considered part of the investment in a foreign operation, which are included under the "Translation differences" component of "Equity" in the consolidated statement of financial position.

c) ***Goodwill***

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

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

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

Goodwill is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable.

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

d) ***Intangible assets***

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, or more frequently in the event of indications that their carrying amount may not be recoverable (see Note 3 f).

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

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

Research and development costs

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

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

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

Service concession arrangements

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

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

Customer base

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

Software

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

e) Property, plant and equipment

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

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

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

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

Upkeep and maintenance expenses are expensed as incurred.

The Telefónica Group assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the assets' carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment provision is not maintained if the factors giving rise to the impairment disappear (see Note 3 f).

The Group's subsidiaries depreciate their property, plant and equipment once they are in full working condition using the straight-line method based on the assets' estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

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

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

f) Impairment of non-current assets

Non-current assets, including property, plant and equipment, goodwill and intangible assets are evaluated at each reporting date for indications of impairment losses. Wherever such indications exist, or in the case of assets which are subject to an annual impairment test, a recoverable amount is estimated, as the higher of fair value less costs to sell and *value in use*. In assessing *value in use*, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the income statement. Future depreciation or amortization charges are adjusted for the asset's new carrying amount over its remaining useful life. Each asset is assessed individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets (or cash-generating units).

The Group bases the calculation of impairment on the business plans of the various cash-generating units to which the assets are allocated. These business plans generally cover a period of three to five years. For longer periods, an expected constant or decreasing growth rate is applied to the projections based on these plans from the fifth year. The growth rates used in 2009 are as follows:

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

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

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

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

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset's recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

g) ***Leases***

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to the Telefónica Group to the use of the asset.

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the Group. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the lower of the present value of the minimum lease payments or the fair value of the leased property. Lease payments are apportioned between the finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are reflected in the income statement over the lease term.

h) ***Investments in associates***

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

i) ***Financial assets and liabilities***

Financial investments

All normal purchases and sales of financial assets are recognized in the statement of financial position on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Telefónica Group classifies its financial instruments into four categories for initial recognition purposes: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. When appropriate, the Company re-evaluates the designation at each financial year end.

Financial assets held for trading, i.e., investments made with the aim of realizing short-term returns as a result of price changes, are included in the category *financial assets at fair value through profit or loss* and presented as current assets. Derivatives are classified as held for trading unless they are designated as effective hedging instruments. The Group also classifies certain financial instruments under this category when doing so eliminates or mitigates measurement or recognition inconsistencies that could arise from the application of other criteria for measuring assets and liabilities or for recognizing gains and losses on different bases. Also in this category are financial assets for which an investment and disposal strategy has been designed based on their fair value. Financial instruments included in this category are recorded at fair value and are remeasured at subsequent reporting dates at fair value, with any realized or unrealized gains or losses recognized in the income statement.

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

Financial assets which the Group intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements are classified as *available-for-sale*. These investments are recorded under "Non-current assets," unless it is probable and feasible that they will be sold within 12 months. Financial assets in this category are measured at fair value. Gains or losses arising from changes in fair value are recognized in equity at each financial year end until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognized in profit or loss. Dividends from *available-for-sale* investments are recognized in the income statement when the Group has the right to receive the dividend. Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets:

   Fair value is considered to be the quoted market price at the closing date.

2. Unlisted securities:

   Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by reference to arm's length market transactions. When fair value cannot be reliably determined, these investments are carried at cost.

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market and do not fall into any of the previous categories. These assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A provision is recorded when there is objective evidence of customer collection risk. The amount of the provision is calculated as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, current trade receivables are not discounted.

The Group assesses at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

For equity instruments included in *available-for-sale* financial assets, the Company assesses individually for each security whether there is any objective evidence that an asset is impaired

as a result of one or more events indicating that the carrying amount of the security will not be recovered. If there is objective evidence that an *available-for-sale* financial instrument is impaired, the cumulative loss recognized in equity, measured as the difference between the acquisition cost (net of any principal payments and amortization made) and the fair value at that date, less any impairment loss on that investment previously recognized in the income statement.

Financial assets are only fully or partially derecognized when:

1. The rights to receive cash flows from the asset have expired;

2. An obligation to pay the cash flows received from the asset to a third party has been assumed; or

3. The rights to receive cash flows from the asset have been transferred to a third party and all the risks and rewards of the asset have been substantially transferred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, demand deposits and other highly liquid investments with an original maturity of three months or less. These items are stated at historical cost, which does not differ significantly from realizable value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are shown net of any outstanding bank overdrafts.

Preferred stock

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

Issues and interest-bearing debt

These debts are recognized initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Interest-bearing debt is considered non-current when its maturity is over 12 months or the Telefónica Group has full discretion to defer settlement for at least another 12 months from the reporting date.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender under substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognized in the income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. They are classified as current or non-current depending on whether they fall due within less than or after one year, respectively. Derivatives that meet all the criteria for consideration as long-term

hedging instruments are recorded as non-current assets or liabilities, depending on their positive or negative values.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

The Group designates certain derivatives as:

1. *Fair value hedges*, when hedging the exposure to changes in the fair value of a recognized asset or liability;

2. *Cash flow hedges*, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

3. Hedges of a *net investment in a foreign operation*.

A hedge of the foreign currency risk in a firm commitment is accounted for as either a fair value or a cash flow hedge.

Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged asset or liability attributable to the risk being hedged.

Changes in the fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in equity. The portion considered ineffective is taken directly to the income statement. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously recognized in equity are recognized in the income statement in the period in which the hedged transaction affects profit or loss.

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in a similar manner to cash flow hedges.

The application of the Company's corporate risk-management policies could result in financial risk-hedging transactions that make economic sense, yet do not comply with the criteria and effectiveness tests required by accounting policies to be treated as hedges. Alternatively, the Group may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement. Transactions used to reduce the exchange rate risk relating to the income contributed by foreign subsidiaries are not treated as hedging transactions.

From inception, the Group formally documents the hedging relationship between the derivative and the hedged item, as well as the associated risk management objectives and strategies. The documentation includes identification of the hedge instrument, the hedged item or transaction and the nature of the risk being hedged. In addition, it states how it will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed, prospectively and retrospectively, both at the inception of the hedge relationship and on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. In these instances, gains or losses accumulated in equity are not taken to the income statement until the forecast transaction or commitment affects profit or loss. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to the income statement.

The fair value of the derivative portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk-management tools commonly used by financial entities.

j) ***Inventories***

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

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

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

k) ***Treasury shares***

Treasury shares are stated at cost and deducted from equity. Any gain or loss obtained on the purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

l) ***Provisions***

Pensions and other employee obligations

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

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

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

Other provisions

Provisions are recognized when the Group has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost.

m) ***Share-based payments***

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

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

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the Company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity.

n) ***Corporate income tax***

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

The income tax expense of each year includes both current and deferred taxes, where applicable.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

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

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

The Group determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability is settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred income tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities on investments in subsidiaries, branches, associates and joint ventures are not recognized if the parent company is in a position to control the timing of the reversal and if the reversal is unlikely to take place in the foreseeable future.

Deferred income tax relating to items directly recognized in equity is recognized in equity. Deferred tax assets and liabilities resulting from business combinations are recognized in connection with the purchase price allocation. Subsequent increases in required deferred tax assets are deducted from goodwill.

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

o) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

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

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

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

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

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

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

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

In the wireless telephony business there are loyalty campaigns whereby customers obtain points for the telephone traffic they generate. The amount assigned to points awarded is recognized as deferred income until the points are exchanged and recognized as sales or services based on the product or service chosen by the customer. This exchange can be for discounts on the purchase of handsets, traffic or other types of services based on the number of points earned and the type of contract involved. The accompanying consolidated statements of

financial position include the related deferred revenue, based on an estimate of the value of the points accumulated at year end, under "Trade and other payables."

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

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

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

p) ***Use of estimates, assumptions and judgments***

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

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

Property, plant and equipment, intangible assets and goodwill

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

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

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

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

Income taxes

The Group assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Group's ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as

estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual Group company income tax receipts and payments could differ from the estimates made by the Group as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

Provisions

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

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

Revenue recognition

Connection fees

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

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

Bundled offers

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

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

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

q) *Consolidation methods*

The consolidation methods applied are as follows:

- Full consolidation method for companies over which the Company controls either by exercising effective control or by virtue of agreements with the other shareholders.

- Proportionate consolidation method for companies which are jointly controlled with third parties (joint ventures). Similar items are grouped together such that the corresponding proportion of these companies' overall assets, liabilities, expenses and revenues, and cash flows are integrated on a line by line basis into the consolidated financial statements.

- Equity method for companies in which there is significant influence, but not control or joint control with third parties.

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

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

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

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

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

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

r) ***Acquisitions and disposals of non-controlling interests***

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

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

Disposals of investments in subsidiaries without relinquishing control:

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

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

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

subsidiary. At each reporting date, the difference is adjusted based on the exercise price of the options and the carrying amount of non-controlling interests.

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

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

- Amendment to IAS 23, *Borrowing costs*

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

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

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

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

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

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

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

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

- *Improvements to IFRSs (May 2008)*

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

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

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

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

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

- *IFRIC 12, Service Concession Arrangements*

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

- *IFRIC 13, Customer Loyalty Programmes*

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

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

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

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

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

- *IFRIC 18, Transfers of Assets from Customers*

  This interpretation applies to deliveries of assets from customers as of July 1, 2009. This interpretation establishes the criteria for accounting transactions in which an entity receives from a customer an item of property, plant and equipment (or cash for their acquisition or construction) that the entity must use either to connect the customer to a network and/or to

provide the customer with ongoing access to a supply of goods or services. The adoption of this amendment has not had any impact on the financial position or performance of the Group.

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

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

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

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

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

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

The Group is currently assessing the impact of the application of these standards, amendments and interpretations. Based on the analyses made to date, the Group estimates that their adoption will not

have a significant impact on the consolidated financial statements in the initial period of application. However, the changes introduced by the revised IFRS 3 and amendments to IAS 27 will affect future acquisitions and transactions with non-controlling interests carried out on or after January 1, 2010, as well as the subsequent recognition of tax assets acquired in business combinations prior to that date, as provided for in the transitional provisions. Meanwhile, the changes introduced by IFRS 9 will affect financial assets and future transactions with financial assets carried out on or after January 1, 2013.

(4) SEGMENT INFORMATION

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

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

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

Telefónica Latin America oversees the same operations in Latin America.

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

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

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

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

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

Inter-segment transactions are carried out at market prices.

Key information for these segments is as follows:

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

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

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

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

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

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

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

Business combinations:

2009

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

2008

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

Furthermore, in accordance with Brazilian Corporations law, TCO IP, S.A. submitted a mandatory tender offer on July 15, 2008, for all the voting stock in Telemig Celular Participaçoes, S.A. and Telemig Celular, S.A. at a price per share equivalent to 80% of the purchase price of the voting

stock of these companies. After this offer VIVO owned, directly and indirectly, 90.65% of the share capital of Telemig Celular, S.A. and 58.9% of the share capital of Telemig Celular Participaçoes, S.A. Both companies are included in the Telefónica Group's consolidation scope using proportionate consolidation.

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

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

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

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

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

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

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

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

Acquisitions of non-controlling interests:

2009

There were no acquisitions of significant non-controlling interests in 2009. The detail of transactions carried out in the year is provided in Appendix I (see Note 24).

2008

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

(6) INTANGIBLE ASSETS

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

	Millions of euros						
	Balance at 12/31/08	Additions	Amortization	Disposals	Transfers and other	Translation differences and hyperinflation adjustments	Balance at 12/31/09
Development costs	175	84	(81)	(2)	(14)		162
Service concession arrangements	8,697	10	(786)	-	(8)	929	8,842
Software	2,394	964	(1,112)	-	772	130	2,948
Customer base	3,046	-	(512)	-	24	123	2,681
Other intangible assets	1,229	81	(170)	(1)	(51)	51	1,139
Prepayments on intangible assets	380	166	-	-	(479)	7	74
Net intangible assets	**15,921**	**1,305**	**(2,661)**	**(3)**	**244**	**1,240**	**15,846**

	Millions of euros								
	Balance at 12/31/07	Additions	Amortization	Disposals	Transfers and other	Translation differences and hyperinflation adjustments	Inclusion of companies	Exclusion of companies	Balance at 12/31/08
Development costs	177	96	(81)	-	(14)	(3)			175
Service concession arrangements	9,670	293	(757)	-	50	(1,103)	544	-	8,697
Software	2,452	933	(1,111)	(15)	226	(160)	22	(4)	2,394
Customer base	4,153	1	(585)	-	(136)	(387)	-	-	3,046
Other intangible assets	1,534	16	(209)	(1)	108	(218)	3	(2)	1,229
Prepayments on intangible assets	334	292	-	-	(233)	(14)	1	-	380
Net intangible assets	**18,320**	**1,631**	**(2,743)**	**(18)**	**51**	**(1,885)**	**570**	**(6)**	**15,921**

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

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

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

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

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

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

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

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

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

(7) GOODWILL

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

Millions of euros					
2009	Balance at 12/31/08	Acquisitions	Disposals	Translation differences and hyperinflation adjustments	Balance at 12/31/09
Telefónica Spain	3,238	-	-	-	3,238
Telefónica Latin America	5,450	23	(209)	1,056	6,320
Telefónica Europe	9,452	[illegible]	[illegible]	[illegible]	9,910
Other	183	7	-	8	198
Total	18,323	30	(209)	1,064	19,266

Millions of euros				
2008	Balance at 12/31/07	Acquisitions	Translation differences and other	Balance at 12/31/08
Telefónica Spain	3,213	5	-	3,218
Telefónica Latin America	5,524	406	(480)	5,450
Telefónica Europe	10,830	5	(1,383)	9,452
Other	183	16	(16)	183
Total	19,750	432	(1,879)	18,323

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

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

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

2009

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

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

2008

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

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

(8) PROPERTY, PLANT AND EQUIPMENT

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

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

	Millions of euros							
	Balance at 12/31/07	Additions	Depreciation	Disposals	Transfers and other	Translation differences	Inclusion of companies	Balance at 12/31/08
Land and buildings	7,289	68	(628)	(166)	850	(385)	5	7,031
Plant and machinery	20,814	2,520	(4,977)	(117)	2,352	(1,429)	87	19,250
Furniture, tools and other items	1,784	397	(654)	(15)	129	(162)	67	1,546
Total PP&E in service	29,887	2,985	(6,259)	(298)	3,331	(1,976)	157	27,827
PP&E in progress	2,274	3,406		(16)	(2,957)	(250)	28	2,485
Advance payments on PP&E	15	6	-	-	(15)	-	-	6
Installation materials	284	373	(44)	28	(403)	(11)		227
Net PP&E	32,460	6,770	(6,303)	(286)	(44)	(2,237)	185	30,545

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

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

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

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

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

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

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

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

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

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

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

(9) ASSOCIATES AND JOINT VENTURES

Associates

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

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

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

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

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

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

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

December 31, 2008	Millions of euros						
COMPANY	% Holding	Total Assets	Total liabilities	Operating income	Profit/(loss) for the year	Carrying amount	Fair value
Telco S.p.A. (Italy) (*)	42.30%	7,241	3,688		(1,556)	2,082	2,082
Portugal Telecom, SGPS, S.A. (Portugal)	9.86%	13,713	12,513	6,734	582	456	544
Medi Telecom, S.A. (Morocco)	32.18%	1,217	951	864	30	95	N/A
Hispasat, S.A. (Spain)	13.23%	716	335	138	47	50	N/A
Other						94	
TOTAL						2,777	

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

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

Investments in associates	Millions of euros
Balance at 12/31/07	3,188
Acquisitions	4
Disposals	(55)
Inclusion of companies	1
Translation differences	(45)
Income (loss)	(161)
Dividends	(65)
Transfers and other	(90)
Balance at 12/31/08	2,777
Acquisitions	772
Disposals	(114)
Translation differences	105
Income (loss)	47
Dividends	(58)
Transfers and other	1,409
Balance at 12/31/09	4,936

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

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

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

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

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

Joint ventures

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

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

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

(10) RELATED PARTIES

Significant shareholders

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

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

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

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

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

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

Associates and joint ventures

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

Directors and senior executives

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

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

(11) TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

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

(12) EQUITY

a) Share capital and share premium

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

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

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

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

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

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

Proposed appropriation of profit attributable to equity holders of the parent

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

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

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

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

b) Dividends

Dividends paid in 2009

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

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

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

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

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

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

Dividends paid in 2008

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

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

Dividends paid in 2007

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

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

c) Reserves

Legal reserve

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

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

Revaluation reserves

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

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

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

Retained earnings

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

d) Translation differences

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

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

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

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

e) Treasury shares

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

	No. of shares	Euros per share		Market Value Millions of euros	%
		Acquisition price	Trading price		
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.126665%
Treasury shares at 12/31/08	125,561,011	16.68	15.85	1,990	2.668675%
Treasury shares at 12/31/07	64,471,368	16.67	22.22	1,433	1.395[illegible]%

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

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

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

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

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

f) Non-controlling interests

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

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

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

Millions of euros	Balance at 12/31/06	Profit (loss) for the year	Change in translation differences	Acquisitions of non-controlling interests and exclusion of companies	Dividends paid	Other movements	Balance at 12/31/07
Telefónica O2 Czech Republic, a.s.	1,239	92	14	-	(152)	-	1,193
Telefónica Chile, S.A.	515	25	(28)	(31)	(8)	-	473
Telesp Participações, S.A.	445	119	35	-	(135)	-	464
Endemol, N.V.	54	11	-	(45)	(20)	-	-
Brasilcel (Holdings)	493	19	35	-	(2)	-	545
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	17	4	-	-	(2)	-	19
Iberbanda, S.A.	21	(12)	-	-	-	2	11
Colombia Telecomunicaciones, S.A., ESP	-	(50)	-	-	-	50	-
Other	39	5	(4)	(19)	(4)	9	26
Total	2,823	213	52	(95)	(324)	61	2,730

2009

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

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

2008

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

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

2007

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

(13) FINANCIAL ASSETS AND LIABILITIES

1. Financial assets

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

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

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

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

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

a) Non-current financial assets

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

	Millions of euros						
	Investments	Long-term credits	Derivative financial assets	Deposits and guarantees	Long-term prepayments	Impairment losses	Total
Balance at 12/31/07	2,235	1,572	1,483	913	97	(301)	5,819
Acquisitions	1,124	793	1,049	201	42	(40)	3,169
Disposals	(664)	(433)	-	(66)	(18)	1	(1,179)
Inclusion of companies	-	9	-	63	-	(1)	71
Translation differences	(8)	(116)	(31)	(107)	(4)	2	(100)
Fair value adjustments	(1,095)	(34)	1,172	-	(7)	1	37
Transfers	(8)	(191)	(245)	1	(18)	-	(461)
Balance at 12/31/08	1,584	1,602	3,590	905	92	(397)	7,376
Acquisitions	3	921	-	942	25	(104)	1,787
Disposals	(33)	(503)	(1,118)	(364)	(26)	-	(2,044)
Inclusion of companies	-	-	-	-	-	-	-
Translation differences	9	90	(38)	146	6	(2)	211
Fair value adjustments	565	(53)	(5)	-	-	-	507
Transfers	(1,474)	(221)	(18)	(33)	(3)	-	(1,749)
Balance at 12/31/09	654	1,836	2,411	1,496	104	(503)	5,998

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b) Current financial assets

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

- "Current financial assets" recognized at fair value to cover commitments undertaken by the Group's insurance companies, amounting to 140 million euros at December 31, 2009 (276 million euros at December 31, 2008). The maturity schedule for these financial assets is established on the basis of payment projections for the commitments.

- Derivative financial assets with a short-term maturity or not used to hedge non-current items in the consolidated statement of financial position, which amounted to 537 million euros (1,086 million euros in 2008). The variation in the balance between the two years was due to exchange- and interest-rate fluctuations (see Note 16).

- Short-term deposits and guarantees amounting to 470 million euros at December 31, 2009 (125 million euros at December 31, 2008).

- Current investments of cash surpluses which, given their characteristics, have not been classified as "Cash and cash equivalents."

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

2. Financial liabilities

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

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

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

	Maturity						
(Millions of euros)	2010	2011	2012	2013	2014	Subsequent years	Total
Debentures and bonds	5,090	3,275	1,749	4,174	9,763	13,911	37,962
Promissory notes & commercial paper	812	-	-	-	-	-	812
Other marketable debt securities	61	54	-	-	-	1,954	2,069
Loans and other payables	1,789	6,132	3,695	1,433	513	4,396	17,958
Derivative financial liabilities	1,432	255	106	65	63	1,069	2,990
TOTAL	9,184	9,716	5,550	5,672	5,339	21,330	56,791

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

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

	December 31, 2009								
	Fair value through profit or loss			Measurement hierarchy					
Millions of euros	Held for trading	Fair value option	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	-	-	-	-	-	-	35,843	35,843	37,850
Interest-bearing debt	705	-	2,285	147	2,843	-	17,958	20,948	20,840
Total financial liabilities	705	-	2,285	147	2,843	-	53,801	56,791	58,690