Spanish Ministry of Economy, the Spanish economy is expected to remain in recession in 2010, which could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

***Existing or worsening conditions in the international financial markets may limit our ability to carry out our business plan.***

The development and distribution of our services as well as the operation, expansion and upgrading of our networks, require substantial financing. Moreover, our liquidity and capital resource requirements may increase if we participate in other fixed line or mobile license award processes or make acquisitions. We also have major capital resource 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 our ability to generate cash flow were to decrease, whether due to the current worldwide financial and economic crisis or otherwise, we may need to incur additional debt or raise other forms of capital to support our liquidity and capital resource requirements for the ongoing development and expansion of our business.

The current state of the financial markets in terms of liquidity, cost of credit and volatility has improved compared to the situation in the second half of 2008 and during most of 2009. Nevertheless, there remain several factors that could affect the ordinary performance of financial markets, such as uncertainty about an economic recovery, reorganization of the international banking system, and growing concern over increases in government deficits, among other factors. Worsening conditions in the international credit markets due to any of these factors may make it more difficult and more expensive to refinance our financial debt (of which €8,647 million matures in 2010) or to incur additional debt.

In addition, our capacity to raise capital in the international capital markets would be impaired if our credit ratings were downgraded, whether due to decreases in our cash flow or otherwise. Further, current market conditions may make it more difficult to renew our unused bilateral credit facilities scheduled to expire prior to December 31, 2010 (for an aggregate amount of €2,779 million). The current financial situation may also make it more difficult and costly for us to launch a rights issue to our current shareholders or to raise additional equity capital if further funds were needed for pursuing our business plans.

***The successful implementation of our strategy for our mobile operations in Brazil depends on the development of our joint venture company with Portugal Telecom, SGPS, S.A.***

Our mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, N.V., or Brasilcel, which is jointly controlled by us and Portugal Telecom SGPS, S.A., or Portugal Telecom. As a result of our less than controlling interest in this joint venture, we do not have absolute control over the operations of the venture. As a result, there is an inherent risk for management or operational disruptions whenever a disagreement between us and our partner arises. Therefore, we must cooperate with Portugal Telecom in order to implement and expand upon our business strategies and to finance and manage the operations of the joint venture. If we do not manage to obtain the cooperation of Portugal Telecom or if a disagreement or deadlock arises we may not achieve the expected benefits from this joint venture, including economies of scale and opportunities to achieve potential synergies and cost savings.

**Risks Relating to Our Industry**

***We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.***

We face significant competition in all of the markets in which we operate, and we are therefore subject to the effects of actions by our competitors in these markets. Our competitors could:

- offer lower prices, more attractive discount plans or better services and 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 enhance their networks more rapidly.

Furthermore, some of our 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 our competitors, we need to successfully market our 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 our competitors, pricing strategies adopted by our competitors and changes in consumer preferences and in general economic, political and social conditions. If we are unable to effectively compete, it could result in price reductions, lower revenues, under-utilization of our services, reduced operating margins and loss of market share, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flow.

***We operate in a highly regulated industry, which could adversely affect our businesses.***

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. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Union and national, state, regional and local authorities. Regulation may be especially strict in the markets of those countries in which we hold a significant market position. In this respect, regulatory authorities regularly intervene in the retail and wholesale offering and pricing of our products and services. Furthermore, such authorities may also adopt further regulations or take additional actions that could adversely affect us, including revocation of or failure to renew any of our licenses, authorizations or concessions, implementation of changes to the spectrum allocated to us or the granting or new licenses, authorizations or concessions to our competitors to offer services in the relevant markets. Furthermore, regulations could require us to reduce roaming prices and termination rates in mobile and fixed line networks, require us to offer access to our network to other operators; and result in the imposition of fines if we fail to fulfill our service commitments. Such regulations and regulatory actions could place significant competitive and pricing pressure on our operations, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

In addition, since we hold a leading market share in many of the counties where we operate, we could face regulatory actions by antitrust or competition authorities designed to enhance competition in the relevant markets. These authorities could prohibit us from taking further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if significant, could result in loss of market share and harm to our financial performance and future growth.

The regulatory landscape in the European Union will change as a consequence of the recent passage of a new common regulatory framework that is to be implemented by Member States before June 2011. We believe based on the principles set forth in such regulatory framework that the regulations adopted by Member States may result in an increased focus on the development and maintenance of competitive markets. This regulatory framework proposes the adoption of measures, under exceptional circumstances and in specific situations, by national authorities to establish functional separation between the retail and wholesale operations of vertically integrated operators with significant market power, by requiring them to offer equal wholesale conditions to related and third party operators. The adoption of such regulatory framework in Spain and the other European Union Members States where we operate could result in requirements to modify our internal organization in the relevant markets, which could result in additional costs to us. Additionally, our industry may face new regulatory initiatives regarding lowering mobile termination rates and the provision of data and audiovisual services.

In addition, we may also face pressure from regulatory initiatives in some European countries in order to reallocate spectrum rights of use and to modify spectrum allocation policies that may result, among other matters, in new tender processes for spectrum allocation in the European Union.

Finally, the recommendation that is being drafted by the European Commission on the implementation of European regulation of new generation broadband networks may reduce the incentives for operators to invest in broadband networks over the short and medium term because operators that invest in broadband networks could be required to provide access to such networks to third parties. This could affect competition and business performance and future growth in such services.

For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see "Item 4. Information on the Company—Business Overview—Regulation".

*We operate under licenses, authorizations and concessions granted by government authorities.*

Most of our operating companies require licenses, authorizations or concessions from the governmental authorities of the countries in which they operate. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of our licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Moreover, authorizations, licenses and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors.

The terms of these licenses, authorizations and concessions granted to our operating companies and 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, we intend to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions and, under certain circumstances, we will operate under technically expired licenses, authorizations or concessions under preexisting terms during the renewal process. Failure to complete the renewal process successfully could adversely affect our business, financial condition, results of operations and cash flow.

Many of our licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing licenses, authorizations and concessions typically require us to satisfy certain obligations, including, amongst 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 for the relevant area. In addition, the need to meet scheduled deadlines may require our companies to expend more resources than otherwise budgeted for a particular network build-out.

For further information regarding the licenses and concessions of our operating companies, see "Item 4. Information on the Company—Business Overview—Regulation".

***The industry in which we operate is subject to rapid technological changes, which requires us to continuously adapt to such changes and to upgrade our existing networks. If we are unable to adapt to such changes, our ability to provide competitive services could be materially adversely affected.***

Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge on a continuous basis and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our existing services or may be superior to, and render obsolete, the products and services we offer and the technologies we use and may consequently reduce the revenues generated by our products and services and require investment in new technology. In addition, we 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 us to upgrade our products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect our business, financial condition, results of operations and cash flow.

In particular, we must continue to upgrade our existing mobile and fixed line telephony networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to upgrade the functionality of our networks to accommodate increased customization of services, to increase coverage in some of our markets, or to expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under our control and may be affected by applicable regulations. If we fail to execute these tasks successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our business, financial condition, results of operations and cash flow.

*Spectrum capacity may become a limiting factor.*

Our mobile operations in a number of countries may rely on spectrum availability. Failure to obtain sufficient or adequate spectrum coverage and, to a lesser extent, the costs related to obtaining this capacity 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.

*Our business could be adversely affected if our suppliers fail to provide necessary equipment and services on a timely basis.*

We depend 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. Furthermore, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, our business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion, which in some cases could adversely affect our ability to satisfy our license terms and requirements.

*We may be adversely affected by unanticipated 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 our service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs, penalties or other measures imposed by regulatory authorities, and could harm our reputation. We attempt 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 cannot avert every action or event that could damage or disrupt our technical infrastructure. Although we carry business interruption insurance, our insurance policy may not provide coverage in amounts sufficient to compensate us for any losses we may incur.

*The mobile industry may be harmed by reports suggesting that radio frequency emissions cause health problems.*

Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has increased significantly. In many cases, this has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization (WHO), 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 radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on our mobile companies and consequently on our financial condition, results of operations and cash flow. While we are not aware of any evidence confirming a link between radio frequency emissions and health problems and we continue to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

*Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our assets.*

We review on an annual basis or more frequently where the circumstances require, the value of each of our assets and subsidiaries to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected to be derived from such assets and subsidiaries, including in some cases synergies included in their acquisition costs. The current economic environment and changes in the short and medium term, as well as changes in the regulatory, business or political environment may result in the necessity of recognizing impairment charges on our goodwill, intangible assets or fixed assets.

Although the recognition of impairments of tangible, intangible and financial assets result in a non-cash charge on the income statement, such charge would adversely affect our results of operations and consequently, our ability to achieve our growth targets.

**Other Risks**

*We are involved in disputes and litigation with regulators, competitors and third parties.*

We are party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of our 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) may have a material adverse effect on our business, financial condition, results of operations and cash flow.

For a more detailed description of current legal proceedings, see "Item 8. Financial Information—Legal Proceedings".

## Item 4. Information on the Company

### A. History and Development of the Company

**Overview**

Telefónica, S.A., is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. We are:

- a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- mainly focused on providing fixed and mobile telephony services; and
- present principally in Spain, Europe and Latin America.

The following significant events occurred in 2009:

- On June 23, 2009, our Board of Directors agreed to initiate a process for the purchase of the Telefónica de Argentina S.A. ("Telefónica de Argentina") shares held by unaffiliated parties, which amounted to 1.8% of Telefónica de Argentina's share capital. After following the procedures set forth in Argentine Presidential Decree No. 677/01, Chapter VII, on December 3, 2009, the Argentine securities regulator approved the transaction, resulting in our acquisition on January 25, 2010 of these shares for approximately €23 million. As a result of such acquisition we beneficially own 100% of the share capital of Telefónica de Argentina, and we delisted Telefónica de Argentina's shares and ADSs from the Buenos Aires and New York stock exchanges, respectively.
- On August 31, 2009, we agreed to sell our 32.18% stake in Medi Telecom S.A., or Medi Telecom, together with its outstanding shareholder loans to our local partners for total cash consideration of €400 million. This transaction closed on December 31, 2009.

- On September 6, 2009 we entered into a strategic alliance with China Unicom (Hong Kong) Limited, or China Unicom, which provides for, among other areas for cooperation, joint procurement of infrastructure and client equipment, common development of mobile service platforms, joint provisions of service to multinational customers, roaming, research and development, sharing of best practices and technical, operational and management know-how, joint development of strategic initiatives in the area of network evolution, joint participation in international alliances and exchanges of senior management. In furtherance of this strategic alliance, on this same date, we entered into a mutual share exchange agreement with China Unicom pursuant to which we agreed to invest the equivalent of $1,000 million in the shares of China Unicom and China Unicom agreed to invest the equivalent of $1,000 million in our shares.

  On October 21, 2009, we exchanged 40,730,735 of our shares for 693,912,264 newly issued shares of China Unicom in satisfaction of the mutual share exchange agreement described above. As a result of this exchange, our voting interest in the share capital of China Unicom increased from 5.38% to 8.06%, and China Unicom has a 0.87% voting interest in our share capital at that date. As of the date of this Annual Report, and after the capital reduction carried out by China Unicom, we hold shares representing 8.37% of China Unicom's voting share capital and the right to appoint a member to its board of directors.

- On November 25, 2009, we agreed with Promotora de Informaciones, or Prisa, and Sogecable, S.A., or Sogecable, to acquire a 21% stake in DTS Distribuidora de Televisión Digital, S.A., or DTS, which includes the pay TV services (DIGITAL +) of the Prisa Group for a firm value of €2,350 million. After deduction of net debt, we expect that our total investment will be approximately €470 million. In addition, on this same date we entered into a shareholders' agreement with Prisa and Sogecable to govern the management of DTS. The acquisition is subject, among other conditions, to obtaining regulatory authorizations.

- On December 3, 2009, a subsidiary of Telefónica O2 Germany, Telefónica Deutschland GmbH, signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH, or HanseNet. The purchase price agreed by the parties was based on a firm value of HanseNet of €900 million, subject to a series of adjustments upon completion of the transaction. On February 16, 2010, having complied with the terms established in the agreement, we completed the acquisition of 100% of the shares of HanseNet. The final amount paid out by us was approximately €912 million.

***Business areas***

We have implemented a regional, integrated management model based on three business areas, with each area in charge of the fixed and mobile telephone and other businesses within its borders:

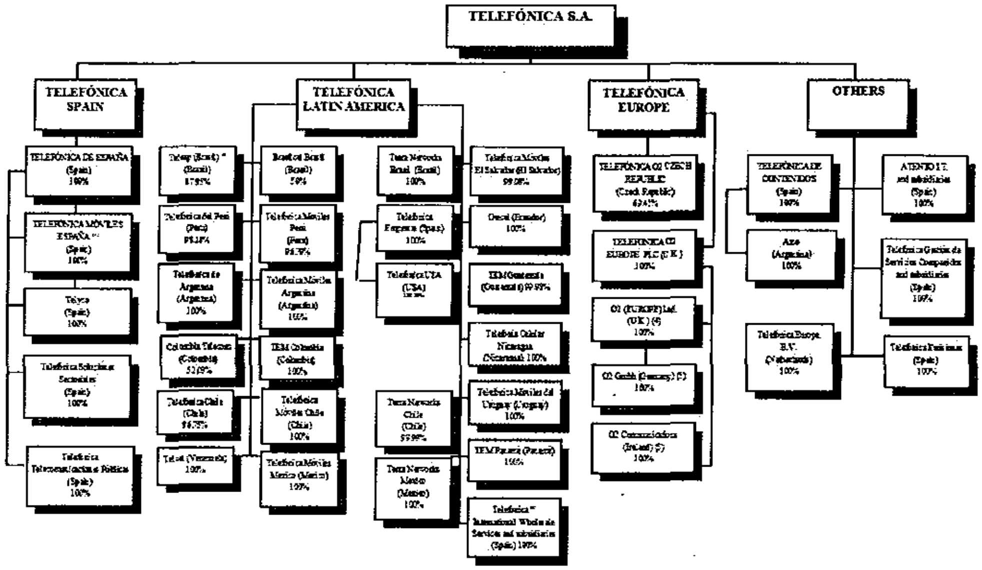
- Telefónica Spain: oversees the fixed and mobile telephone, broadband, Internet, pay TV and valued added services and data businesses in Spain.

- Telefónica Europe: oversees the fixed and mobile telephone, broadband, Internet, pay TV and value added services and data businesses in the United Kingdom, Germany, Ireland, the Czech Republic, Slovakia and the Isle of Man.

- Telefónica Latin America: oversees the fixed and mobile telephone, broadband, Internet, pay TV and value added services and data businesses in Latin America.

We are also involved in the media and contact center segments through Telefónica de Contenidos and Atento, respectively.

The following chart shows the organizational structure of the principal subsidiaries of the Telefónica Group at December 31, 2009, including their jurisdictions of incorporation and our ownership interest. For further detail, see Exhibit 8.1 to this Annual Report.




(1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.

(2) 85.5% representing voting interest.

(3) Ownership in Telefónica International Wholesale Services. S.L. (Spain) is held 92.51% by Telefónica, S.A. (Spain) and 7.49% by Telefónica Datacorp, S.A.U. (Spain).

(4) Ownership in O2 (Europe) Ltd. is held directly by Telefónica, S.A.

(5) Companies held indirectly by Telefónica, S.A.

Telefónica, S.A., the parent company of the Telefónica Group, also operates as a holding company with the following objectives:

- coordinate the Group's activities;
- allocate resources efficiently among the Group;
- provide managerial guidelines for the Group;
- manage the Group's portfolio of businesses;
- foster cohesion within the Group; and
- foster synergies among the Group's subsidiaries.

Our principal executive offices are located at Distrito C, Ronda de la Comunicación, s/n, Las Tablas, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

**Capital Expenditures and Divestitures**

Our principal capital expenditures excluding acquisitions during the three years ended December 31, 2009 consisted of additions to property, plant and equipment and additions to intangible assets. In 2009, 2008 and 2007, we made capital expenditures of €7,257 million, €8,401 million and €8,027 million, respectively.

***Year ended December 31, 2009***

Our capital expenditures decreased 13.6% to €7,257 million in 2009 compared to €8,401 million in 2008, mainly as a result of investment containment in our three regions of activity. Our investments in Spain were directed toward further developing the broadband business and expanding mobile third generation, or 3G. In Latin America capital expenditures were directed toward satisfying increased customer demand in broadband and pay TV and increasing coverage and capacity of our second generation, or GSM, and mobile 3G networks. In Europe capital expenditures were directed toward expanding the mobile 3G network coverage, developing the broadband business and undertaking IT projects.

***Year ended December 31, 2008***

Our capital expenditures increased 4.7% to €8,401 million in 2008 compared to €8,027 million in 2007, mainly as a result of investments made to support the growth in Telefónica Latin America's broadband and pay TV businesses and to further develop ADSL and adapt existing loops to FTTx (fiber optic) technology in order to enhance coverage for new services in Spain and expand the coverage and capacity of our mobile networks in all regions.

***Year ended December 31, 2007***

Capital expenditures increased 0.2% to €8,027 million in 2007 from €8,010 million in 2006 principally related to our investments in Spain in our growing Internet and broadband businesses, with significant investments related to ADSL and IP services, such as *Imagenio*, our IPTV business. In Latin America capital expenditures were directed toward satisfying increased customer demand in our fixed line business (particularly in broadband and pay TV) and increasing coverage and capacity of our second generation, or GSM, networks and acquiring spectrum in Venezuela, Brazil and Panama to expand coverage and guarantee service quality in areas where traffic is heaviest. In 2007, capital expenditures in Europe decreased primarily as a result of Telefónica O2 Germany bringing forward capital investment from 2007 into 2006 as part of our build-out of our mobile third generation, or 3G, network.

**Financial Investments and Divestitures**

Our principal financial investment in 2009 was the acquisition of an additional stake in China Unicom (approximately $1,000 million as a consequence of a mutual share exchange). Our principal divestiture in 2009 was the sale of Medi Telecom (€400 million) as described above.

Our principal financial investments in 2008 were made by Inversiones Telefónica Internacional Holding, Ltda., which invested €640 million for the acquisition of the additional 51.85% of CTC, and Vivo, which invested Brazilian reais 1,163 million (equivalent to approximately €429 million at the transaction date) for the acquisition of 53.90% of the voting stock and 4.27% of the preferred stock of Telemig Celular Participaçoes, S.A.

Our principal financial investments in 2007 were made by Telefónica (€2,314 million for the acquisition of indirect shareholding in Telecom Italia). Our principal financial divestitures in 2007 were the sale of Airwave and Endemol N.V., or Endemol, for £1,932 million (equivalent to approximately €2,841 million at the transaction date) and €2,629 million, respectively.

**Public Takeover Offers**

The principal public takeover offer which occurred in 2009 and in 2010 through the date of this Annual Report was the following:

- On September 17, 2008, we launched a tender offer through our Inversiones Telefónica Internacional Holding, Ltda. subsidiary to acquire all the outstanding shares of Compañia de Telecomunicaciones de Chile, S.A., or CTC, that we did not already control directly or indirectly, amounting to 55.1% of CTC's share capital. This included all CTC shares listed on the Santiago de Chile and New York Stock Exchanges (represented by American Depositary Shares). In January 2009, upon completion of the transaction, our indirect ownership in CTC had increased to 97.89% of the total outstanding shares, representing a total investment by us of approximately €658 million.

**Recent Developments**

The principal events that have occurred since December 31, 2009 are set forth below:

- On January 11, 2010, Telco, S.p.A., or Telco, arranged a €1,300 million 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 the Telecom Italia, S.p.A., or Telecom Italia, shares held by Telco. The rest of Telco's financing needs with respect to debt maturities were met with a bridge loan granted by shareholders that was repaid with the proceeds of a bond issuance subscribed by Telco's shareholders, on a pro rata basis in accordance with their interests in Telco, on February 26, 2010 for an aggregate principal amount of €1,300 million. Our subscription amounted to an aggregate principal amount of €600 million.
- On February 16, 2010, having complied with the terms established in the agreement dated December 3, 2009 by the parties, we completed the acquisition of 100% of the shares of HanseNet. The final amount paid was approximately €912 million.
- Following the agreement between Prisa and Gestevisión Telecinco, S.A., or Telecinco, for the sale by Prisa to Telecinco of a 22% stake in DIGITAL+, on January 29, 2010, we signed a new agreement with Prisa raising the percentage stake to be acquired by us in DTS from 21% to 22%. Furthermore, we have undertaken to renegotiate the terms of the shareholders' agreement to reflect the new shareholder structure of DTS.

  The estimated total investment to be made by us for the 22% stake in DTS, after deduction of net debt, is expected to be around €495 million, of which approximately €230 million will be covered by the subordinated loan agreement that currently exists between Telefónica de Contenidos, S.A.U. (creditor) and Sogecable (debtor).

For information related to our significant financing transactions completed in 2009 and through the date of this Annual Report, see "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Anticipated Sources of Liquidity".

### B. Business Overview

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

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

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

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

(2) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes our accesses for internal use. It also includes VOIP and naked ADSL accesses.

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

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

(5) Includes accesses of Telemig at December 31, 2008 and going forward. Medi Telecom accesses are excluded at December 31, 2009.

(6) In 2009 in order to align the criteria for the key performance indicators of our mobile operations, the definition of mobile accesses (and, therefore, of total accesses) was revised to include machine-to-machine accesses. In addition, we revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile accesses throughout the Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting. As a result of both revisions, we restated 2008 mobile accesses, adding 0.2 million accesses in the aggregate. Our 2007 information is presented based on our prior classifications.

(7) Includes unbundled lines by Telefónica O2 Germany.

(8) Includes circuits for other operators.

**Our Services and Products**

*Fixed business*

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

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

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

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

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

*Mobile business*

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

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

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

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

- *Wholesale services.* We have signed network usage agreements with several MVNOs in different countries.
- *Corporate services.* We provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on line billing. Telefónica Móviles España, S.A.U., or Telefónica Móviles España, offers corporate services through MoviStar Corporativo, and other advanced solutions for data developed for specific sectors.
- *Roaming.* We have roaming agreements that allow our customers to use their mobile handsets when they are outside of our service territories, including on an international basis.
- *Fixed wireless.* We provide fixed voice telephony services through mobile networks in Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.
- *Trunking and paging.* In Spain and Guatemala, we provide digital mobile services for closed user groups of clients and paging services.

The following sections provide a description of the main markets in which we operate. Customer information on the markets in which we operate, including our market share based on accesses, are estimates that we have made based on annual reports and press releases made public by our competitors or information from local regulators in the respective markets.

**Telefónica Spain Operations**

Telefónica Spain provides fixed and mobile telephony services, Internet and data and pay TV services in Spain.

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

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

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

***Telefónica Spain - Fixed business***

Telefónica Spain provides fixed telephony services in Spain through the operator Telefónica de España, S.A., or Telefónica de España.

*Operations*

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

| | At December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | | (in thousands) | |
| **Fixed telephony accesses** | **15,918.8** | **15,326.3** | **14,200.1** |
| Internet and data accesses | 5,321.8 | 5,670.0 | 5,722.5 |
| Narrowband accesses | 660.8 | 388.0 | 219.5 |
| Broadband accesses | 4,614.0 | 5,246.4 | 5,476.8 |
| Other accesses | 47.0 | 35.6 | 26.2 |
| Pay TV accesses | 511.1 | 612.5 | 703.0 |
| **Final clients accesses** | **21,751.6** | **21,608.8** | **20,625.6** |
| Wholesale line rental accesses | – | 9.5 | 97.4 |
| Unbundled local loop accesses | 1,353.9 | 1,698.0 | 2,153.8 |
| Shared UL accesses | 776.4 | 602.3 | 447.7 |
| Full UL accesses | 577.6 | 1,095.7 | 1,706.1 |
| Wholesale ADSL accesses | 495.5 | 423.8 | 359.0 |
| Other accesses | 6.0 | 4.7 | 3.7 |
| **Wholesale accesses** | **1,855.5** | **2,136.1** | **2,614.0** |
| **Total accesses** | **23,607.1** | **23,744.9** | **23,239.6** |

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

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

Unbundled local loops made up approximately 21.1% of the broadband access market in Spain at December 31, 2009 up from approximately 18.3% at December 31, 2008. Unbundled local loops at December 31, 2009 amounted to 2.2 million accesses, of which nearly 21% were shared access loops.

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

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

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

*Sales and marketing*

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

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

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

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

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

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

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

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

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

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

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

*Competition*

Telefónica Spain's main competitors in the fixed telephony market fall within three main categories:

- cable operators, such as Spanish nationwide cable operator ONO, which offers bundles of voice, broadband and pay TV services, and regional cable operators (Euskaltel, Telecable and Grupo R);

- ULL operators, such as Orange, Jazztel and Vodafone; and
- large-business oriented operators, such as British Telecom and Colt, which offer voice and data virtual private networks (VPNs).

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

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

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

*Network and technology*

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

***Telefónica Spain - Mobile business (Spain)***

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

*Operations*

The Spanish mobile market exceeded 55.6 million accesses at December 31, 2009, which represented a penetration rate of 121%, an increase of more than 5 percentage points from December 31, 2008. The Spanish mobile market showed growth as a result of data services development.

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

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

Our mobile customer base in Spain, measured in terms of accesses, stood at 23.5 million accesses at December 31, 2009, a decrease of 0.3% from 23.6 million at December 31, 2008. This evolution was primarily driven by a 9.2% decrease in accesses in the pre-pay segment, which was primarily driven by our decision in December 2009 to disconnect 715 thousand pre-pay mobile accesses from the customer base as a consequence of lower activity levels.

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

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

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

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

Traffic for 2009 decreased 3.5% to 42,039 million minutes compared to 43,568 million minutes in 2008 mainly due to a lower voice usage as customers optimized their consumption.

At December 31, 2009, Telefónica Spain's customers held more than 8.9 million UMTS/HSDPA handsets, an increase of 12 percentage points from December 31, 2008.

*Sales and marketing*

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

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

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

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

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

*Competition*

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

Telefónica Spain's estimated market share in Spain in terms of mobile accesses was approximately 42% at December 31, 2009 (down from approximately 44% at December 31, 2008).

*Network and technology*

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

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

**Telefónica 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 | 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 | 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** |

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.

*United Kingdom – Telefónica O2 UK*

*Operations*

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 | 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 |

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

The mobile penetration rate in the United Kingdom was approximately 126% at December 31, 2009, an increase of approximately 3 percentage points compared to the penetration rate at December 31, 2008.

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

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

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

*Sales and marketing*

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

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

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

*Competition*

Telefónica O2 UK's estimated market share was approximately 26.2% at December 31, 2009 compared with approximately 25.9% at December 31, 2008, based on the number of mobile accesses.

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

We understand that a proposed joint venture between France Telecom and Deutsche Telekom's UK operators (Orange UK and T-Mobile UK, respectively) is currently being analyzed by regulators.

At December 31, 2009, Telefónica O2 UK also provides the network infrastructure for LycaMobile, a mobile virtual network operator (MVNO) who competes with us and pays Telefónica O2 UK to use its network.

*Network and technology*

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

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

***Germany – Telefónica O2 Germany***

*Operations*

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 (millions of minutes) | n.a. | 22,313 | 23,257 |
| ARPU (in euros) | 20.4 | 17.4 | 15.6 |

The mobile penetration rate in Germany was approximately 132% at December 31, 2009, similar to the penetration rate at December 31, 2008.

The total customer base of Telefónica O2 Germany, Telefónica Europe's operating company in Germany, 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 in 2009 increased 4.2% to 23,257 million minutes compared to 22,313 million minutes in 2008.

*Sales and 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 "O2 o" 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.

*Competition*

Telefónica O2 Germany's estimated market share in Germany was approximately 14.3% at December 31, 2009 compared to approximately 13.5% at December 31, 2008, based on number of mobile accesses.

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

*Network and technology*

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

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

### *Czech Republic and Slovakia – Telefónica O2 Czech Republic and Telefónica O2 Slovakia*

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

*Operations*

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** | 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 | 2,881.5 | 2,282.8 | 2,150.2 |
| 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** |

| | Year ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| MOU (minutes) | 117 | 121 | n.a. |
| Traffic (millions 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 was approximately 134% at December 31, 2009, approximately 3 percentage points higher than the penetration rate at December 31, 2008.

Fixed telephony accesses for Telefónica O2 Czech Republic, Telefónica Europe's operating company in the Czech Republic, 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 pay TV 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 mobile 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 mobile accesses decreased 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 regulated MTR cuts (approximately 22.7% year-on-year) and customers optimizing their spending. Traffic in 2009 increased 11.0% to 8,232 million minutes compared to 7,420 million minutes in 2008.

*Sales and 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.

*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 39.2% at December 31, 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.

*Network and technology*

Telefónica O2 Czech Republic's digital network in the Czech Republic is based upon the GSM/UMTS 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 mobile accesses accounted for 35.4% of these accesses at December 31, 2009 compared to 30.4% at December 31, 2008. Throughout 2009, Telefónica O2 Slovakia continued with "O2 Fér" plan, a simple tariff which unifies pre-pay and contract mobile rates and offers SIM-only products without a handset subsidy.

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

***Ireland – Telefónica O2 Ireland***

*Operations*

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 (millions of minutes) | n.a. | 4,867 | 4,672 |
| ARPU (in euros) | 45.9 | 43.2 | 39.6 |

The mobile penetration rate in Ireland was approximately 120% at December 31, 2009, approximately 1 percentage point lower than the penetration rate at December 31, 2008.

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

Telefónica O2 Ireland had net adds of 49 thousand contract mobile 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 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.

*Sales and marketing*

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

*Competition*

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

Telefónica O2 Ireland had an estimated market share of the Irish mobile market of approximately 32.3% at December 31, 2009 compared to approximately 32.5% at December 31, 2008, based on number of mobile accesses.

*Network and technology*

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

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