Also, the guidelines set forth in article 26 of Decree No. 1185/90 continue in effect for operators with significant market power. These guidelines establish information obligations with which operators must comply with respect to tariffs, both toward clients and the national regulator. This Decree also establishes the powers the regulator has to revise or revoke such tariffs.

Tariffs charged to customers for mobile services are not regulated in Argentina.

Interconnection

Decree No. 764/00 approved new rules for national interconnection and established interconnection standards and conditions with which telephone service providers must comply regardless of pre-existing agreements. The rules for national interconnection set forth that interconnection agreements are to be freely negotiated between the relevant service providers, on a non-discriminatory basis. The regulations also establish the obligation for dominant and significant market operators to unbundle their local loops and to allow competitors to use them on a reasonable basis.

Competition law

Law 25,156, on Protection of Competition prohibits any acts or behaviors related to the production or trade of goods or services, whose purpose or effect is to prevent, restrict or distort competition or market access, or that constitute abuse of dominant position in a market. The National Commission for the Defense of Competition is the authority entrusted with application of the law.

Colombia

Regulatory framework

In Colombia, telecommunications are a public service, subject to state regulation and oversight. Law 1341/09 reformed the legal framework, establishing the general regime for information and communication technologies. Under this law, providers of network and telecommunications services in Colombia must register with the Information and Communication Technologies Minister. In addition, operators must obtain a concession from the National Television Commission in order to provide television services.

Law 1341/09 established a transition period in which operators can: (i) preserve the original titles (licenses, contracts, permissions, authorizations) until their expiration or (ii) adopt the regime of general authorization stated by the law and the corresponding registration and preserve the necessary permissions in order to use the spectrum.

During 2009 the Colombian telecommunications regulator, *Comisión de Regulación de Comunicaciones* or CRC, identified the telecommunications relevant markets and operators with dominant position and established some remedies via ex ante regulations.

Licenses and concessions

Concessions for mobile services in the Eastern Region, the Caribbean Coast Region and the Western Region were granted in March 1994 for a ten-year period and extended for ten years until March 28, 2014. Before 2014 and because of the transition period set forth under Law 1341/2009, Telefónica Móviles Colombia can renounce its concessions, renew the permission for spectrum use for one period of ten years and subsequently renegotiate an extension. If Telefónica Móviles Colombia continues with its current concessions until 2014, in that year it must register as a telecommunications provider and request permission for spectrum use.

Additionally, Telefónica Móviles Colombia holds concessions for carrier services nationwide, granted in June and November 1998 (initially for ten years and extended once for an additional ten years). Due to decree 2870 of 2007, these concessions were transformed into a convergent title. The Ministry of Communications granted Telefónica Móviles Colombia on November 6, 2008 a convergent title to render carrier services for an additional ten-year period (which can be extended for an additional ten years). Like in the case of concessions for mobile services, these licenses are in force until the end of their validity, or Telefónica Móviles can decide to renounce and register as an operator under the general authorization granted by law.

With respect to fixed line services, Law 1341/2009 preserves the indefinite permission for all operators to operate as local exchange carriers in the national area that Law 142/94 had established. Colombia Telecom must register as a telecommunication provider before the CRC. This registration also covers the general authorization to provide other telecommunications services like long-distance carrier services, value added services, carrier services nationwide and mobile services, among others.

Interconnection

Mobile and fixed operators in Colombia have the right to interconnect to other operators' networks. Before the intervention of regulatory authorities, operators must attempt direct negotiations. Interconnection must assure compliance with the objectives of non-discriminatory treatment, transparency, prices based on costs plus a reasonable profit and promotion of competition.

Prices and tariffs

Mobile tariffs charged to customers are not regulated, although they may not be discriminatory. Nevertheless fixed-to-mobile tariffs are subject to a price cap. Rates are fixed by mobile operating companies and must be registered with the *Comisión de Regulación de Telecomunicaciones*. The regulator set a price cap of 392 Colombian pesos per minute for fixed to mobile tariffs since November 1, 2006, and in 2009 the CRC reduced the tariff to 198.4 Colombian pesos per minute. Local tariffs are regulated, but operators have the opportunity to offer several alternative plans that are not regulated although they must be registered.

Due to market regulation process, the Telecommunications Commission in December 2008, published a proposed amendment to modify the price cap of 392 to 200 Colombian pesos per minute for fixed to mobile communications. This proposed amendment is currently subject to discussion with operators.

Television services

In January 2007, Colombia Telecom signed a concession agreement with the Television Commission to provide DTH services for ten years. This is a concession granted with a national scope.

In December 2008, the Television Commission published Agreement No. 006. By this disposition the carry obligations of operators of closed television has been modified to require that regional channels be broadcast only in the cover area of the channel and only if it is possible technically.

Competition law

The Colombian Competition Law is incorporated in the Law No. 155/59, Decree No 2153/92 and Law 1340/09 on Restrictive Trade Practices. The law prohibits entering in any agreement or engaging in any type of practice, procedure, or system that aims to limit free competition and abuse of a dominant position. The Superintendent of Industry and Commerce is the Colombian competition authority.

Peru

Regulatory framework

The provision of telecommunications services in Peru is governed by the Telecommunications Law and related regulations.

Licenses and concessions

Telefónica del Perú provides fixed line telecommunications services based on concessions granted by the Ministry of Transportation and Communications, or TMC. The concession term is for 20 years, which may be renewed totally or partially at Telefónica del Perú's request. Total renewal is for an additional 20-year period. Partial renewal is for periods of up to five additional years. Three partial renewals have been approved, extending the concession term until 2027.

Providers of mobile services seeking to operate in Peru must obtain a non-exclusive license from the TMC. Licenses are granted by means of a license agreement entered into between the TMC and the licensee and set forth the licensee's rights and obligations, including the regions where the licensee is authorized to operate. Licenses are granted either by application or through a bidding process.

Telefónica Móviles Perú has a concession for the provision of mobile services on Sub Band A of the 850 MHz Band and Sub Band of 1900 MHz (in these bands, Telefónica Móviles Perú can also provide fixed wireless services) for a 20-year period, renewable upon request for identical periods. It also holds concessions for offering international and domestic long distance carrier services, granted in February 2002 for a 20-year period. Additionally, it has a concession for the provision of wireless fixed telephony services on the 450 MHz and 900 MHz band for a 20-year period. Both concessions were granted on March 3, 2008. It also holds the concessions for local carrier services, which expire between 2016 and 2022. Concessions for domestic and international carrier services expire on February 5, 2019. In addition, it has a concession for local fixed telephony services for national coverage, granted on August 10, 1999 for a 20 year period. These concessions may be renewed for an additional 20-year period.

Under the concessions to provide mobile services, mobile operators are obligated to meet certain quality service requirements with respect to call failure, radio-electric coverage and quality of communications. These requirements are established on a yearly basis and are gradually increased in order to improve the quality of the service provided.

Prices and tariffs

Tariffs for fixed telephony services must be approved by the National Regulatory Authority, the Organization for Supervision of Private Investment in Telecommunications, or OSIPTEL, in accordance with a price cap formula based on a productivity factor. Rates charged by mobile providers to their customers have been subject to a free tariff regime supervised by OSIPTEL. Tariffs must be reported to OSIPTEL prior to implementation.

Interconnection

Mobile service providers are required, upon request, to interconnect with other concession holders. According to the principles of neutrality and non-discrimination contemplated in the Telecommunications Law, the conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

Competition law

The general competition framework in Peru is based on the Legislative Decree No. 1034. This law prohibits any monopolistic practices, controls, and restraints on free competition and it is applied, in the telecommunication sector, by OSIPTEL.

Ecuador

Regulatory framework

The Special Telecommunications Law and the General Regulation to the Special Telecommunications Law establish the regulatory regime applicable to the provision of telecommunications services in Ecuador.

Licenses and concessions

After a new agreement with the Ecuadorian government, Otecel renewed its mobile telephony services concession which now allows Otecel to provide advanced mobile services, including 3G services. The concession will expire on November 29, 2023 and may be extended for a subsequent 15-year period.

Beside the above mentioned concession, Otecel holds a concession to provide fixed and mobile services carrier services, which expires on April 22, 2017 and may be extended for a subsequent 15-year period. The different licenses for the provision of mobile value added services and Internet mobile access, each of which expires on

February 21, 2010, are now under the scope of the new agreement with the Ecuadorian government described in the previous paragraph. It also holds a license to provide conventional Internet services, which expires on January 25, 2011 and may be extended for a subsequent ten-year period.

A monthly fee amounting to 1% of the invoiced revenues of mobile services must be paid by all operators holding concessions to the National Secretary of Telecommunications as a contribution to support universal service. Under its contract, Otecel may cancel such fee by giving services to agreed zones within the National Plan for Universal Service.

Prices and tariffs

The mobile services concession of Otecel is subject to a maximum rate of $0.50 per minute for mobile services and a maximum rate of $0.10 per minute for rural public telephony. Otecel may set rates freely so long as it does not exceed these rates, and provided that it notifies the correspondent regulatory body 24 hours ahead of any price increase.

Otecel may set rates freely under its carrier services concession.

Other business lines in Latin America

Country	License/Concession and authorizations	Type of service	Spectrum	Band	Expiration
El Salvador	Concession	Telecommunications services (1)	25 MHz/800 MHz	B Band	2018(2)
	Concession	Telecommunications services (1)	30 MHz/1900 MHz	C Band	2021
Guatemala	Concession	Telecommunications services (1)	80 MHz/1900 MHz	B, C, E and F Bands	2014(3)
	Concession	Telecommunications services (1)			2014(3)
	Concession	Telecommunications services (1)			2014(3)
Nicaragua	Concession	Mobile telecommunications services	800 MHz	A Band	2013(4)
	Concession	Mobile telecommunications services	Additional spectrum 1900	D Band	2013
Panama	Concession	GSM/UMTS	800/1900 Mhz	A Band	2016(5)
Uruguay	License	Mobile telephony	25 MHz 800 MHz		2022-2024(6)

(1) According to the Telecommunications Law all of such concessions were granted to provide any telecommunications services.

(2) Concessions for use of spectrum are granted for a 20-year period and may be renewed for additional 20-year periods upon execution of the proceedings set forth in the Telecommunications Law.

(3) All of such concessions are granted for a 15-year term and may be renewed for subsequent fifteen-year terms at the request of the holder. In order to renew a title, the holder must demonstrate before the regulatory body, that the spectrum was effectively used during the previous 15-year term. All of these titles are set to expire in 2014.

(4) Telefónica Móviles Nicaragua was granted a concession in 1992 for a ten-year period for the use of 25 MHZ of spectrum in the 800 MHz Band A to provide mobile telecommunications services, the regulatory entity granted to Telefónica Nicaragua 10 Mhz of additional spectrum in the 1900 Band D. This concession was renewed for another ten-year period in 1998, and will expire on July 31, 2013. The concession may be renewed for another ten-year period through negotiation with TELCOR two years prior to the expiration of the current concession, subject to the fulfillment of certain terms and conditions by the operator.

(5) The concession period is for 20 years and expires in 2016. This can be extended for another period in accordance with the concession contract. The Panamanian government granted us the right to use 10 MHz (5+5) in the 1900 MHz Band until 2016, which can be extended for another period.

(6) The expiration date depends on the spectrum concession: band 800 MHz (12.5 MHz + 12.5 MHz) – 20 years from July 2004; band 1900 MHz (5 MHz + 5 MHz) – 20 years from December 2002; and band 1900 MHz (5 MHz + 5 MHz) – 20 years from July 2004.

Seasonality

Our main business is not significantly affected by seasonal trends.

Patents

Our business is not materially dependent upon the ownership of patents, commercial or financial contracts or new manufacturing processes.

C. Organizational Structure

See "—History and Development of the Company" and "—Business Overview."

D. Property, Plant and Equipment

In 2007, we moved to our new central headquarters for the Telefónica Group, "Distrito C", in Las Tablas (Madrid), Spain.

Fixed Networks

We own fixed networks in Spain, Latin America and Europe, having an incumbent role in Spain, Argentina (the greater Buenos Aires metropolitan area and the southern portion of the country), Brazil (São Paulo), Chile, Peru, Colombia and the Czech Republic.

Following market trends, competitive environments, evolution of technologies and new multimedia and broadband services demanded by our customers, we have upgraded our networks in recent years in the following manners:

- progressive introduction of broadband access technologies over copper: ADSL, ADSL2+, VDSL2, etc., increasing the bandwidth capacity provided to our broadband clients several times in the last four years;
- introduction of fiber access technologies (xPON) across different deployment scenarios: fiber to the home (FTTH), fiber to the building (FTTB), fiber to the curb (FTTC), fiber to the node (FTTN), etc., increasing the access speed up to 100 Mbps;
- service support based on powerful Internet Protocol/ Multiprotocol Label Switching (IP/MPLS) backbones, providing full connectivity to the rest of the network layers, such as access and control, to support services for business and customer market segments (fixed and mobile);
- migration of the legacy time division multiplexing (TDM) switching networks (PSTN and ISDN) to new generation network (NGN) over all-IP packet networks;
- migration from legacy transport technologies, such as asynchronous transfer mode (ATM), frame relay (FR), low-rate leased lines , plesiochronous digital hierarchy (PDH) and synchronous digital hierarchy (SDH), to the new generation of optical transport ones, such as dense wavelength division multiplexing (DWDM), coarse wavelength division multiplexing (CWDM) and new generation - synchronous digital hierarchy (NG-SDH);
- introduction of IMS (Internet Multimedia Subsystem) in many countries to simplify the control of the network and ease the deployment of new services over the all-IP converged network;
- empowerment of the intelligence of the network to better manage its use, to avoid saturations and frauds and to identify new business opportunities;

- convergence of fixed and mobile networks, services and support systems from both technological and operational points of view; and
- deployment of new services such as pay TV, under the *Imagenio* brand, to customers connected through broadband accesses in Spain, Czech Republic, Peru, Chile, Colombia and Brazil.

Mobile Networks

We operate mobile networks in Spain, the United Kingdom, Germany, Ireland, the Czech Republic, Slovakia, Brazil, Argentina, Venezuela, Chile, Peru, Colombia, Mexico, Guatemala, Panama, El Salvador, Nicaragua, Ecuador and Uruguay. In the case of Brazil (Vivo) the ownership of the networks is shared 50/50 with Portugal Telecom.

We use a number of mobile technologies in the countries in which we operate, namely: GSM and UMTS in Spain, the United Kingdom, Ireland, Germany, Czech Republic, Slovakia and Latin America; CDMA 1X in other countries in Latin America (such as, Brazil, Venezuela and Colombia) and, in the Czech Republic (CDMA 450 Mhz). We continue the work of upgrading our mobile networks in line with market trends, the demand of new services from customers and the evolution of technologies. The main steps we are currently taking include:

- progressive migration from CDMA technologies to GSM or UMTS technologies in markets where we still exploit these legacy technologies;
- introduction of broadband into mobile access using technologies such as UMTS, HSDPA, HSUPA and HSPA+;
- deployment of new services such as mobile television and distribution services for next generation music, video and games;
- exploration of the adequacy of new technologies such as HSPA and LTE (Long Term Evolution) to provide mobile accesses with increased bandwidth, in particular:
  - HSPA: we have been committed to the deployment of this technology in countries in which we have a presence and as of December 31, 2009, we have extended our coverage up to the majority of the urban/suburban areas, and we have increased the capacity of the network by upgrading the network technology to the latest available releases of UMTS standards 3GPP REL 6 and REL 7;
  - LTE: together with main vendors and sharing experience with other operators, we have extensively analyzed the opportunities LTE will bring as 4G mobile technology is used to complement current network technology by creating higher capacity at lower relative cost by user/traffic unit, and, in this regard, we have deployed the first demonstration trials in 2009, which have been successful so far; and
- convergence of fixed and mobile networks, services and support systems from both technological and operational points of view.

Satellite communications

We hold a 13.23% interest in Hispasat, which leases capacity to Eutelsat, Intelsat, New Sky Satellite and occasionally ArabSat.

The services provided using satellite platforms include television contribution signal to feed cable and IPTV head ends, DTH television, VSAT mainly for telephony and Internet access in rural areas, emergency solutions, corporate communications and international communications with some countries in Africa and in Asia.

Submarine cables

We are one of the world's largest submarine cable operators. We participate in approximately 25 international underwater cable systems (nine of which are moored in Spain) and own eleven domestic fiber optic cables.

There are submarine cable connections between Spain and Africa, America, Asia and Europe, respectively, that are jointly owned by us with other telecom operators. The SAM-1 cable, which we own, has a length of approximately 22,000 kilometers underwater and 3,000 kilometers terrestrial and links different countries such as the United States, Puerto Rico, Ecuador, Guatemala, Peru, Chile, Brazil, Argentina and Colombia.

The principal services using the capacity of submarine cables are voice circuits, Internet and dedicated circuits for international traffic and for corporations and business customers.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

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. Our areas are:

- 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.

Presentation of Financial Information

The information in this section should be read in conjunction with our Consolidated Financial Statements and the notes thereto, included elsewhere in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

At its meeting on July 26, 2006, our Board of Directors agreed to restructure the way in which we are managed in order to respond to the increasing convergence of fixed and mobile telephony in the markets in which we operate. In order to adapt to this new environment, we have developed a regional, integrated management model, combining fixed line and mobile telephony services in order to offer customers the best integrated solutions and support in an era of fixed-mobile convergence. We are managed as three business areas: Telefónica Spain, Telefónica Europe and Telefónica Latin America, each of which oversees the integrated fixed and mobile telephone and other businesses in its region. Our three business areas form the basis of our segment reporting in our Consolidated Financial Statements.

Non-GAAP financial information

Operating income before depreciation and amortization

Operating income before depreciation and amortization, or OIBDA, is calculated by excluding depreciation and amortization expenses from our operating income in order to eliminate the impact of generally long-term capital investments that cannot be significantly influenced by our management in the short term. Our management believes that OIBDA is meaningful for investors because it provides an analysis of our operating results and our segment profitability using the same measure used by our management. OIBDA also allows us to compare our results with those of other companies in the telecommunications sector without considering their asset structure. We use OIBDA to track our business evolution and establish operational and strategic targets. OIBDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. OIBDA is not an explicit measure of financial performance under IFRS and may not be comparable to other similarly titled measures for other companies. OIBDA should not be considered an alternative to operating income as an indicator of our operating performance, or an alternative to cash flows from operating activities as a measure of our liquidity.

The following table provides a reconciliation of our OIBDA to operating income for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
		(in millions of euros)	
Operating income before depreciation and amortization	22,824	22,919	22,603
Depreciation and amortization expense	(9,436)	(9,046)	(8,956)
Operating income	**13,388**	**13,873**	**13,647**

The following tables provide a reconciliation of OIBDA to operating income for us and each of our business areas for the periods indicated.

	Year ended December 31, 2009				
	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Others and Eliminations	Total
			(in millions of euros)		
Operating income before depreciation and amortization	9,757	9,143	3,910	(207)	22,603
Depreciation and amortization expense	(2,140)	(3,793)	(2,895)	(128)	(8,956)
Operating income	**7,617**	**5,350**	**1,015**	**(335)**	**13,647**

	Year ended December 31, 2008				
	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Others and Eliminations	Total
			(in millions of euros)		
Operating income before depreciation and amortization	10,285	8,445	4,180	9	22,919
Depreciation and amortization expense	(2,239)	(3,645)	(3,035)	(127)	(9,046)
Operating income	**8,046**	**4,800**	**1,145**	**(118)**	**13,873**

	Year ended December 31, 2007				
	Telefónica Spain	Telefónica Latin America	Telefónica Europe	Others and Eliminations	Total
			(in millions of euros)		
Operating income before depreciation and amortization	9,448	7,121	4,977	1,278	22,824
Depreciation and amortization expense	(2,381)	(3,559)	(3,386)	(110)	(9,436)
Operating income	**7,067**	**3,562**	**1,591**	**1,168**	**13,388**

Net financial debt and net debt

We calculate net financial debt by deducting the positive mark-to-market value of derivatives with a maturity beyond one year from the relevant balance sheet date and other interest-bearing assets (each of which are components of non-current financial assets in our consolidated statement of financial position), current financial assets and cash and cash equivalents from the sum of (i) current and non-current interest-bearing debt (which includes the negative mark-to-market value of derivatives with a maturity beyond one year) and (ii) other payables (a component of non-current trade and other payables in our consolidated statement of financial position). We calculate net debt by adding to net financial debt those commitments related to financial guarantees, not considered as net financial debt, and those related to workforce reduction. We believe that net financial debt and net debt are meaningful for investors because they provide an analysis of our solvency using the same measures used by our management. We use net financial debt and net debt to calculate internally certain solvency and leverage ratios used by management. Neither net debt nor net financial debt as calculated by us should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of our liquidity.

The following table provides a reconciliation of our net financial debt and net debt to gross financial debt at the dates indicated:

	As of December 31,		
	2007	2008	2009
		(in millions of euros)	
Non-current interest-bearing debt	46,942	45,088	47,607
Current interest-bearing debt	6,986	8,100	9,184
Gross financial debt	**53,928**	**53,188**	**56,791**
Other payables	327	477	515
Non-current financial assets(1)	(2,284)	(4,439)	(2,736)
Current financial assets	(1,622)	(2,216)	(1,906)
Cash and cash equivalents	(5,065)	(4,277)	(9,113)
Net financial debt	**45,284**	**42,733**	**43,551**
Commitments related to financial guarantees	365	365	71
Net commitments related to workforce reduction	3,289	2,687	2,261
Net debt	**48,938**	**45,785**	**45,883**

(1) Positive mark-to-market value of derivatives with a maturity beyond one year from the relevant statement of financial position date and other interest-bearing assets.

Significant Factors Affecting the Comparability of our Results of Operations in the Periods Under Review

During the years ended December 31, 2007, 2008 and 2009, various changes occurred in our composition that affect the comparability of our operating results between the periods. See Appendix I to our Consolidated Financial Statements for a detailed description of the principal changes in our composition affecting our financial statements during the periods under review covered by our Consolidated Financial Statements. The most significant factors affecting the comparability of our results of operations in the periods under review are discussed below.

Classification of Venezuela as a hyperinflationary economy

Throughout 2009 and in the early part of 2010, a number of factors arose in the Venezuelan economy that led us to reconsider the treatments we follow with the respect to the translation of the financial statements of our investees, as well as the recovery of our financial investments in that country. Within these factors it is worth highlighting the level of inflation reached in 2009 and the cumulative inflation over the last three years, the restrictions to the official foreign exchange market and, finally, the devaluation of the Bolivar fuerte on January 8, 2010.

As a result, in accordance with IFRS Venezuela must be considered a hyperinflationary economy in 2009. The main implications of this are as follows:

- The 2008 figures should not be restated.
- Adjustment of the historical cost of non-monetary assets and liabilities and the various items of equity of Venezuelan companies from the date of acquisition or inclusion in Telefónica's consolidated statement of financial position to the end of the year to reflect the changes in purchasing power of the currency caused by inflation.

  The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for years prior to 2009 is reflected in the translation differences at the beginning of the 2009 financial year.
- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- The various components in the income statement and statement of cash flows have been adjusted for the inflation index since their generation, with a balancing entry in net financial results and a reconciling item in the statement of cash flows, respectively.
- All components of the financial statements of the Venezuelan companies have been translated at the closing exchange rate, which at December 31, 2009 was 2.15 Bolivar fuerte per dollar (3.1 Bolivar fuerte per euro).

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

	Million of euros
Revenue	267
Operating income excluding the impact of depreciation and amortization cost	64
Net profit	(548)
Translation differences	1,224
Impact on equity	676

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

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

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

Tax amortization of goodwill

In December 2007, the European Commission opened an investigation involving the Kingdom of Spain relating to the potential consideration of the deduction for tax amortization of financial goodwill arising on certain foreign shareholding acquisitions as government aid under the provisions of article 12.5 of the revised Spanish Income Tax Law ("TRLIS"). This investigation led to widespread uncertainties regarding the effect any decision by the European Commission would have on, among others, the Telefónica Group.

In the case of the Telefónica Group, as a result of this uncertainty we deemed it necessary to recognize a liability as the deduction had been applied in the consolidated financial statements pending completion of the investigation.

In December 2009, the European Commission released its decision regarding the investigation, deeming the deduction as state aid. However, this decision does not affect investments made before December 21, 2007, which is the case with the investments made by the Telefónica Group in companies such as O2, Bellsouth's Latin America operators, Colombia Telecomunicaciones, S.A. ESP and Cesky Telecom. As a result of this decision, and considering the corporate structure of these investments, income tax in our consolidated income statement for the year ended December 31, 2009 is €591 million lower due to the reversal of this liability.

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

On October 21, 2009, pursuant to our previously described strategic alliance agreement with China Unicom, we exchanged 40,730,735 of our shares for 693,912,264 newly issued shares of China Unicom. 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.

As a result, our investment in China Unicom is now accounted for using the equity method. The cumulative amount of this investment at December 31, 2009 was €2,301 million.

Tender offer for all the remaining outstanding shares of Compañía de Telecomunicaciones de Chile, S.A.

On September 17, 2008, we launched a tender offer through our subsidiary Telefónica Internacional to acquire all the outstanding shares of CTC that we did not already control directly or indirectly, amounting to 55.1% of CTC's share capital.

Once the acceptance period had ended and the transaction had been settled on October 30, 2008 our indirect ownership in CTC increased from 44.9% to 96.75%. This is the percentage that appears as the percentage of ownership as of December 31, 2008 in the accompanying Consolidated Financial Statements.

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

Upon the end of the acceptance period of the second tender offer, our indirect ownership percentage in CTC's share capital had increased from 96.75% of all CTC's outstanding shares, as reached in the first tender offer, to 97.89%. The total payment for the two tranches was 558.55 million Chilean pesos, equivalent to approximately €658 million.

Sale of shareholding in Airwave O2, Ltd.

In April 2007, Telefónica O2 Europe, Plc, our wholly-owned subsidiary, sold 100% of the share capital of the UK company, Airwave O2, Ltd, for £1,932 million (equivalent to €2,841 million at the transaction date). The sale produced a gain of €1,296 million, recognized under "Other income" in our consolidated income statement for 2007. See Note 19 to our Consolidated Financial Statements.

Sale of shareholding in Endemol Investment Holding, B.V.

In May 2007, we signed an agreement to sell our 99.7% stake in the Dutch company Endemol Investment Holding, B.V. to a consortium owned by Mediacinco Cartera, S.L., Cyrte Fond II, B.V. and G.S. Capital Partners VI Fund, L.P, for €2,629 million. The transaction was completed on July 3, 2007, producing a gain of €1,368 million, recognized under "Other income" in our consolidated income statement for 2007. See Note 19 to our Consolidated Financial Statements.

Acquisition of indirect shareholding in Telecom Italia

On April 28, 2007, we, together with our partners Assicurazioni Generali, S.p.A., Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A. and Sintonia, S.A., entered into a co-investment agreement and shareholders' agreement which established the terms and conditions of our acquisition of an indirect shareholding in Telecom Italia through an Italian company, Telco, in which we have a 42.3% interest. Both agreements were modified on October 25, 2007 to include the Assicurazioni Generali Group companies, and the shareholders' agreement was further amended on November 19, 2007.

On October 25, 2007 Telco acquired 100% of Olimpia, S.p.A., which held 18% of the voting shares of Telecom Italia. Also on that date, Assicurazioni Generali S.p.A. (together with its group companies Alleanza Assicurazioni S.p.A., INA Assitalia S.p.A., Volksfürsorge Deutsche Lebenversicherung A.G. and Generali Vie S.A.) and Mediobanca S.p.A. contributed an aggregate of 5.6% of Telecom Italia's voting shares to Telco.

On December 10, 2007, an agreement was reached to merge Olimpia, S.p.A. into Telco, as a result of which Telco's entire stake in the voting shares of Telecom Italia (23.6%) became a direct stake.

In March 2008, Telco acquired an additional 121.5 million shares of Telecom Italia (representing 0.9% of its share capital), bringing its ownership to 24.5% of the voting rights and 16.9% of the dividend rights. As a result, we indirectly hold 10.49% of Telecom Italia voting rights and 7.21% of its dividend rights. We account for our investment in Telco using the equity method.

On December 22, 2009, Telco and Sintonia completed (i) the acquisition in cash by Sintonia of the Telecom Italia shares held by Telco attributable to it on a pro rata basis (approximately 275.1 million Telecom Italia ordinary shares, equal to 2.06% of the ordinary share capital) at a price of €2.2 per share, a total purchase price of approximately €605 million; and (ii) the acquisition by Telco of Sintonia's entire shareholding in Telco (approximately 162.8 million class A shares, equal to 8.39% of Telco's share capital). For additional information on this acquisition see Note 2 to our Consolidated Financial Statements and "Item 10. Additional Information—Material Contracts".

Significant Changes in Accounting Policies

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

Amendment to IAS 23: Borrowing Costs

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

Amendment to IAS 1: Presentation of Financial Statements: A Revised Presentation

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

- "statement of financial position", instead of "balance sheet"
- income statement

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

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

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

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

These amendments include a limited scope exemption for puttable financial instruments to be classified as equity if they fulfill specified criteria. The adoption of these amendments did not have any impact on our financial position or performance.

Improvements to IFRSs (issued by the IASB in May 2008)

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

Amendments to IFRS 7: Financial Instruments: Disclosures

This amendment enhances the disclosures required about fair value measurements and liquidity risk. The amendment requires the classification of fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the measurement, as well as the disclosure of any eventual change in valuation techniques and the reasons for making such change. These amendments have not had any impact on our financial position or performance.

Amendments to IFRIC 9 and IAS 39: Embedded derivatives

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

IFRIC 12: Service Concession Arrangements

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

IFRIC 13: Customer Loyalty Programs

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

IFRIC 15: Agreements for the Construction of Real Estate

This interpretation refers to agreements for the construction of real estate and addresses two related issues: (i) whether the construction of real estate is within the scope of IAS 11, Construction Contracts, or IAS 18, Revenue and (ii) when revenue from the construction of real estate should be recognized. The adoption of this interpretation did not have any impact on our financial position or performance.

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

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

IFRIC 18: Transfers of Assets from Customers

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

In addition to this, an amendment to IAS 39 concerning intersegment hedge accounting included in the Improvements to IFRSs issued by the IASB in April 2009 is effective for annual periods beginning on or after January 1, 2009, but is not endorsed by the European Union as of the date of publication of these consolidated financial statements. This amendment clarifies that hedge accounting not be applied to transactions between segments in accordance with the principle in IAS 39, which does not allow hedge of intragroup transactions in the consolidated financial statements. The application of this amendment would not have had any impact on the 2009 consolidated financial statements.

Finally, the following IFRS and IFRIC interpretations were issued but not effective at the date of preparation of our Consolidated Financial Statements:

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

(*) The amendments to IFRS 2, IAS 38 (relating to intangible assets acquired in business combinations) IFRIC 9 and IFRIC 16 are effective for all fiscal years beginning July 1, 2009. There is no mandatory application date for the additional guidance to the appendix of IAS 18 on the determination of agent/principal because this appendix is not part of the standard.

Interpretations		Mandatory application: annual periods beginning on or after
IFRIC 17	*Distributions of Non-cash Assets to Owners*	July 1, 2009
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*	July 1, 2010
Amendment to IFRIC 14	*The limit of a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*	January 1, 2011

We are currently assessing the impact of the application of these standards, amendments and interpretations. From the analyses made, we estimate that their adoption will not have a significant impact on our consolidated financial statements in the initial period of application. However, the changes introduced by the revised IFRS 3 and amendments to IAS 27 will affect future acquisitions and transactions with non-controlling interests carried out on or after January 1, 2010. The changes introduced by IFRS 9 will affect financial assets and future transactions with financial assets carried out on or after January 1, 2013.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reflected in the Consolidated Financial Statements and accompanying notes. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

We consider an accounting estimate to be critical if:

- it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate; and

- changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

The various policies that are important to the portrayal of our financial condition, results of operations and cash flows include:

- accounting for long-lived assets, including goodwill;

- deferred taxes;

- provisions; and

- revenue recognition.

Accounting for long-lived assets, including goodwill

Property, plant and equipment and intangible assets, other than goodwill, are recorded at acquisition cost. If such assets are acquired in a business combination, the acquisition cost is the estimated fair value of the acquired property, plant and equipment or intangible assets. Property, plant and equipment and intangible assets with definite useful lives are depreciated or amortized on a straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are not amortized, but are, instead, subject to an impairment test on a yearly basis and whenever there is an indication that such assets may be impaired.

Accounting for long-lived assets and intangible assets involves the use of estimates for determining: (a) the fair value at the acquisition date in the case of such assets acquired in a business combination, and (b) the useful lives of the assets over which they are to be depreciated or amortized. We believe that the estimates we make to determine an asset's useful life are "critical accounting estimates" because they require our management to make estimates about technological evolution and competitive uses of assets.

When an impairment in the carrying amount of an asset occurs, non-scheduled write-downs are made. We perform impairment tests of identifiable intangible and long-lived assets whenever there is reason to believe that the carrying value may exceed the recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Furthermore, previously recognized impairment losses may be reversed when changes in the estimates used to determine the asset's recoverable amount indicate that an impairment loss recognized in prior periods no longer exists or may have decreased.

The determination of whether the impairment of long-lived and intangible assets is necessary involves the use of significant estimates and judgment that includes, but is not limited to, the analysis of the cause of potential impairment in value, the timing of such potential impairment and an estimate of the amount of the impairment, which requires the estimation of the future expected cash flows, discount rates and the fair value of the assets.

Specifically, management has to make certain assumptions in respect of uncertain matters, such as growth in revenues, changes in market prices, operating margins, and technology developments and obsolescence, discontinuance of services and other changes in circumstances that indicate the need to perform an impairment test. Management's estimates about technology and its future development require significant judgment because the timing and nature of technological advances are difficult to predict.

Goodwill arises when the cost of a business combination exceeds the acquirer's interest in the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is not amortized, but is, instead, subject to an impairment test on a yearly basis and whenever there is an indication that the goodwill may be impaired.

Non-scheduled write-downs of goodwill are made when an impairment in the carrying amount of goodwill occurs. We review, on a regular basis, the performance of our cash-generating units. We compare the carrying amount of the cash-generating unit to which the goodwill has been allocated with its recoverable amount. The determination of the recoverable amount of the cash-generating unit involves extensive use of estimates and significant management judgment is involved. Methods commonly used by us for valuations include discounted cash flow methods.

A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

Deferred taxes

Management assesses the recoverability of deferred tax assets on the basis of estimates of our future taxable profit. The recoverability of deferred tax assets ultimately depends on our ability to generate sufficient taxable profit during the periods in which the deferred tax assets are utilized. In making this assessment, our management considers the scheduled reversal of deferred tax liabilities, projected taxable profit and tax planning strategies.

This assessment is carried out on the basis of internal projections, which are updated to reflect our most recent operating trends. In accordance with applicable accounting standards, a deferred tax asset must be recognized for all deductible temporary differences and for the carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Our current and deferred income taxes are impacted by events and transactions arising in the normal course of business as well as in connection with special and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred tax assets and the timing of income tax payments. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting our income tax balances.

Provisions

Provisions are recorded when, at the end of the period, we have a present obligation as a result of past events, whose settlement requires an outflow of resources that is considered probable and can be measured reliably. This obligation may be legal or constructive, arising from, but not limited to, regulation, contracts, common practice or public commitments, which have created a valid expectation for third parties that we will assume certain responsibilities. The amount recorded is the best estimation performed by the management in respect of the expenditure that will be required to settle the obligations, considering all the information available at the closing date, including the advice of external experts, such as legal advisors or consultants.

If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the notes to the Consolidated Financial Statements.

Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized.

Revenue recognition

Connection fees

Revenues from connection fees originated when customers connect to our network are deferred over the average expected length of the customer relationship.

The expected customer relationship period is estimated based on recent historical experience of customer churn rates. Significant changes in our estimations may result in differences in the amount and timing of revenues recognized.

Multiple-element arrangements

Arrangements involving the delivery of bundled products or services are assessed to determine whether it is necessary to separate the arrangement into individual component deliverables, each with its own revenue recognition criteria.

Revenue relating to the bundled contract is allocated to the different deliverables identified, based on their relative fair values (i.e., the fair value of each individual component deliverables in relation to the total fair value of the bundled deliverables). Given that the handsets and airtime are price-sensitive and volatile in a competitive marketplace, the determination of fair values in the mobile phone business is quite complex.

Additionally, a significant change in the facts and circumstances upon which we based our fair value estimates may have an impact on the allocation of revenue among the different deliverables identified and, consequently, on future revenues.

Operating Environment

Our results of operations are dependent, to a large extent, on the level of demand for our services in the countries in which we operate. Demand for services in those countries is affected by the performance of their respective economies, including changes in gross domestic product, or GDP, inflation, or CPI, external accounts and unemployment rates.

Operating environment by country

Spain

In 2009, Spanish GDP contracted by 3.6%, compared with a positive average annual growth rate of 3.6% in the period 1998 through 2008. This slowdown was explained by a strong deceleration of internal demand, both household consumption which contracted at an annual rate of 5.0% during 2009 compared to average growth of 3.3% during the period 1998 through 2008, and investment which contracted at an annual rate of 15.0% in 2009 compared to average annual growth of 3.4% during the period 1998 through 2008. Inflation averaged -0.3% in 2009, compared with 4.1% in 2008 and 2.8% in 2007. Despite the lower average annual inflation rate, prices in 2009 experienced a high degree of volatility through the year, reaching a minimum of -1.4% in July and increasing up to 0.8% by the end of the year. The current account deficit for 2009 reached 5.6% of GDP, almost half the percentage in the prior two years (9.5% of GDP in 2008 and 10.0% in 2007). This improvement was mostly explained by the trade balance (imports fell significantly more than exports due to the sharp slowdown in domestic demand). The unemployment rate reached 18.8% at the end of the year, notably higher than the average rate of 13.9% in 2008 and 8.6% in 2007. The increase in the unemployment rate was mostly explained by the poor employment performance during 2009; 1.2 million jobs were lost, twice the number of 2008 (619,000) and a reversal from 2007 when 475,000 jobs were created in Spain.

United Kingdom

In 2009, the British economy, measured in terms of GDP, contracted by 4.8%, compared with a positive growth rate of 0.6% in 2008 and 2.6% in 2007. A sharp slowdown in domestic demand in 2009 explained the negative GDP growth. In addition, during 2009, fixed capital investment contracted at an annual rate of 14.6%, compared to a contraction of 3.5% in 2008 and growth of 7.9% in 2007. Private consumption deteriorated less severely, falling at an annual rate of 3.1% in 2009, compared with a positive annual growth rate of 0.9% in 2008 and 2.1% in 2007. The CPI increased by an average annual growth rate of 2.2% in 2009, compared with 3.6% in 2008 and 2.3% in 2007. The deceleration in the rate of average annual CPI growth was partially explained a temporary VAT reduction of 2.5 percentage points (from 17.5% to 15.0%) and worsening consumer demand. During the first ten months of 2009, employment decreased at an annual rate of 1.6%, compared to an annual increase of 0.7% in both 2008 and 2007 (Labor Force Survey). As a result, the unemployment rate reached 7.8% in December 2009, compared to an average annual rate of 5.7% in 2008 and 5.3% in 2007.

Germany

In 2009, the German economy contracted 5.0%, after growing 1.3% in 2008 and 2.5% in 2007. This significant slowdown was due to a contraction in fixed income investment of 8.6% in 2009, and the negative contribution of the external sector to GDP growth (exports decreased 14.6% while imports contracted just 8.9%). Because of this, the current account balance declined to 4.2% of GDP in 2009, from 6.6% of GDP in 2008 and 8.0% of GDP in 2007. Inflation averaged 0.3% in 2009, which was significantly less than the average in 2008 and 2007 (2.6% and 2.3%, respectively) At the end of 2009, inflation stood at 0.8%. During 2009, the unemployment rate stood at 8.2%, slightly higher than the rate in 2008 (7.8%) but not reaching 2007 levels (9.0%). However, in 2009, 186,000 jobs were lost, compared to a positive job creation of 296,000 in 2008 and 591,000 in 2007.

Czech Republic

The Czech economy contracted by 4.1% in 2009 as opposed to growth of 2.5% in 2008 and 6.1% in 2007. Internal demand in 2009 underperformed with respect to previous years mainly due to investment, which decreased by 8.3% in 2009 compared to a decrease of 1.5% in 2008 and growth of 10.8% in 2007. Household consumption contracted 0.1% in 2009, compared to growth of 3.5% and 4.9% in 2008 and 2007, respectively. Inflation, as measured by the CPI, grew 1% in December 2009 compared to December 2008, well below the Central Bank objective (2%) and well below the 6.3% and 2.9% levels reached in 2008 and 2007, respectively. The current account had a €1.5 billion deficit for 2009, higher than the €1 billion deficit recorded in 2008 but lower than the €4 billion deficit of 2007. However, net foreign direct investment was clearly lower than in past years. During 2009, net foreign direct investment decreased 35% with respect to 2008 (€1 billion in 2009 compared to €1.5 million in 2008). The increase in global risk aversion negatively affected the Czech crown, with the average Czech crown to euro exchange rate for 2009 depreciating by 6% against the euro in 2009, contrasting with a 10.1% appreciation in 2008 and 2.1% in 2007.

Brazil

Brazil's 2009 GDP was negatively affected by the economic downturn, which began in the last quarter of 2008. As expected by economic forecasters surveyed by Focus Economics, positive quarterly growth in GDP since the second quarter of 2009 did not compensate for the contraction in the previous quarters. As a result, Brazilian GDP decreased 0.2% in 2009, after posting growth of 5.1% in 2008 and 6.1% in 2007. The same forecasters expect the expansion of private consumption in 2009 to be 3.0%, less then half of the 7.0% growth rate reached in 2008 and the 6.3% recorded in 2007. Investment decreased by 9.9% in 2009, after rising by 13.4% in the previous year and 13.9% in 2007. Inflation, as measured by the CPI, slowed down to an increase of 4.3% in 2009, below the inflation target established by the Central Bank, of 4.5%, and lower than the 5.9% posted in 2008 and 4.5% in 2007. Due to the deceleration of economic activity and inflation, the basic interest rate, the SELIC, was reduced from 13.75% to 8.75%. The current account deficit reached $24.3 billion in 2009, compared to $28.2 billion in 2008 and a surplus of $1.6 billion in 2007. This deficit in 2009 was financed by capital inflows, such as foreign direct investments of $25.9 billion and portfolio investments of $46.7 billion. As a consequence, international reserves rose by $32.2 billion in 2009, to a record level of $239.1 billion. The improvement in domestic economic data, along with increased liquidity in the international capital markets, led to a decrease in country risk. The J.P. Morgan Emerging

Markets Bond Index Plus (EMBI + Brazil) ended 2009 at 197 basis points, from 428 basis points at the end of 2008 and 221 basis points at the end of 2007. As the risk reduced and capital inflows gained strength, the exchange rate restarted its appreciation trend, as observed since 2004. The Brazilian real appreciated against the U.S. dollar by 25.6% in 2009, reaching an exchange rate of R$1.74/ $1.00 on December 31, 2009, from R$2.34 per $1.00 by the end of 2008 and R$1.77 per $1.00 at the end of 2007.

Mexico

Mexico's real GDP shrank 6.5% in 2009 compared to a previous growth of 1.4% in 2008 and 3.3% in 2007. Inflation, as measured by the CPI, grew 3.6% in December 2009 compared to December 2008, slightly above the central bank's target of 3% but within its tolerance range of 2% to 4%. Inflation was highly reduced with respect to 2008 (6.5% growth in December 2008 with respect to December 2007) due to a fall in agricultural prices and to the introduction of fuel subsidies by the government during 2009. Mexico has been the country with the most severe contraction in Latin America, suffering from its high exposure to the U.S. economy and from the swine flu epidemic that reduced tourism and the already declining capital inflows. However, this recession differs from previous ones in that Mexico has been better prepared, having sound macroeconomic fundamentals including a solvent fiscal position, a floating exchange rate system and an independent central bank committed to price stability. Moreover, the lines provided by the U.S. Federal Reserve and the International Monetary Fund, or IMF, contributed to greater financial resilience. Despite the harsh economic downturn, the second half of 2009 was promising. The Mexican economy, in terms of GDP, grew 2.9% quarter-on-quarter during the third quarter of 2009 and 2.0% quarter-on-quarter during the fourth quarter of 2009. The trade balance posted a deficit of $4.7 billion, $12.9 billion lower than in 2008 due to a higher fall in imports as a consequence of the internal demand collapse. These external imbalances were well financed by capital inflows, which grew in the last quarter, and international reserves held by the central bank reached a new record of $90.9 billion in 2009 (amounting to 10.2% of GDP). The exchange rate relative to the U.S. dollar reached a maximum in March 2009 of 15.56 Mexican pesos to the U.S. dollar, a level never seen before. However, from that moment the exchange rate relative to the U.S. dollar appreciated. It closed at 13.06 Mexican pesos to the U.S. dollar at the end of 2009, 4.3% more compared to the end of 2008 but 20% less with respect to the end of 2007.

Venezuela

The Venezuelan economy reversed from the positive results demonstrated during the previous five years. In 2009, GDP contracted approximately 3.3% as a result of lower oil prices in the first part of the year and high inflation. Both factors had a negative impact on private consumption, which decreased by 3.2% in 2009, compared to growth of 7.1% in 2008 and 18.7% in 2007. The rest of the components of aggregate demand, also slowed markedly below the figures recorded in 2008 and 2007. In 2009, investment dropped 20.0% (growth of 2.5% in 2008 and 23.0% in 2007), public consumption grew 2.3% (growth of 6.7% in 2008 and 6.1% in 2007), exports fell 12.9% (decreases of -2.7% in 2008 and -7.0% in 2007), and imports faced dramatic contraction of 19.6% (growth of 3.8% in 2008 and 29.9% in 2007). In terms of inflation, the national CPI rose to 25.1% in 2009, which represents a lower figure in comparison with 30.9% in 2008 and 22.5% in 2007 (The national CPI was created in 2008 and because of that, 2007 variation corresponded to Caracas CPI); however, Venezuela continues with the highest levels of inflation in Latin America. The unemployment rate reached 6.6% at the end of 2009, which was higher than the 6.1% observed in December 2008 and 6.2% in December 2007, because of the fall in economic activity. The external accounts suffered a negative impact as a result of lower oil prices, with the current account surplus decreasing to $8.6 billion in 2009, in comparison with $37.4 billion in 2008 and $18.1 billion in 2007. On the other side, the capital account deficit reached $14.0 billion, which was lower than the deficit in 2008 ($24.8 billion) and 2007 ($22.1 billion). This performance generated a reduction in the central bank's stock of international reserves to $35.0 billion at the end of 2009. Finally, the parallel exchange rate was 2.8 times over the official exchange rate, as a result of the reduction imposed by CADIVI (the Venezuelan Commission for Currency Administration) on hard currency disbursements during the year.

Chile

Due to the international financial crisis, the Chilean economy, in terms of GDP, contracted by an estimated 1.7% in 2009 compared to growth of 3.1% and 4.7% in 2008 and 2007, respectively. This contraction in 2009 is explained by a 6.8% decrease in domestic demand, mainly caused by a 16.4% decrease in investment and an historical reduction in inventories. Employment contracted by an average of 0.7% in 2009 resulting in an average unemployment rate of 9.7% (with a peak of 10.8% in the first half of the year) compared to 7.7% and 7.0% in 2008 and 2007, respectively. In the worst phase of the recession, economic activity plunged 5.1% year-on-year in April 2009. A $4 billion (2.8% of GDP) stimulus program that included temporary tax cuts, cash bonuses, and employment subsidies was implemented by fiscal authorities to avoid a further decline. The Chilean central bank, on its side, cut its monetary rate by 775 basis points down to 0.5% in an effort to ease local financial conditions. Both, monetary and fiscal measures fueled activity in the second half of 2009. Inflation, as measured by the CPI, which was the main concern in previous years, dropped sharply and decreased by 1.4% compared to 2008, the first negative data in 75 years. Despite a reduction in export volume, the trade balance had a surplus of $13.3 billion in 2009 (compared to $8.8 billion in 2008 and $23.6 billion in 2007), mostly explained by the strong increase in cooper prices (a commodity that represents approximately half of Chilean total exports) and a fall in imports (volume and prices). The fears of a sudden stop of financial inflows receded quickly as foreign direct investment net inflows for 2009 reached $4 billion, an amount that, however, represents less than a half compared to $9.9 billion and $9.6 billion in 2008 and 2007, respectively. At the end of 2009, the nominal Chilean peso to U.S. dollar exchange rate was 506.7, an appreciation of 20% with respect to the exchange rate at the end of 2008 (629.1 pesos per U.S. dollar), that was driven by copper prices, growing opportunities derived from the strong recovery of shares and the fiscal funding needs (mostly satisfied with dollar selling in the local market). For the first time since 2003, the country had a public deficit of around 4.5% of GDP, mostly explained by the countercyclical measures implemented to mitigate the recession as previously mentioned. As a proof of its solid financial position the Chilean government financed this deficit almost exclusively with savings, its sovereign Economic and Social Stabilization Fund was reduced by an aggregate amount of $9 billion, from an initial balance of $20 billion.

Argentina

Argentina's GDP grew 0.9% in 2009 according to official statistics, although private estimates suggest that GDP contracted 4.3% in the period. This data contrasts with the average annual growth rates of approximately 8.5% achieved during each of the six preceding years (from 2003 through 2008). The Argentine peso depreciated 10.1% relative to the U.S. dollar, closing at 3.8 Argentine pesos per U.S. dollar at the end of 2009 compared to 3.45 Argentine pesos per U.S. dollar at the end of 2008 and 3.15 Argentine pesos per U.S. dollar at the end of 2007. The official CPI increased 7.7% in 2009 (compared to 7.2% in 2008 and 8.5% in 2007), although private entities estimate that the true increase was 14.3%. The current account balance showed a surplus of $11.3 billion in 2009, which is 60.5% and 52.9% higher compared to 2008 and 2007, respectively. The trade balance contributed significantly to this result since imports decreased 31.9%, more than the 20.4% decline in exports over the same period. Economic conditions also affected unemployment, which increased to 8.4% at the end of 2009 from 7.3% at the end of 2008 and 7.5% at the end of 2007.

Colombia

After the deceleration in GDP growth in 2008 (2.5% year-on-year compared with 7.5% year-on-year in 2007), in 2009 the Colombian economy entered into a recession as a result of the global financial crisis, an upsurge in its trade deficit and deterioration of neighboring economies. In particular, industry and retail sales were especially affected. The unemployment rate averaged 12% in 2009, moderately higher than the average rate in the prior two years (11.3% in 2008 and 11.2% in 2007). For 2009 analysts forecast GDP growth near 0.1% which may be explained by a better than expected last quarter. The incipient recovery is dependent upon a recovery in consumer confidence, a strong decrease in the CPI year-on-year (which increases real income), expansionary monetary policy implemented by the Colombian central bank in 2009 and further decreases in imports to lower trade imbalances. The current account deficit dropped from 2.8% of GDP in 2008 (same level in 2007) to 2.0% of GDP in 2009. During 2009, the Colombian peso appreciated relative to the U.S. dollar by 8.9% compared to a depreciation of 11.4% in 2008 and an appreciation of 10% in 2007. This appreciation was supported by a smaller than expected decrease in foreign investment (especially in the mining and oil sectors) and U.S. dollar inflows from the central government and Ecopetrol. The deceleration in the rate of annual CPI growth was partially explained by the weak aggregate demand in 2009 compared to 2008. In addition, food and regulated sector inflation moved prices below the low band of the Colombian central bank's target of 4.5%. Year-on-year CPI dropped from 7.7% for 2008 compared to 2007 to 2.0% for 2009 compared to 2008.

Peru

During 2009, the Peruvian economy, in terms of GDP, grew by 0.9% compared to 9.8% in 2008 and 8.9% in 2007, well-above the region's results. The deceleration in GDP growth was mainly driven by a fall in domestic demand of 2.9%, with a significant decrease in private investment of 15.2%, while private consumption grew at only 1.9%. However, the fiscal stimulus implemented by the Peruvian government in 2009 contributed significantly to economic activity, with government spending growing 16.5% in 2009. Consumer prices, as measured by the CPI, increased by 0.3% in 2009, 0.7 percentage points below the lower limit of the central bank's target, compared with 6.7% in 2008 and 3.9% in 2007. The fiscal deficit was 2.1% of GDP, compared to the surplus of 2.1% in 2008, and a surplus of 3.1% in 2007, while net foreign direct investment decreased by 30%, compared with a gain of 14% in 2008 and 56% in 2007. In the foreign exchange market, the Peruvian nuevo sol appreciated 8% against the U.S. dollar in 2009, reaching 2.89 Peruvian nuevo sol per U.S. dollar at the end of the year, compared with a depreciation of 4.8% in 2008. Country risk, measured by the J.P. Morgan Emerging Markets Bond Index (EMBI Peru), fell 344 basis points to 165 basis points in 2009, explained by a gradual decrease in risk aversion to emerging markets, mainly in the first half of the year. Finally, Moody's Investors Service assigned investment grade status to Peruvian Long Term Foreign Currency Debt (BBB-/outlook stable), due to solid macroeconomic fundamentals, highlighted by sound public finances, financial markets dynamism, and a reduction of external vulnerabilities.

Ecuador

Ecuador's real GDP growth reached approximately 0.98% in 2009, compared to the growth of 6.5% in 2008 and 2.5% in 2007, as a result of the underperformance of several domestic demand components, primarily private consumption and investment. Consumer prices, as measured by CPI, rose 4.3% in 2009 (8.8% in 2008 and 3.3% in 2007), explained by lower food and beverages prices. In the external sector, the trade balance reached a deficit of $332 million in 2009, almost $1,240 million less than the surplus 2008, mainly as a result of the sharp correction in oil prices during the first half of 2009 and due to global economic slowdown, which had a negative effect over the country's non-oil exports. Ecuador's non-oil trade deficit grew by 34% to $4.9 billion in 2009 from $7.5 billion in 2008 and $4.3 billion in 2007. Consequently, the dollarization regime under which the country has operated since 2000 will likely be under stress during the beginning of 2010 and for as long as the still uncertain external environment (volatility in commodity prices and global economic weakness) affects Ecuador's external and fiscal accounts. During 2009, Ecuador lost $0.7 billion of its free disposable international reserves. Nevertheless, Ecuador's public finances have been supported by an improvement in tax revenues, multilateral agencies' loans and bilateral investment agreements. Finally, country risk, measured by J.P. Morgan Emerging Markets Bond Index (EMBI Ecuador), fell 3,962 points to 769 points during 2009, due to an improvement in the country's external net debt position and to a gradual reduction in the risk aversion to emerging markets.

Exchange Rate Fluctuations

We publish our Consolidated Financial Statements in euro. Because a substantial portion of our assets, liabilities, revenues and profit are denominated in currencies other than the euro, we are exposed to fluctuations in the values of these currencies against the euro. Currency fluctuations have had and may continue to have a material impact on our financial condition, results of operations and cash flows.

We estimate that in 2009 variations in currencies increased our consolidated cash flows by approximately €269 million and decreased our consolidated revenues by approximately 3.1%. Currency fluctuations can also have a significant impact on our statement of financial position, particularly equity attributable to equity holders of the parent, when translating the financial statements of subsidiaries located outside the euro zone into euro. For example, in 2009 equity attributable to equity holders of the parent increased by €2,238 million due to the translation of the financial statements of our foreign subsidiaries, principally due to the appreciation of the Brazilian real and the pound sterling relative to the euro, and the effect of the devaluation in Venezuela.

We estimate that in 2008 variations in currencies decreased our consolidated cash flows by approximately €302 million and decreased our consolidated revenues by approximately 3%. Currency fluctuations can also have a significant impact on our statement of financial position, particularly equity attributable to equity holders of the parent, when translating the financial statements of subsidiaries located outside the euro zone into euro. For example, in 2008 equity attributable to equity holders of the parent decreased by €3,708 million due to the translation of the financial statements of our foreign subsidiaries, principally due to the depreciation of the pound sterling and Brazilian real relative to the euro.

We estimate that in 2007 variations in currencies decreased our consolidated cash flows by approximately €261 million and decreased our consolidated revenues by approximately 1.2%. In addition, in 2007 equity attributable to equity holders of the parent decreased by €1,427 million due to the translation of the financial statements of our foreign subsidiaries, principally due to the depreciation of the dollar and pound sterling relative to the euro and the appreciation of the Brazilian real and the Czech crown relative to the euro.

The table below sets forth the average exchange rates against the euro of the dollar and the key currencies that impacted our consolidated results of operations for the periods indicated. Positive percentage changes represent a decline in the value of the applicable currency relative to the euro, and negative percentage changes represent increases in the value of the applicable currency relative to the euro.

	2007(1) Average	2008(1) Average	2009(1) Average	% change 2007 to 2008 Average	% change 2008 to 2009 Average
Pound Sterling	0.68	0.79	0.89	16.12%	12.04%
U.S. Dollar	1.37	1.46	1.39	6.94%	(5.00)%
Brazilian Real	2.66	2.66	2.76	(0.09)%	3.68%
Argentine Peso	4.26	4.63	5.17	8.67%	11.70%
Peruvian Nuevo Sol	4.28	4.29	4.18	0.29%	(2.56)%
Chilean Peso	714.64	758.73	775.80	6.15%	2.25%
Mexican Peso	14.95	16.24	18.78	8.60%	15.63%
Venezuelan Bolivar fuerte	2.94	3.15	2.99	6.98%	(5.00)%
Czech Crown	27.76	24.97	26.44	(10.04)%	5.87%
Colombian Peso	2,837.13	2,873.56	2,985.07	1.15%	3.88%
Guatemalan Quetzal	10.50	11.07	11.33	5.40%	2.37%

Source: Central treasury bank of the respective countries.

(1) These exchange rates are used to convert the income statements of our subsidiaries from local currency to euro.

In the comparison below of our results of operations, we have provided certain comparisons at constant exchange rates 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 such comparisons, we have converted into euro certain financial items for the relevant year using the prior year's average exchange rate. We refer to such comparisons as being made on a "constant euro basis" or "excluding foreign exchange rate effects".

We also make certain comparisons on a local currency basis. 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.

We describe certain risks relating to exchange rate fluctuations in "Item 3. Key Information—Risk Factors", and we describe our policy with respect to limiting our exposure to short-term fluctuations in exchange rates under "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Regulation

We are subject to regulation in the different markets where we operate, particularly with regard to the prices we can charge for certain of our goods and services in certain jurisdictions as well as our need to comply with certain obligations, which has a significant effect on our profitability. For more information regarding regulation in the markets in which we operate, see "Item 4. Information on the Company—Business Overview—Regulation".

Group Results of Operations

A summary of our results of operations for 2007, 2008 and 2009 and certain consolidated revenue and expense items as a percentage of revenues for the periods indicated is shown below.

	Year ended December 31,					
	2007		2008		2009	
	Total	Percentage of revenues	Total	Percentage of revenues	Total	Percentage of revenues
	(in millions of euros, except percentage of revenues)					
Revenues	56,441	100.0%	57,946	100.0%	56,731	100.0%
Other income	4,264	7.6%	1,865	3.2%	1,645	2.9%
Supplies	(17,907)	(31.7)%	(17,818)	(30.7)%	(16,717)	(29.5)%
Personnel expenses	(7,893)	(14.0)%	(6,762)	(11.7)%	(6,775)	(11.9)%
Other expenses	(12,081)	(21.4)%	(12,312)	(21.2)%	(12,281)	(21.6)%
Operating income before depreciation and amortization (OIBDA)(1)	**22,824**	**40.4%**	**22,919**	**39.6%**	**22,603**	**39.8%**
Depreciation and amortization	(9,436)	(16.7)%	(9,046)	(15.6)%	(8,956)	(15.8)%
Operating income	**13,388**	**23.7%**	**13,873**	**23.9%**	**13,647**	**24.1%**
Share of profit (loss) of associates	140	0.2%	(161)	(0.3)%	47	0.1%
Net financial income (expense)	(2,844)	(5.0)%	(2,797)	(4.8)%	(3,307)	(5.8)%
Corporate income tax	(1,565)	(2.8)%	(3,089)	(5.3)%	(2,450)	(4.3)%
Profit for the year from continuing operations	**9,119**	**16.2%**	**7,826**	**13.5%**	**7,937**	**14.0%**
Income (loss) from discontinued operations	—	—	—	—	—	—
Profit for the year	**9,119**	**16.2%**	**7,826**	**13.5%**	**7,937**	**14.0%**
Non-controlling interest	(213)	(0.4%)	(234)	(0.4)%	(161)	(0.3)%
Profit for the year attributable to equity holders of the parent company	**8,906**	**15.8%**	**7,592**	**13.1%**	**7,776**	**13.7%**

(1) For a reconciliation of OIBDA to operating income, see "—Operating Results—Presentation of Financial Information—Non-GAAP financial information—Operating income before depreciation and amortization".

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, an 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 growth in our customer base in terms of accesses from December 31, 2008 to December 31, 2009 under difficult economic circumstances did not, however, result in a corresponding increase in revenues, which decreased 2.1% in 2009 compared to 2008. However, excluding foreign exchange rate effects (i.e., by converting into euro relevant items for 2009 using 2008's average exchange rates) and the effects of Venezuela being considered a hyperinflationary economy in 2009, revenues would have increased 0.3% in 2009 compared to 2008. In Spain and Europe, the competitive environment remained intense and continued to put downward pressure on our tariff structures, which resulted in revenue growth not keeping pace with access growth. In addition, further downward pressure was placed on our revenues from mobile accesses as a result of regulatory action in the European Union and certain Latin American countries, which resulted in decreased interconnection and roaming rates during the period. This decrease in revenues led to a 1.4% decrease in OIBDA to €22,603 million in 2009 from €22,919 million 2008. Nonetheless, excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, OIBDA would have increased 0.5% in 2009 compared to 2008.

Operating income decreased 1.6% to €13,647 million in 2009 from €13,873 million in 2008, while profit for the year attributable to equity holders of the parent company increased 2.4% to €7,776 million in 2009 from €7,592 million in 2008 primarily as a result of our share of profit of associates and lower corporate income tax primarily related to the reversal of a tax liability.

At December 31, 2008, our customer base, measured in terms of total accesses, increased 13.3% to 259.1 million accesses from the 228.7 million accesses we had at December 31, 2007. 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 strong growth in our customer base from December 31, 2007 to December 31, 2008 under difficult economic circumstances translated into a moderate increase of 2.7% in revenues in 2008 compared to 2007. Negative exchange rate effects resulted in a reduction of our revenue growth by 3.0 percentage points. This modest increase in revenues led to a small increase in OIBDA to €22,919 million in 2008 from €22,824 million in 2007, which amount in 2007 included non-recurring gains on the sales of Airwave (€1,296 million) and Endemol (€1,368 million). Operating income rose 3.6% to €13,873 million in 2008 from €13,388 million in 2007, while profit for the year attributable to equity holders of the parent company decreased 14.8% to €7,592 million in 2008 from €8,906 million in 2007. This decrease in profit for the year attributable to equity holders of the parent company was primarily the result of the inclusion in 2007 of non-recurring gains on the sales of Airwave and Endemol and an increase in corporate income tax from €1,565 million in 2007 to €3,089 million in 2008.

By geographic area, Telefónica Europe had the largest percentage increase in accesses with an increase of 6.9% to 49.2 million accesses at December 31, 2009 from 46.1 million accesses at December 31, 2008, primarily driven by a 6.5% increase in mobile accesses. Telefónica Latin America had the largest percentage increase in accesses from December 31, 2007 to December 31, 2008, with an increase of 18.0% to 158.3 million accesses at December 31, 2008 from 134.1 million accesses at December 31, 2007, primarily driven by strong growth in its mobile business, increased broadband sales and an expanding pay TV customer base.

By access type, we increased mobile accesses by 3.3% to 202.3 million (excluding 9.0 million accesses of Medi Telecom, which we sold in December 2009) at December 31, 2009 from 195.8 million at December 31, 2008, which was a 16.7% increase from the 167.8 million mobile accesses we had at December 31, 2007. Contributions to mobile net adds from December 31, 2008 to December 31, 2009, by country, were led by Brazil (6.8 million additional mobile accesses), Mexico (2.1 million additional mobile accesses), Germany (1.3 million additional mobile accesses), Argentina (1.1 million additional mobile accesses) and the United Kingdom (1.0 million additional mobile accesses). In the same period, Colombia was the worst performer with negative mobile net adds of 1.0 million. Contributions to mobile net adds from December 31, 2007 to December 31, 2008, by country, were also dominated by countries in Latin America, with the highest growth in Brazil (7.5 million additional mobile accesses, excluding mobile accesses of Telemig), Mexico (2.8 million additional mobile accesses), and Peru (2.5 million additional mobile accesses). In Europe, Germany was a strong contributor to the growth in mobile accesses with 1.7 million additional mobile accesses from December 31, 2007 to December 31, 2008. We also increased broadband accesses by 8.2% to 13.5 million at December 31, 2009 from 12.5 million at December 31, 2008, which was a 20.9% increase from the 10.3 million broadband accesses we had at December 31, 2007. We increased our number of broadband accesses from December 31, 2007 to December 31, 2009 primarily as a result of robust demand for Duo and Trio bundles, including broadband, pay TV and fixed telephony, which have made a significant contribution to the development of the broadband market and to increased customer loyalty. From December 31, 2008 to December 31, 2009, we increased broadband accesses by 4.4% in Spain to 5.5 million, by 5.9% to 6.4 million in Latin America and by 37.1% to 1.6 million in Europe. At December 31, 2009, in Spain 88% of our broadband accesses were included in Duo or Trio bundles, while in Latin America the weight of packaged products continued to grow, with 56% of broadband accesses bundled in Duo and Trio bundles at the same date. This growth in broadband accesses more than offset the continued decrease in narrowband accesses from 2.7 million accesses at December 31, 2007 to 2.0 million accesses at December 31, 2008 to 1.4 million accesses at December 31, 2009.

Finally, we increased pay TV accesses by 9.8% to 2.5 million at December 31, 2009 from 2.3 million at December 31, 2008, which was a 29.7% increase from the 1.7 million pay TV accesses we had at December 31, 2007. The continued growth in pay TV accesses from December 31, 2007 to December 31, 2009 was primarily as a result of further market penetration in the areas in which this service is available, which as of December 31, 2009, included Spain, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela, and the success of bundling this service with others.

The inflation index reached in 2009, the cumulative inflation index over the last three years, restrictions in the official foreign exchange market, and the devaluation of the Bolivar fuerte on January 8, 2010, led us to consider Venezuela a hyperinflationary economy for 2009. Such classification had several effects on our Consolidated Financial Statements as explained in more detail under "—Significant Factors Affecting the Comparability of our Results of Operations in the Period Under Review—Classification of Venezuela as a hyperinflationary economy" and Note 2 to our Consolidated Financial Statements.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenues

Revenues decreased 2.1% to €56,731 million in 2009 compared to €57,946 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, revenues would have increased 0.3% in 2009 compared to 2008.

By geographic area, Telefónica Latin America contributed the greatest percentage to our revenues in 2009, accounting for 40.5% of the total, which represents an increase of 2.2 percentage points from 2008. Telefónica Spain contributed 34.7% of our 2009 revenues (36.0% in 2008) and Telefónica Europe contributed 23.9% (24.7% in 2008).

Other income

Other income decreased 11.8% to €1,645 million in 2009 compared to €1,865 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, other income would have decreased 9.7% in 2009 compared to 2008. Other income in 2009 included a €220 million gain on the sale of our stake in Medi Telecom. In 2008, other income included a €143 million gain on the sale of our stake in Sogecable.

Total expenses

Total expenses include supplies, personnel expenses and other expenses (mainly external services and taxes). Total expenses do not include depreciation and amortization.

Our total expenses decreased 3.0% to €35,773 million in 2009 compared to €36,892 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, total expenses would have decreased 0.4% in 2009 compared to 2008.

Supplies. Supplies decreased 6.2% to €16,717 million in 2009 compared to €17,818 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, supplies would have decreased 3.1% from 2008 to 2009. This decrease is primarily due to lower interconnection costs associated with lower fixed-mobile traffic and the reduction of mobile termination rates.

Personnel expenses. Personnel expenses increased 0.2% to €6,775 million in 2009 compared to €6,762 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, personnel expenses would have increased 2.7% from 2008 to 2009. This increase was primarily due to increases in our work force and wages over the period. The average workforce during 2009 reached 255,151 employees, with a net increase of 3,376 employees compared to 2008, mainly due to the workforce increases within Atento. Excluding employees of Atento, our average number of employees in 2009 would have increased by 381 employees to 125,266 employees compared to 2008.

Other expenses. Other expenses are mainly comprised of external services, which consist of commercial expenses related to our business (such as commissions to distributors of services, marketing and advertising expenses and customer service related expenses), network maintenance expenses, general administrative expenses and subcontracted services expenses, as well as certain types of taxes. Other expenses also include changes in operating allowances and other operating expenses. Other expenses decreased 0.2% to €12,281 million in 2009 from €12,312 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, other expenses would have increased 2.0% in 2009 compared to 2008. This increase was principally driven by higher customer, network and IT management expenses in Telefónica Latin America.

Operating income before depreciation and amortization (OIBDA)

As a result of the foregoing, our OIBDA decreased 1.4% to €22,603 million in 2009 compared to €22,919 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, OIBDA would have increased 0.5% from 2008 to 2009.

Of our 2009 OIBDA, Telefónica Spain contributed 43.2% (44.9% in 2008), while Telefónica Latin America and Telefónica Europe contributed 40.5% (36.8% in 2008) and 17.3% (18.2% in 2008), respectively.

Our OIBDA margin increased to 39.8% in 2009 compared to 39.6% in 2008. For a reconciliation of OIBDA to operating income, see "—Presentation of Financial Information—Non-GAAP financial information—Operating income before depreciation and amortization".

Depreciation and amortization

Our depreciation and amortization decreased 1.0% to €8,956 million in 2009 compared to €9,046 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, depreciation and amortization would have increased 1.3% from 2008 to 2009, principally driven by Telefónica Latin America and Telefónica Europe depreciation and amortization increases. Telefónica Europe depreciation and amortization in 2009 includes the amortization of the purchase price allocation made following the acquisitions of the O2 Group (€635 million in 2009 compared to €689 million in 2008) and Telefónica O2 Czech Republic (€89 million in 2009 compared to €131 million in 2008).

Operating income

As a result of the foregoing, our operating income decreased 1.6% to €13,647 million in 2009 from €13,873 million in 2008. Excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, operating income would have remained constant in 2009 compared to 2008.

Share of profit (loss) of associates

Our share of profit (loss) of associates amounted to a gain of €47 million in 2009 compared to a loss of €161 million in 2008, primarily as a result of share of profits we recorded in respect to our interest in Portugal Telecom and lower share of loss we recorded in respect to our interest in Telco. In 2008, the loss in our share of profit (loss) of associates was primarily the result of the net adjustment Telco made to the valuation of its investment in Telecom Italia. To estimate the adjustment to be recorded by the Telefónica Group, we took the value of the estimated synergies that we expected to achieve by improving certain processes in our operations in Europe as a result of certain alliances reached with Telecom Italia. As a result of this revaluation, we recorded a loss of €209 million in 2008, which more than offset the share of profits we recorded in respect of our interest in Portugal Telecom in that year.

Net financial income (expense)

Net financial expense increased 18.2% to €3,307 million in 2009 compared to €2,797 million in 2008. The average cost of net debt of the Group, which we measure as net financial expense divided by our average net debt, was 7.3% in 2009 compared to 5.95% in 2008. The effects derived from the consideration of Venezuela as a hyperinflationary economy as described 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 Hyper inflationary Economy", resulted in an increase in net financial expense of €630 million in 2009. Excluding such effects in 2009 and the negative exchange differences, our average cost of net debt in 2009 would have been 5.54% and net financial expense would have decreased 4.3% in 2009 compared to 2008 primarily as a result of:

- A decrease of €298 million in 2009 compared to 2008 due to a decrease in the average interest rates applicable to our outstanding debt (mainly in European currencies) over the period.
- A decrease of €104 million in 2009 compared to 2008 due to a 3.7% decrease in our average debt outstanding over the period.
- A decrease of €85 million in 2009 compared to 2008 as a result of a decrease in the actual value of commitments (principally related to pre-retirement plans).
- Changes in the foreign exchange gains and losses for 2009 with respect to the same period in 2008 yielded a higher cost of about €197 million.

Corporate income tax

Corporate income tax decreased to €2,450 million in 2009 compared to €3,089 million in 2008, implying an effective tax rate of 23.6% compared to 28.3% in 2008. This decrease was primarily the result of the reversal of a €591 million tax liability recorded in 2007 with respect to an investigation by the European Commission involving the Kingdom of Spain with respect to the tax treatment of goodwill. In December 2009, the European Commission released its decision regarding the investigation, deeming certain deductions for the amortization of goodwill as state aid. However, this decision (and considering the corporate structure of these investments) did not apply to investments made before December 21, 2007, such as our investments in O2, BellSouth's Latin American operators, Colombia Telecomunicaciones, ESP and Telefónica O2 Czech Republic.

Non-controlling interests

Our non-controlling interests amounted to a negative figure of €161 million in 2009 compared to a negative figure of €234 million in 2008, primarily as a result of lower profits at Telesp and Telefónica Chile and higher loss at Colombia Telecom, which we account for as non-controlling interests.

Profit for the year attributable to equity holders of the parent company

As a result of the above, our profit for the year attributable to equity holders of the parent company increased 2.4% to €7,776 million in 2009 compared to €7,592 million in 2008.

Results of Operations by Business Area for 2008 and 2009

The table below sets forth the contribution to our results of operations by each of our three principal business areas and other companies for 2008 and 2009. Revenues and related expenses for each of the business areas are presented after elimination of sales to other members of the Telefónica Group belonging to the same business area. See Note 4 to our Consolidated Financial Statements.

	Year ended December 31,		
	2008	2009	% Change
	(in millions of euros)		
Revenues	**57,946**	**56,731**	**(2.1)%**
Telefónica Spain	20,838	19,703	(5.4)%
Telefónica Europe	14,309	13,533	(5.4)%
Telefónica Latin America	22,174	22,983	3.6%
Other companies & eliminations	625	512	(18.1)%
Other income	**1,865**	**1,645**	**(11.8)%**
Telefónica Spain	348	497	42.8%
Telefónica Europe	395	234	(40.8)%
Telefónica Latin America	609	646	6.1%
Other companies & eliminations	513	268	(47.8)%
Expenses(1)	**(36,892)**	**(35,773)**	**(3.0)%**
Telefónica Spain	(10,901)	(10,443)	(4.2)%
Telefónica Europe	(10,524)	(9,857)	(6.3)%
Telefónica Latin America	(14,338)	(14,486)	1.0%
Other companies & eliminations	(1,129)	(987)	(12.6)%
Depreciation and amortization	**(9,046)**	**(8,956)**	**(1.0)%**
Telefónica Spain	(2,239)	(2,140)	(4.4)%
Telefónica Europe	(3,035)	(2,895)	(4.6)%
Telefónica Latin America	(3,645)	(3,793)	4.1%
Other companies & eliminations	(127)	(128)	0.8%
Operating income	**13,873**	**13,647**	**(1.6)%**
Telefónica Spain	8,046	7,617	(5.3)%
Telefónica Europe	1,145	1,015	(11.4)%
Telefónica Latin America	4,800	5,350	11.5%
Other companies & eliminations	(118)	(335)	—

(1) Expenses as used in this table and in the below discussion include supplies expenses, personnel expenses and other expenses. It does not include depreciation and amortization.

In the discussion that follows revenues and related expenses for each business included within a particular business area are presented gross of any eliminations due to sales to other businesses in such business area or other members of the Telefónica Group.

Results of Operations by Business Area for 2008 and 2009

Telefónica Spain

Revenues

Telefónica Spain's revenues decreased 5.4% to €19,703 million in 2009 from €20,838 million in 2008.

Revenues from Telefónica Spain's fixed business decreased 3.3% to €12,167 million in 2009 from €12,581 million in 2008 principally due to the decrease in the revenues of traditional voice service and accesses.

- Revenues from traditional accesses include all revenues from our customers for rental and connection to public switched telephone network (PSTN) lines (for basic telephony service), ISDN lines (for integration of voice, data and video services), corporate services, PUT, additional recharges and advertising in telephone booths. Revenues from traditional accesses decreased 5.2% to €2,792 million in 2009 compared to €2,944 million in 2008, as a result of the reduction in the number of accesses which was partially offset by revenues derived from recognizing receipt of universal service for the period 2006 to 2008 (€223 million).

- Revenues from traditional voice services decreased 10.2% to €3,983 million in 2009 compared to €4,436 million in 2008. This evolution is mainly affected by lower fixed-to-mobile traffic, the decrease of international traffic and the increasing importance of traffic included in national flat tariff plans.

- Revenues from Internet and broadband services decreased 1.9% to €2,960 million in 2009 compared to €3,017 million in 2008. Retail broadband service revenues decreased 1.7% in 2009 compared to 2008, due to a reduction in the average revenue per customer that was not offset by accesses growth. Wholesale broadband service revenues increased 3.3% in 2009 compared to 2008 reflecting growth in the customer base for unbundled local loop in 2009.

- Revenues from data services grew 8.7% to €1,294 million in 2009 from €1,190 million in 2008, driven by increased revenues from leased circuits to mobile operators, mainly Telefónica Móviles España, as a result of the rapid growth in mobile broadband.

- Revenues from information technology services grew 14.7% to €508 million in 2009 from €443 million in 2008.

Revenues from Telefónica Spain's mobile business decreased 7.4% to €8,965 million in 2009 from €9,684 million in 2008, due to lower minutes used by customers and lower prices. Customer revenues decreased 5.4% to €6,571 million in 2009 from €6,943 million in 2008 due to lower usage patterns. Interconnection revenues decreased 19.5% to €1,001 million in 2009 from €1,243 million in 2008, due primarily to regulated interconnection price cuts. Roaming-in revenues fell 22.8% to €153 million in 2009 from €198 million in 2008 due to the downward trend in roaming consumption and wholesale prices. Revenues from handset sales decreased 7.3% to €1,137 million from €1,227 million in 2008.

Expenses

Telefónica Spain's total expenses decreased 4.2% to €10,443 million in 2009 from €10,901 million in 2008 principally due to lower supplies expenses, as described below.

- Supplies decreased 6.7% to €4,293 million in 2009 from €4,604 million in 2008, mainly due to lower interconnection expenses.

- Personnel expenses decreased 3.0% to €2,305 million in 2009 from €2,375 million in 2008, principally due to the revision of the estimates of redundancy program provision accounts made in previous years, which resulted in lower expenses of €90 million.

- Other expenses decreased 2.0% to €3,845 million in 2009 from €3,922 million in 2008, principally due to a 3.4% decrease in external expenses to €3,102 million in 2009 from €3,212 million in 2008, as a result of containment in commercial expenses. This decrease was partially offset by an increase in other expenses in 2009 due to expenses related to the provision of universal service (€155 million).

In the fixed business, total expenses decreased 3.4% to €6,567 million in 2009 from €6,799 million in 2008 principally due to lower expenses across categories, as described below.

- Supplies decreased 6.0% to €2,786 million in 2009 from €2,962 million in 2008 mainly due to lower interconnection expenses as a result of lower fixed-to-mobile traffic usage and a reduction in mobile termination rates.

- Personnel expenses decreased 0.9% to €2,052 million in 2009 from €2,071 million in 2008, mainly due to the revision of redundancy program provision accounts made in previous years, which resulted in lower personnel expenses of €58 million. The average number of employees for the fixed business in 2009 was 31,111, a 0.4% reduction in comparison with the average number of employees in 2008.

- Other expenses decreased 2.1% to €1,729 million in 2009 from €1,766 million in 2008, principally due to a 2.7% decrease in external expenses to €1,300 million in 2009 from €1,336 million in 2008. This decrease was partially offset by an increase in expenses related to the provision of universal service.

Telefónica Spain's total expenses related to its mobile business decreased 4.0% to €5,281 million in 2009 from €5,502 million in 2008 principally due to lower supplies expenses, as described below.

- Supplies decreased 8.9% to €2,430 million in 2009 from €2,667 million in 2008 due to decreases in interconnection and roaming expenses as result of lower traffic and to a reduction in mobile termination rates.

- Personnel expenses decreased 16.3% to €250 million in 2009 from €299 million in 2008, mainly due to the revision of redundancy program provision accounts made in previous years, which resulted in lower expenses of €32 million. The average number of employees for the mobile business in 2009 was 4,199, a 6.0% reduction in comparison with the average number of employees in 2008.

- Other expenses increased 2.5% to €2,601 million in 2009 from €2,537 million in 2008 mainly due to higher customer management expenses and expenses related to the provision of universal service in 2009.

Operating income before depreciation and amortization (OIBDA)

As a result of the foregoing, Telefónica Spain's OIBDA decreased 5.1% to €9,757 million in 2009 from €10,285 million in 2008. Telefónica Spain's OIBDA, as a percentage of Telefónica Spain's revenues, was 49.5% in 2009 compared to 49.4% in 2008.

Depreciation and amortization

Telefónica Spain's depreciation and amortization decreased 4.5% to €2,140 million in 2009 from €2,239 million in 2008, principally due to variations in the useful lives of assets subject to depreciation in 2009 compared to 2008 in line with the periodic revision of the Group's policies, based on historical experience.

Operating income

As a result of the foregoing, Telefónica Spain's operating income decreased 5.3% to €7,617 million in 2009 from €8,046 million in 2008.

Telefónica Europe

Revenues

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

- Revenues derived from Telefónica O2 UK decreased to €6,512 million in 2009 from €7,052 million in 2008 (an increase of 3.5% in local currency). The local currency increase in revenue was primarily driven by an increase in Telefónica O2 UK's customer base and partially offset by a decrease in ARPU.

- Revenues derived from Telefónica O2 Germany increased 4.2% to €3,746 million in 2009 from €3,595 million in 2008. The positive evolution was mainly the result of an increase in the customer base due to new offerings (O2o, My O2 Handy and broadband), but was adversely impacted by lower MTRs.

- Revenues derived from Telefónica O2 Czech Republic, including Slovakia operations, decreased by 12.4% to €2,260 million in 2009 from €2,581 million in 2008 (a decrease of 7.3% in local currency). Slovakia continued to grow mobile revenues while Czech revenues from fixed and mobile services decreased (9.3%

and 6.3% in local currency, respectively) due to MTR cuts, customers reducing spending and fixed-to-mobile substitution.

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

Expenses

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

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

Operating income before depreciation and amortization (OIBDA)

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

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

Depreciation and amortization

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

Operating income

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

Telefónica Latin America

Revenues

Revenues at Telefónica Latin America increased 3.7% to €22,983 million in 2009 from €22,174 million in 2008 (an increase of 5.6% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009). On a constant euro basis and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, the countries contributing most to this revenue growth were Venezuela (2.5 percentage points), Argentina (1.7 percentage points) and Mexico (0.7 percentage points).

In 2009, Brazil continued to make the largest contribution to Telefónica Latin America's revenues (36.4%) followed by Venezuela (16.4%) and Argentina (11.4%).

- Telefónica Latin America's revenues from Brazil decreased to €8,376 million in 2009 from €8,606 million in 2008 (an increase of 0.9% in local currency). The local currency increase was primarily due to mobile businesses and broadband and pay TV business growth. With respect to Vivo, Telefónica Latin America's mobile business in Brazil, revenues increased to €3,036 million in 2009 from €2,932 million in 2008 (an increase of 7.4% in local currency), driven by growth in the customer base, increasing outgoing revenues focused on on-net tariffs, and data business. With respect to Telesp, Telefónica Latin America's fixed line business in Brazil, revenues decreased to €5,766 million in 2009 from €6,085 million in 2008 (a decrease of 1.8% in local currency). This decrease was due to lower traditional business revenues that were not offset by the growth of new services. Broadband, pay TV and data/IT services revenues increased as a percentage of total revenues (19.2% in 2009 compared to 16.3% in 2008). Traditional fixed line revenues decreased (5.9% in local currency), mainly driven by lower local and long distance traffic that was not compensated by higher interconnection traffic revenues coming primarily from mobile networks. Telesp's performance was also negatively affected by the decision of ANATEL, the Brazilian regulator, to suspend the commercialization of Speedy, Telesp's broadband service, from June 22, 2009 to August 27, 2009 as a result of quality problems.

- Telefónica Latin America's revenues from Venezuela increased to €3,773 million in 2009 from €2,769 million in 2008 (an increase of 20.4% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), primarily driven by higher growth in service revenues in 2009 (an increase of 24.2% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009). This growth in local currency was due mainly to an integrated telecommunication offer (mobile, fixed, pay TV and broadband) and tariff increases.

- Telefónica Latin America's revenues from Argentina increased to €2,609 million in 2009 from €2,527 million in 2008 (an increase of 15.3% in local currency) with both fixed and mobile businesses contributing. Of this, Telefónica Móviles Argentina's revenues increased to €1,643 million in 2009 from €1,585 million in 2008 (an increase of 15.8% in local currency). This increase was primarily driven by an increase of 5.7% in service revenues in 2009 (an increase of 18.1% in local currency). This growth in local currency was mainly due to data revenue growth and tariff increases. Revenues in the fixed line business increased to €1,047 million in 2009 from €1,027 million in 2008 (an increase of 13.9% in local currency), with the traditional fixed line business contributing 3.9 percentage points to this growth, the Internet business contributing 6.7 percentage points and data and IT businesses contributing 2.8 percentage points.

- Telefónica Latin America's revenues from Chile decreased to €1,831 million in 2009 from €1,936 million in 2008 (a decrease of 3.3% in local currency) as a result of the reduction of tariffs as a consequence of a regulatory decree affecting interconnection rates, which went into effect at January 23, 2009 for mobile termination (an average tariff decrease of 44.6%), while on May 7 the decree governing fixed telephony accesses/operator charges was also enacted. This entailed an additional reduction in fixed telephony termination rates. With respect to Telefónica Móviles Chile, Telefónica Latin America's mobile business in Chile, revenues decreased to €1,010 million in 2009 from €1,051 million in 2008 (a decrease of 1.8% in local currency) largely due to a tariff decree established from January 23, 2009. Service revenues decreased 5.3% in 2009 (a decrease of 3.2% in local currency), because of this tariff decree. With respect to Telefónica Chile, Telefónica Latin America's fixed line business in Chile, revenues in 2009 decreased to €893 million in 2009 from €974 million in 2008 (a decrease of 6.3% in local currency). Broadband, pay TV, data and IT businesses growth did not offset the decrease in revenues from the traditional fixed telephony business.

- Telefónica Latin America's revenues from Mexico decreased to €1,552 million in 2009 from €1,631 million in 2008 (an increase of 10.0% in local currency). This growth in local currency was underpinned by service revenues growth of 17.8% in 2009 as a result of the customer base increase and new tariff plans.

This increase in local currency was greater than the 14.7% rate of growth in the customer base over the same period.

- Telefónica Latin America's revenues from Peru increased to €1,716 million in 2009 from €1,627 million in 2008 (an increase of 3.0% in local currency). Revenue growth was primarily driven by outgoing revenues in the pre-pay mobile segment and broadband services and pay TV and IT services in the fixed line business. With respect to Telefónica Móviles Perú, Telefónica Latin America's mobile business in Peru, revenues increased to €840 million in 2009 from €773 million in 2008 (an increase of 6.1% in local currency), driven primarily by revenue growth in the pre-pay mobile segment as a result of the increase in accesses and higher consumption. Service revenues increased 5.4% in 2009 (an increase of 3.0% in local currency). With respect to Telefónica del Perú, Telefónica Latin America's fixed line business in Peru, revenues increased to €1,006 million in 2009 from €977 million in 2008 (an increase of 0.6% in local currency). This increase was primarily due to broadband and pay TV businesses revenues growth (6.2% and 9.2% in local currency, respectively). Also revenues of the public telephony business increased (2.3% in local currency) in 2009 principally due to an increase in usage caused by tariff reductions, especially to fixed lines.

- Telefónica Latin America's revenues from Colombia decreased to €1,269 million in 2009 from €1,490 million in 2008 (a decrease of 11.6% in local currency). This evolution is the consequence of a highly competitive environment both in mobile and fixed telephony. With respect to Telefónica Móviles Colombia, Telefónica Latin America's mobile business in Colombia, revenues decreased to €685 million in 2009 from €815 million in 2008 (a decrease of 12.7% in local currency), primarily as the result of the loss of 1.0 million mobile accesses. Service revenues decreased 13.6% in 2009 compared to 2008 (a decrease of 10.3% in local currency). With respect to Colombia Telecom, Telefónica Latin America's fixed line telephony business in Colombia, revenues decreased to €615 million in 2009 from €710 million in 2008 (a decrease of 10.0% in local currency) primarily due to the lower revenues from traditional fixed telephony services as a result of lower accesses and a decrease in traffic, not compensated by increased broadband and pay TV revenues.

- Telefónica Latin America's revenues from Central America decreased to €565 million in 2009 from €568 million in 2008 (a decrease of 2.5% on a constant euro basis). This decrease on a constant euro basis was mainly due to a highly competitive environment, that also affected service revenues that decreased 1.4% in constant euro terms.

- Telefónica Latin America's revenues from Ecuador increased to €337 million in 2009 from €318 million in 2008 (an increase of 0.6% in local currency). Service revenues increased 14.2% in 2009 (an increase of 9.5% in local currency).

Expenses

Telefónica Latin America's total expenses increased 1.0% in 2009 to €14,486 million from €14,338 million in 2008 (an increase of 3.1% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009).

- Supplies decreased 2.9% to €6,188 million in 2009 from €6,371 million in 2008 (a decrease of 1.4% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), mainly due to a decrease in supplies in Chile, Mexico and Colombia, which offset the increase in Venezuela, as described below.

  Supplies for Telefónica Latin America in Brazil decreased to €2,440 million in 2009 from €2,479 million in 2008 (an increase of 2.0% in local currency). The local currency increase was principally due to higher interconnection costs.

  Supplies for Telefónica Latin America in Venezuela increased to €978 million in 2009 from €770 million in 2008 (an increase of 6.6% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), principally due to higher content providers expenses, equipment costs and expenses associated with value added services such as RIM licenses, TV licenses and mobile SMS premium applications as a result of higher exchange rates.

Supplies for Telefónica Latin America in Argentina decreased to €613 million in 2009 from €650 million in 2008 (an increase of 5.3% in local currency). This increase in local currency was principally due to higher interconnection costs in the fixed line business, as a result of higher traffic and capacity needs, and equipment costs in the mobile business.

Supplies for Telefónica Latin America in Chile decreased to €416 million in 2009 from €503 million in 2008 (a decrease of 15.5% in local currency), principally due to lower mobile interconnection costs caused by the previously described tariff decree.

Supplies for Telefónica Latin America in Mexico decreased to €584 million in 2009 from €716 million in 2008 (a decrease of 5.8% in local currency). This decrease in local currency was primarily driven by lower equipment costs as a consequence of lower commercial activity.

Supplies for Telefónica Latin America in Peru increased to €414 million in 2009 from €413 million in 2008 (a decrease of 2.0% in local currency). This decrease in local currency was primarily driven by a reduction in equipment costs in the mobile business as a consequence of lower commercial activity.

Supplies for Telefónica Latin America in Colombia decreased to €298 million in 2009 from €394 million in 2008 (a decrease of 21.4% in local currency), principally due to, in the mobile business, a lower equipment cost as a consequence of lower commercial activity, and lower interconnection costs in both fixed and mobile businesses.

Supplies for Telefónica Latin America in Central America reached €178 million in 2009.

Supplies for Telefónica Latin America in Ecuador decreased to €101 million in 2009 from €112 million in 2008 (a decrease of 14.6% in local currency), due to lower equipment costs as a consequence of lower commercial activity and to lower interconnection costs.

- Personnel expenses for Telefónica Latin America increased 3.1% to €1,789 million in 2009 from €1,735 million in 2008, (an increase of 5.8% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), principally due to increases in Venezuela and Argentina as a result of the effects of higher inflation on wages as described below.

Personnel expenses for Telefónica Latin America in Brazil decreased to €439 million in 2009 from €513 million in 2008 (a decrease of 11.3% in local currency), primarily as a result of a decrease in the fixed line business average number of employees following the 2008 restructuring program and the revision of contingencies related to employees.

Personnel expenses for Telefónica Latin America in Venezuela increased to €203 million in 2009 from €131 million in 2008 (an increase of 36.8% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009). This increase in local currency was principally due to the effects of higher inflation on wages.

Personnel expenses for Telefónica Latin America in Argentina increased to €321 million in 2009 from €303 million in 2008 (an increase of 18.4% in local currency). This increase in local currency was principally due to the effects of higher inflation on wages.

Personnel expenses for Telefónica Latin America in Chile stood at €182 million in 2009, the same as in 2008 (an increase of 1.8% in local currency). This evolution in local currency was primarily driven by the increase of compensation expenses due to the integration of fixed-mobile structures.

Personnel expenses for Telefónica Latin America in Mexico decreased to €82 million in 2009 from €96 million in 2008 (a decrease of 1.3% in local currency) principally due to a lower average number of employees and wage containment.

Personnel expenses for Telefónica Latin America in Peru increased to €171 million in 2009 from €159 million in 2008 (an increase of 4.9% in local currency), mainly due to the increase in the variable remuneration associated with both the fixed and mobile businesses' financial performance.

Personnel expenses for Telefónica Latin America in Colombia decreased to €115 million in 2009 from €122 million in 2008 (a decreased of 1.5% in local currency), primarily driven by a lower average number of employees at the fixed line business.

Personnel expenses for Telefónica Latin America in Central America reached €41 million in 2009.

Personnel expenses for Telefónica Latin America in Ecuador increased to €30 million in 2009 from €26 million in 2008 (an increase of 8.7% in local currency), principally due to an increase in the average number of employees.

- Other expenses for Telefónica Latin America increased 4.4% to €6,508 million in 2009 from €6,232 million in 2008 (an increase of 6.9% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), mainly due to Venezuela and to a lesser extent to Brazil, as described below.

Other expenses for Telefónica Latin America in Brazil increased to €2,628 million in 2009 from €2,543 million in 2008 (an increase of 7.1% in local currency). This increase in local currency was primarily driven by higher sales and commissions in the mobile business due to commercial activity and higher FISTEL (a regulatory tax linked to net adds of customers) costs due to customer base growth in Vivo. Other expenses also increased in the fixed line business mainly due to higher call center and maintenance expenses, primarily as a result of the action plan put in place in the second half of the year to deal with network quality problems.

Other expenses for Telefónica Latin America in Venezuela increased to €787 million in 2009 from €553 million in 2008 (an increase of 23.8% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), driven primarily by increased network expenses and higher operational taxes.

Other expenses for Telefónica Latin America in Argentina increased to €715 million in 2009 from €678 million in 2008 (an increase of 17.9% in local currency), principally as a result of higher inflation affecting the prices of external services.

Other expenses for Telefónica Latin America in Chile decreased to €516 million in 2009 from €556 million in 2008 (a decrease of 5.2% in local currency). This decrease in local currency was principally due to cost containment, particularly network maintenance, and lower commissions.

Other expenses for Telefónica Latin America in Mexico decreased to €381 million in 2009 from €430 million in 2008 (an increase of 2.4% in local currency). This increase in local currency was principally due to higher commissions and customer services costs.

Other expenses for Telefónica Latin America in Peru decreased to €459 million in 2009 from €467 million in 2008 (a decrease of 4.1% in local currency). This decrease in local currency was principally due to cost containment.

Other expenses for Telefónica Latin America in Colombia increased to €531 million in 2009 from €515 million in 2008 (an increase of 7.1% in local currency), principally due to higher bad debt provisions in both mobile and fixed businesses.

Other expenses for Telefónica Latin America in Central America reached €126 million in 2009.

Other expenses for Telefónica Latin America in Ecuador increased to €114 million in 2009 from €93 million in 2008 (an increase of 17.1% in local currency), principally due to higher commission costs driven by the increase of top ups.

Operating income before depreciation and amortization (OIBDA)

As a result of the foregoing, Telefónica Latin America's OIBDA, increased 8.3% to €9,143 million in 2009 from €8,445 million in 2008 (an increase of 10.3% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009). By country, (excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009), Venezuela contributed most to OIBDA growth (4.0 percentage points), followed by Mexico (2.7 percentage points) and Argentina (2.2 percentage points). In absolute terms, in 2009 Brazil was the largest contributor to Telefónica Latin America's OIBDA, accounting for 34.3% of the total, followed by Venezuela at 20.0%, Argentina at 10.8% and Mexico at 6.2%.

Telefónica Latin America's OIBDA in 2009 as a percentage of Telefónica Latin America's revenues for the same period was 39.8%, 1.7 percentage points higher than in 2008.

- Telefónica Latin America's OIBDA in Brazil decreased to €3,139 million in 2009 from €3,359 million in 2008 (a decrease of 3.1% in local currency).
- Telefónica Latin America's OIBDA in Venezuela increased to €1,818 million in 2009 from €1,328 million in 2008 (an increase of 25.4% in local currency and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009).
- Telefónica Latin America's OIBDA in Argentina increased to €986 million in 2009 from €919 million in 2008 (an increase of 19.9% in local currency).
- Telefónica Latin America's OIBDA in Chile increased to €763 million in 2009 from €740 million in 2008 (an increase of 5.5% in local currency).
- Telefónica Latin America's OIBDA in Mexico increased to €564 million in 2009 from €420 million in 2008 (an increase of 55.2% in local currency).
- Telefónica Latin America's OIBDA in Peru increased to €712 million in 2009 from €621 million in 2008 (an increase of 12.0% in local currency).
- Telefónica Latin America's OIBDA in Colombia decreased to €397 million in 2009 from €515 million in 2008 (a decrease of 20.0% in local currency).
- Telefónica Latin America's OIBDA in Central America increased to €241 million in 2009 from €217 million in 2008 (an increase of 9.0% on a constant euro basis).
- Telefónica Latin America's OIBDA in Ecuador increased to €100 million in 2009 from €92 million in 2008 (an increase of 3.0% in local currency).

Depreciation and amortization

Telefónica Latin America's depreciation and amortization increased 4.1% to €3,793 million in 2009 from €3,645 million in 2008, (an increase of 5.3% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009) primarily as a result of increases in Venezuela and Brazil.

Operating income

As a result of the foregoing, Telefónica Latin America's operating income increased 11.5% to €5,350 million in 2009 from €4,800 million in 2008, (an increase of 14.1% excluding foreign exchange rate effects and excluding the effects of Venezuela being considered a hyperinflationary economy in 2009).

Atento

Revenues

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

Expenses

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

Operating income before depreciation and amortization

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

Operating income

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

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenues

The strong growth in our customer base translated into a mild increase of 2.7% in revenues to €57,946 million in 2008 compared to €56,441 million in 2007. Negative exchange rate effects resulted in a reduction of our revenue growth by approximately 3.0 percentage points, while changes in our consolidation perimeter reduced such growth by another 1.2 percentage points. Revenue growth was also affected by a high level of competition in every market in which we operate.

By geographic area, Telefónica Latin America contributed the greatest percentage to our revenues in 2008, accounting for 38.3% of the total, which represents an increase of 2.7 percentage points from 2007. Telefónica Spain contributed 36.0% of our 2008 revenues and Telefónica Europe contributed the remaining 24.7%.

Other income

Other income decreased to €1,865 million in 2008 compared to €4,264 million in 2007. Other income in 2008 included the €143 million gain on the sale of our stake in Sogecable. In 2007, other income mainly included the gains on the sales during the year of our holdings in Airwave and Endemol for €1,296 million and €1,368 million, respectively.

Total expenses

Total expenses include supplies, personnel expenses and other expenses (mainly external services and taxes). Total expenses do not include depreciation and amortization.

Our total expenses decreased 2.6% to €36,892 million in 2008 compared to €37,881 million in 2007. On a constant euro basis, total expenses would have increased 0.9% from 2007 to 2008, less than the growth in revenues over the same period, primarily as a result of our efficiency initiatives and a general downward trend in expenses.

Supplies. Supplies decreased 0.5% to €17,818 million in 2008 compared to €17,907 million in 2007. On a constant euro basis, supplies would have grown 3.6% from 2007 to 2008, primarily as a result of higher interconnection expenses at Telefónica Latin America and Telefónica O2 UK.

Personnel expenses. Personnel expenses decreased 14.3% to €6,762 million in 2008 compared to €7,893 million in 2007 (a decrease of 12.4% on a constant euro basis). Our 2007 personnel expenses were affected by non-recurring personnel reorganization expenses of €1,199 million. The average workforce during 2008 reached 251,775 employees, with a net increase of 7,723 employees compared to 2007, mainly due to the workforce increases within Atento. Excluding employees of Atento, our average number of employees in 2008 would have decreased by 2,218 employees to 124,885 employees compared to 2007, partly due to the exclusion of Airwave and Endemol from our 2008 consolidation perimeter.

Other expenses. Other expenses are mainly comprised of external services, which consist of commercial expenses related to our business (such as commissions to distributors of services, marketing and advertising expenses and customer service related expenses), network maintenance expenses, general administrative expenses and subcontracted services expenses, as well as certain types of taxes. Other expenses also include changes in operating allowances and other operating expenses. Other expenses increased 1.9% to €12,312 million in 2008 from €12,081 million in 2007, principally driven by higher other expenses from Telefónica Latin America, mainly in Brazil, Venezuela and Chile due to outsourcing activities and commissions, as well as the increased costs associated with the acquisition and retention of customers in Telefónica Europe due to fierce competition.

Operating income before depreciation and amortization (OIBDA)

As a result of the foregoing, our OIBDA increased 0.4% to €22,919 million in 2008 compared to €22,824 million in 2007.

Telefónica Spain contributed 44.9% of our 2008 OIBDA, while Telefónica Latin America and Telefónica Europe contributed 36.8% and 18.2%, respectively.

Our OIBDA margin decreased to 39.6% in 2008 compared to 40.4% in 2007. OIBDA for 2007 was affected by the inclusion of non-recurring capital gains recorded on the disposition of Airwave and Endemol. For a reconciliation of OIBDA to operating income, see "—Presentation of Financial Information—Non-GAAP financial information—Operating income before depreciation and amortization".

Depreciation and amortization

Our depreciation and amortization decreased 4.1% to €9,046 million in 2008 compared to €9,436 million in 2007, with Telefónica Europe and Telefónica Spain primarily responsible for the decrease as a result of exchange rate effects and a decrease in the average value of plant subject to depreciation, respectively. Depreciation and amortization in 2008 includes the amortization of the purchase price allocation made following the acquisitions of the O2 Group (€689 million) and Telefónica O2 Czech Republic (€131 million).

Operating income

As a result of the foregoing, our operating income increased 3.6% to €13,873 million in 2008 from €13,388 million in 2007.

Share of profit (loss) of associates

Our share of profit (loss) of associates amounted to a loss of €161 million in 2008 compared to a gain of €140 million in 2007, primarily as a result of the net adjustment Telco made to the valuation of its investment in Telecom Italia. To estimate the adjustment to be recorded by the Telefónica Group, we took the value of the estimated synergies we expect to achieve by improving certain processes in our operations in Europe as a result of certain alliances reached with Telecom Italia. As a result of this revaluation, we recorded a loss of €209 million in 2008, which more than offset share of profits we recorded in respect of our interest in Portugal Telecom.

Net financial income (expense)

Net financial expense decreased 1.6% to €2,797 million in 2008 compared to €2,844 million in 2007, primarily as a result of a €240 million reduction in financial expenses due to the decrease of average total debt outstanding in 2008 compared to 2007, which was partially offset by an increase in financial expenses of €218 million in 2008 compared to 2007 as a result of an increase in the average interest rate on our average net debt for 2008 to 5.95% (6.00%, excluding positive exchange rate differences) compared to 5.59% in 2007. Management of the present value of pre-retirement plan commitments and other positions associated to mark-to-market positions, also had a positive impact of €93 million, which was €9 million more than in 2007. Positive exchange rate differences were €24 million in 2008 compared to €7 million in 2007, reflecting the impact of higher profit on the U.S. dollar positions at December 31, 2008 compared to December 31, 2007. Excluding the impact of positive exchange rate differences, net financial expense was €2,821 million in 2008 and €2,851 million in 2007.

Corporate income tax

Corporate income tax increased to €3,089 million in 2008 compared to €1,565 million in 2007, implying an effective tax rate of 28.3%, while our cash outflow with respect to taxes was lower than the provision in 2008 due to our application of tax losses generated in previous years and pending deductions. The primary reason for our significantly lower tax provision in 2007 was our disposal of Endemol in 2007, which generated a loss for tax purposes.

Non-controlling interests

Our non-controlling interests increased by 10.2% to a negative figure of €234 million in 2008 compared to a negative figure of €213 million in 2007, primarily as a result of higher profits at Telesp and Telefónica O2 Czech Republic, which we account for as non-controlling interests.

Profit for the year attributable to equity holders of the parent company

As a result of the above, our profit for the year attributable to equity holders of the parent company decreased 14.8% to €7,592 million in 2008 compared to €8,906 million in 2007. One of the major factors contributing to our lower profit for the year attributable to equity holders of the parent company in 2008 compared to 2007 was our inclusion of non-recurring capital gains from the dispositions of Airwave and Endemol in our 2007 profit for the year attributable to equity holders of the parent company.

Results of Operations by Business Area for 2007 and 2008

The table below sets forth the contribution to our results of operations by each of our three principal business areas and other companies for 2007 and 2008. Revenues and related expenses presented for each of the business areas are presented after elimination of sales to other members of the Telefónica Group. See Note 4 to our Consolidated Financial Statements.

	Year ended December 31,		
	2007	2008	% Change
	(in millions of euros)		
Revenues	**56,441**	**57,946**	**2.7%**
Telefónica Spain	20,683	20,838	0.7%
Telefónica Europe	14,458	14,309	(1.0)%
Telefónica Latin America	20,078	22,174	10.4%
Other companies & eliminations	1,222	625	(48.9)%
Other Income	**4,264**	**1,865**	(56.3)%
Telefónica Spain	466	348	(25.3)%
Telefónica Europe	1,518	395	(74.0)%
Telefónica Latin America	648	609	(6.0)%
Other companies & eliminations	1,632	513	(68.6)%
Expenses (1)	**37,881**	**36,892**	(2.6)%
Telefónica Spain	11,701	10,901	(6.8)%
Telefónica Europe	10,999	10,524	(4.3)%
Telefónica Latin America	13,605	14,338	5.4%
Other companies & eliminations	1,576	1,129	(28.4)%
Depreciation and amortization	**9,436**	**9,046**	(4.1)%
Telefónica Spain	2,381	2,239	(6.0)%
Telefónica Europe	3,386	3,035	(10.4)%
Telefónica Latin America	3,559	3,645	2.4%
Other companies & eliminations	110	127	15.5%
Operating income	**13,388**	**13,873**	3.6%
Telefónica Spain	7,067	8,046	13.9%
Telefónica Europe	1,591	1,145	(28.0)%
Telefónica Latin America	3,562	4,800	34.8%
Other companies & eliminations	1,168	(118)	

(1) Expenses as used in this table and in the below discussion include supplies expenses, personnel expenses and other expenses. It does not include depreciation and amortization.

In the discussion that follows revenues and related expenses for each business included within a particular business area are presented gross of any eliminations due to sales to other businesses in such business area or other members of the Telefónica Group.

Telefónica Spain

Revenues

Beginning January 1, 2008, Telefónica Spain changed the business model for its PUT service and related contracts in order to maximize its operations within the scope of the applicable regulatory framework (PUT revenues were 0.7% of Telefónica Spain's 2007 revenues). As a result, this business is now managed on a pure wholesale basis, and net margin is recorded as revenues. During 2007, this business was managed on a retail basis and we recorded both gross revenues and the associated sales and marketing expenses required to promote PUT traffic through resellers as separate line items.

Telefónica Spain's revenues increased 0.7% to €20,838 million in 2008 from €20,683 million in 2007.