

TELEFONICA S A
Form 20-F
April 29, 2011

As filed with the Securities and Exchange Commission on April 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b)
OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-09531

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

KINGDOM OF SPAIN
(Jurisdiction of incorporation or organization)

Distrito C, Ronda de la Comunicación, s/n
28050 Madrid, Spain
(Address of principal executive offices)

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

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

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| Title of each class | Name of each exchange on which registered |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Ordinary Shares, nominal value €1.00 per share* American Depositary Shares, each representing one Ordinary Share | New York Stock Exchange New York Stock Exchange |
| Guarantees** by Telefónica, S.A. of the \$1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; \$750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; \$850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; \$1,200,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; \$1,250,000,000 Fixed Rate Notes Due 2015; \$900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; \$700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; \$1,000,000,000 Fixed Rate Notes Due | New York Stock Exchange |

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2019; \$1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; \$1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; \$2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U.

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

**Not for trading, but only in connection with the listing of the \$1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; \$750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; \$850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; \$1,200,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; \$1,250,000,000 Fixed Rate Notes Due 2015; \$900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; \$1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; \$700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; \$1,000,000,000 Fixed Rate Notes Due 2019; ; \$1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; \$1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; \$2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U. (a wholly-owned subsidiary of Telefónica, S.A.)

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

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

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2010 was:

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as Issued by the international Accounting Standards Board Other

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

Item 17 Item 18

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

Yes No

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- changes in general economic, business or political conditions in the domestic or international markets (particularly in Latin America) in which we operate or have material investments that may affect demand for our services;
- changes in currency exchange rates, interest rates or in credit risk in our treasury investments or in some of our financial transactions;
 - general economic conditions in the countries in which we operate;
 - existing or worsening conditions in the international financial markets;
 - the actions of existing and potential competitors in each of our markets;

- the impact of current, pending or future legislation and regulation in countries where we operate;
- failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations;
 - the potential effects of technological changes;

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

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

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CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value €1.00 per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges and are quoted through the Automated Quotation System under the symbol “TEF.” They are also listed on various foreign stock exchanges such as the London, Buenos Aires and Tokyo stock exchanges. American Depositary Shares (“ADSs”), each representing the right to receive one ordinary share, are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts (“ADRs”) issued under a Deposit Agreement with Citibank, N.A., as Depositary. Brazilian Depositary Receipts (“BDRs”), each representing the right to receive one ordinary share, are listed on the São Paulo Stock Exchange and are issued under a deposit agreement with Banco Bradesco, S.A., as Depositary. On March 30, 2011, we initiated a plan to cancel the BDR Program and delist our securities from the São Paulo Stock Exchange. We expect that the BDR Program cancellation and delisting process will be completed in the second half of 2011.

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

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

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

- “Access” refers to a connection to any of the telecommunications services offered by us. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control or joint control. The following are the main categories of accesses:
 - Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).
 - Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line “ADSL,” satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits. “Naked ADSL” allows customers to subscribe for a broadband connection without a monthly fixed line fee.
 - Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.
 - Mobile accesses: includes accesses to mobile network for voice and/or data services (including connectivity). Mobile broadband includes internet access from devices used to make voice calls and smartphones (mobile internet), and internet access from devices that complement fixed broadband, such as PCCards/dongles, and enable large amounts of data to be downloaded on the move (mobile connectivity). In 2009 in order to align the criteria for the key performance indicators of our mobile operations, the definition of mobile accesses (and, therefore, of total accesses) was revised to include machine-to-machine accesses. Mobile accesses are categorized into contract and

prepay accesses. In addition, we revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile accesses throughout the Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting, through a revenue-generating event for our Group from whatsoever source. As a result of both revisions, we restated 2008 mobile accesses.

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- Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, “shared UL”).
 - Wholesale ADSL: means wholesale asymmetrical digital subscriber line.
 - Other: includes other circuits for other operators.

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

- “ARPU” is the average revenue per user per month. ARPU is calculated by dividing total service revenue (excluding inbound roaming revenue) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12 months. ARPU is calculated using gross service revenue before deduction of wholesale discounts.
- “CDMA” means Code Division Multiple Access, which is a type of radio communication technology.
- “Commercial activity” includes the addition of new lines, replacement of handsets, migrations and changes in types of contracts.
 - “Customer revenue” means service revenue less interconnection revenue.
- “Duo bundle” means broadband plus voice and/or TV service. We measure “duo bundles” in terms of units, where each bundle of broadband and voice service counts as one unit.
- “Digital Dividend” refers to the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV.
- “FTTx” is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop typically used for the last mile of telecommunications wiring.
 - “Final client accesses” means accesses provided to residential and corporate clients.
 - “Gross adds” means the gross increase in the customer base measured in terms of accesses in a period.
- “HSDPA” means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfers speeds and capacity.
- “Interconnection revenue” means revenues received from other operators which use our networks to connect to our customers.
 - “ISP” means Internet service provider.
- “IT”, or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.
 - “LMDS” means local multipoint distribution service.

- “LTE” means Long Term Evolution, a wireless access technology.
- “Local loop” means the physical circuit connecting the network termination point at the subscriber’s premises to the main distribution frame or equivalent facility in the fixed public telephone network.
- “M2M”, or machine to machine, refers to technologies that allow both wireless and wired systems to communicate with other devices of the same ability.
- “MOU,” or minutes of use, is calculated by dividing the total number of voice minutes for the preceding 12 months by the weighted average number of mobile accesses for the same period, and then divided by 12 months. Over the past several years, we have experienced strong growth in mobile accesses related

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primarily to data services (such as accesses related to machine-to-machine and mobile broadband devices). Such growth in mobile accesses related to data services limits the use of MOU as an indicator of usage as it increases the total number of mobile accesses in the relevant period without any corresponding increase in the number of voice minutes related to such accesses for the relevant period. As a result, we no longer publish MOU for years after 2008 and instead publish traffic evolution in absolute minutes of use.

- “MVNO” means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers.
- “Net adds” means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of a period.
 - “Revenues” means net sales and revenues from rendering of services.
 - “Service revenues” means revenues less revenues from handset sales.
- “Traffic” means voice minutes used by our customers over a given period, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic (free minutes included in commercial promotions) is included. Traffic not associated with our mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. To arrive at the aggregate traffic for a given period, the individual components of traffic are not rounded.
 - “Trio bundle” means broadband plus voice service plus TV. We measure “trio bundles” in terms of units, where each bundle of broadband, voice service and TV counts as one unit.
 - “UMTS” means Universal Mobile Telecommunications System.
 - “VoIP” means voice over Internet protocol.
- “Wholesale accesses” means accesses we provide to our competitors, who then sell services over such accesses to their residential and corporate clients.

In this Annual Report we make certain comparisons in local currency or on a “constant euro basis” or “excluding foreign exchange rate effects” in order to present an analysis of the development of our results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, we compare financial items in the relevant local currency for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a “constant euro basis” or “excluding foreign exchange rate effects,” we convert the relevant financial item into euros using the prior year’s average euro to relevant local currency exchange rate. In addition, we present certain financial information excluding the effects of Venezuela being considered a hyperinflationary economy in 2010 and 2009 by eliminating all adjustments made as a result of such consideration.

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PRESENTATION OF CERTAIN FINANCIAL INFORMATION

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

Our consolidated financial statements as of December 31, 2009 and 2010, and for the years ended December 31, 2008, 2009 and 2010 included elsewhere in this Annual Report including the notes thereto (the “Consolidated Financial Statements”), are prepared in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents certain selected consolidated financial data. It is to be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2008, 2009 and 2010 and the consolidated statement of financial position data as of December 31, 2009 and 2010 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2006 and 2007 and the consolidated statement of financial position data as of December 31, 2006, 2007 and 2008 set forth below are derived from Telefónica, S.A.’s consolidated financial statements for such years, which are not included herein.

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

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

| | As of or for the year ended December 31, | | | | |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------|-----------|-----------|-----------|
| | 2006(1) | 2007 | 2008 | 2009 | 2010 |
| | (in millions of euros, except share data) | | | | |
| Revenues | 52,901 | 56,441 | 57,946 | 56,731 | 60,737 |
| Other income | 1,571 | 4,264 | 1,865 | 1,645 | 5,869 |
| Supplies | (16,629) | (17,907) | (17,818) | (16,717) | (17,606) |
| Personnel expenses | (7,622) | (7,893) | (6,762) | (6,775) | (8,409) |
| Other expenses | (11,095) | (12,081) | (12,312) | (12,281) | (14,814) |
| Depreciation and amortization | (9,704) | (9,436) | (9,046) | (8,956) | (9,303) |
| Operating income | 9,422 | 13,388 | 13,873 | 13,647 | 16,474 |
| Share of profit (loss) of associates | 76 | 140 | (161) | 47 | 76 |
| Net financial expense | (2,795) | (2,851) | (2,821) | (2,767) | (2,537) |
| Net exchange differences | 61 | 7 | 24 | (540) | (112) |
| Net financial income (expense) | (2,734) | (2,844) | (2,797) | (3,307) | (2,649) |
| Profit before taxes from continuing operations | 6,764 | 10,684 | 10,915 | 10,387 | 13,901 |
| Corporate income tax | (1,781) | (1,565) | (3,089) | (2,450) | (3,829) |
| Profit for the year from continuing operations | 4,983 | 9,119 | 7,826 | 7,937 | 10,072 |
| Profit from discontinued operations after taxes | 1,596 | — | — | — | — |
| Profit for the year | 6,579 | 9,119 | 7,826 | 7,937 | 10,072 |
| Non-controlling interests | (346) | (213) | (234) | (161) | 95 |
| Profit for the year attributable to equity holders of the parent | 6,233 | 8,906 | 7,592 | 7,776 | 10,167 |
| Weighted average number of shares (thousands) | 4,778,999 | 4,758,707 | 4,645,852 | 4,552,656 | 4,522,228 |
| Basic and diluted earnings per share from continuing operations attributable to equity holders (euros)(2) | 0.97 | 1.87 | 1.63 | 1.71 | 2.25 |
| Basic and diluted earnings per share attributable to equity holders of the parent (euros)(2) | 1.30 | 1.87 | 1.63 | 1.71 | 2.25 |
| Earnings per ADS (euros)(2)(3) | 1.30 | 1.87 | 1.63 | 1.71 | 2.25 |
| Weighted average number of ADS (thousands) (3) | 4,778,999 | 4,758,707 | 4,645,852 | 4,552,656 | 4,522,228 |
| Cash dividends per ordinary share (euros) | 0.55 | 0.65 | 0.90 | 1.00 | 1.30 |
| Consolidated Statement of Financial Position Data | | | | | |
| Cash and cash equivalents | 3,792 | 5,065 | 4,277 | 9,113 | 4,220 |
| Property, plant and equipment | 33,887 | 32,460 | 30,545 | 31,999 | 35,797 |
| Total assets | 108,982 | 105,873 | 99,896 | 108,141 | 129,775 |
| Non-current liabilities | 62,645 | 58,044 | 55,202 | 56,931 | 64,599 |
| Equity (net) | 20,001 | 22,855 | 19,562 | 24,274 | 31,684 |
| Capital stock | 4,921 | 4,773 | 4,705 | 4,564 | 4,564 |
| Consolidated Cash Flow Data | | | | | |
| Net cash from operating activities | 15,414 | 15,551 | 16,366 | 16,148 | 16,672 |
| Net cash used in investing activities | (28,052) | (4,592) | (9,101) | (9,300) | (15,861) |
| Net cash (used in) from financing activities | 14,572 | (9,425) | (7,765) | (2,281) | (5,248) |

-
- (1) Telefónica Publicidad e Información, S.A. (TPI) was sold in 2006 and its results of operations for 2006 and the gain we recorded on its sale are included under “Profit from discontinued operations after taxes” for 2006.
 - (2) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.
 - (3) Until January 20, 2011, each ADS represented the right to receive three ordinary shares. Since January 21, 2011, each ADS represents the right to receive one ordinary share. The above figures have been restated accordingly. Figures do not include any charges of the Depositary.

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Exchange Rate Information

As used in this Annual Report, the term “Noon Buying Rate” refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on April 22, 2011 was \$1.4545 =€1.00. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

| Year ended December 31, | Period end | Noon Buying Rate | | |
|-------------------------------|---------------|------------------|--------|--------|
| | | Average(1) | High | Low |
| 2006 | 1.3197 | 1.2661 | 1.3327 | 1.1860 |
| 2007 | 1.4603 | 1.3797 | 1.4862 | 1.2904 |
| 2008 | 1.3919 | 1.4698 | 1.6010 | 1.2446 |
| 2009 | 1.4332 | 1.3955 | 1.5100 | 1.2547 |
| 2010 | 1.3269 | 1.3261 | 1.4536 | 1.1959 |
| 2011 (through April 22, 2011) | 1.4545 | 1.3840 | 1.4585 | 1.2944 |

Source: Federal Reserve Bank of New York.

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

| Month ended | Noon Buying Rate | |
|-----------------------------------------|------------------|--------|
| | High | Low |
| October 31, 2010 | 1.4066 | 1.3688 |
| November 30, 2010 | 1.4224 | 1.3036 |
| December 31, 2010 | 1.3395 | 1.3089 |
| January 31, 2011 | 1.3715 | 1.2944 |
| February 28, 2011 | 1.3794 | 1.3474 |
| March 31, 2011 | 1.4212 | 1.3813 |
| April 30, 2011 (through April 22, 2011) | 1.4585 | 1.4211 |

Source: Federal Reserve Bank of New York.

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

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

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

B. Capitalization and Indebtedness

Not applicable.

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C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Relating to Our Business

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

At December 31, 2010, approximately 50.6% of our assets were located in our Latin America segment. In addition, approximately 42.9% of our revenues for 2010 were derived from our Latin American segment operations. At December 31, 2010, 56.4% of Latin America assets and 42.7% of Latin America revenues were derived from our operations in Brazil. Our business is thus particularly sensitive to any of the risks relating to Latin America discussed in this section to the extent they arise or manifest themselves in Brazil. Our operations and investments in Latin America (including the revenues generated by these operations, their market value and the dividends and management fees expected to be received therefrom) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative policies may change unexpectedly and negatively affect our interests in such countries;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation or currency depreciation may result in certain of our subsidiaries having negative equity, which would require them to undertake a mandatory recapitalization or commence dissolution proceedings;
- governments may expropriate or nationalize assets or increase their participation in the economy and companies;
 - governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the economic conditions and business environment in which we operate; and
 - economic downturns, political instability and civil disturbances may negatively affect our operations.

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

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

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in foreign currency exchange rates and the impact of changes in interest rates, as well as the impact of changes of credit risk in our treasury investments (in cash and cash equivalents) or in some of our financial

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transactions. We employ risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for our risk management purposes, or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to currency exchange rate fluctuations and interest rate fluctuations or if our counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect our financial condition, results of operations and cash flow. Also, our other risk management strategies may not be successful, which could adversely affect our financial condition, results of operations and cash flow. Finally, if the rating of our counterparties in treasury investments or in our structured financial transactions deteriorates significantly or if any of such counterparties were to fail in its obligations to us, we may suffer a loss of value in our investments, incur unexpected losses and assume additional financial obligations under these transactions, and such failure could adversely affect our business, financial condition, results of operations and cash flow.

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

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

Our business is impacted by general economic conditions and other similar factors in each of the countries in which we operate. The current uncertainty about an economic recovery may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. Additional factors that could influence customer demand include access to credit, unemployment rates, consumer confidence and other general macroeconomic factors. Specifically, in this respect the continuation of the economic situation in Spain, according to the forecasts contained in the Spanish economic ministry’s Stability Program for 2009-2013, could have an adverse affect on the Telefónica Group’s results in Spain. In addition, other related effects of the financial crisis could impact our business, including insolvency of key suppliers or customers. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our business, financial condition, results of operations and cash flow and may therefore negatively affect our ability to meet our growth targets.

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

The development and distribution of our services as well as the operation, expansion and upgrading of our networks, require substantial financing. Moreover, our liquidity and capital resource requirements may increase if we participate in other fixed line or mobile license award processes or make acquisitions. We also have major capital resource requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If our ability to generate cash flow were to decrease, whether due to an economic crisis or otherwise, we may need to incur additional debt or raise other forms of capital to support our liquidity and capital resource requirements for the ongoing development and expansion of our business.

The state of international financial markets in terms of liquidity, cost of credit, access and volatility continues to be affected by current uncertainties surrounding the pace of economic recovery, the health of the international banking system and increasing concerns regarding burgeoning public deficits in certain countries, among other factors. Worsening conditions in the international credit markets due to any of these factors may make it more difficult and more expensive to refinance our financial debt or to incur additional debt.

In addition, our capacity to raise capital in the international capital markets would be impaired if our credit ratings were downgraded, whether due to decreases in our cash flow or otherwise. Further, current market conditions may make it more difficult to renew our unused bilateral credit facilities, 35% of which as of December 31, 2010 are scheduled to mature prior to December 31, 2011. The current financial situation may also make it more difficult and costly for us to launch a rights issue to our current shareholders or to raise additional equity capital if further funds were needed for pursuing our business plans.

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Risks Relating to Our Industry

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

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

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

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

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
 - better strategic alliances;
 - larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with our competitors, we need to successfully market our products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by our competitors, pricing strategies adopted by our competitors and changes in consumer preferences and in general economic, political and social conditions. If we are unable to effectively compete, it could result in price reductions, lower revenues, under-utilization of our services, reduced operating margins and loss of market share, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Union and national, state, regional and local authorities. Regulation may be especially strict in the markets of those countries in which we hold a significant market position. In this respect, regulatory authorities regularly intervene in the retail and wholesale

offering and pricing of our products and services. Furthermore, such authorities may also adopt further regulations or take additional actions that could adversely affect us, including revocation of or failure to renew any of our licenses, authorizations or concessions, implementation of changes to the spectrum allocated to us or the granting or new licenses, authorizations or concessions to our competitors to offer services in the relevant markets. Furthermore, regulations could require us to reduce roaming prices and termination rates in mobile and/or fixed line networks, require us to offer access to our network to other operators, and result in the imposition of fines if we fail to fulfill our service commitments. Such regulations and regulatory actions could place significant competitive and pricing pressure on our operations, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

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

Furthermore, we may face pressure from regulatory initiatives in some European countries that seek to reallocate spectrum rights and modify spectrum allocation policies that may result, among other things, in new tender processes for spectrum allocation in the European Union.

Finally, the European Commission's recommendation concerning the implementation of European regulation of next-generation broadband networks may reduce incentives for operators to invest in broadband networks over the short and medium term because operators that invest in broadband networks could be required to provide third parties access to such networks. This could affect competition, business performance and future growth in such services. The European Commission is also considering further recommendations concerning cost accounting and non-discrimination that could increase regulatory pressure on fixed operators.

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

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

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

The terms of these licenses, authorizations and concessions granted to our operating companies and conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms, which is usually related to the fulfillment of the commitments that were assumed by the grantee. As licenses, authorizations and concessions approach the end of their terms, we intend to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions and, under certain

circumstances, we will operate under technically expired licenses, authorizations or concessions under preexisting terms during the renewal process. Failure to complete the renewal process successfully could adversely affect our business, financial condition, results of operations and cash flow.

Many of our licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing licenses, authorizations and concessions

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typically require us to satisfy certain obligations, including, amongst others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession for the relevant area. In addition, the need to meet scheduled deadlines may require our companies to expend more resources than otherwise budgeted for a particular network build-out.

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

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

Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge on a continuous basis and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our existing services or may be superior to, and render obsolete, the products and services we offer and the technologies we use and may consequently reduce the revenues generated by our products and services and require investment in new technology. In addition, we may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for us to upgrade our products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect our business, financial condition, results of operations and cash flow.

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

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

Spectrum capacity may become a limiting and costly factor.

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

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

We depend upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a

timely basis, our business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion, which in some cases could adversely affect our ability to satisfy our license terms and requirements.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in our service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs, penalties or other measures

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imposed by regulatory authorities, and could harm our reputation. We attempt to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt our technical infrastructure. Although we carry business interruption insurance, our insurance policy may not provide coverage in amounts sufficient to compensate us for any losses we may incur.

The mobile industry may be harmed by concerns stemming from actual or perceived health risks associated with radio frequency emissions.

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

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

New research is underway. Specifically, the WHO has announced that in 2011 it will issue new recommendations in connection with the release of its Radio Frequency Environment Health Criteria. Regardless of any conclusions drawn from such research, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on our mobile companies and consequently on our financial condition, results of operations and cash flow. While we are not currently aware of any evidence confirming a link between radio frequency emissions and health problems and we continue to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

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

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

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

Other Risks

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

We are party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of our business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be

asserted in the future) may have a material adverse effect on our business, financial condition, results of operations and cash flow.

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

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Item 4. Information on the Company

A. History and Development of the Company

Overview

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

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

The following significant events occurred in 2010:

- On February 16, 2010, we completed, through our subsidiary Telefónica Deutschland GmbH, the acquisition of the German telecommunications operator HanseNet Telekommunikation GmbH ("HanseNet").
- On May 20, 2010, Telefónica O2 Germany GmbH & Co OHG ("Telefónica O2 Germany") secured two blocks in the 800 MHz spectrum at the German frequency auction. Telefónica O2 Germany also secured one block of the 2.0 GHz and four blocks of the 2.6 GHz spectrums. The total investment in new frequencies by Telefónica O2 Germany was approximately €1,379 million.
- On July 28, 2010, we signed an agreement with Portugal Telecom, SGPS, S.A. ("Portugal Telecom") for the acquisition by Telefónica of the 50% of the capital stock of Brasilcel, N.V. ("Brasilcel") owned by Portugal Telecom. Brasilcel owned approximately 60% of Vivo Participações, S.A. ("Vivo Participações"). The acquisition price of the aforementioned capital stock of Brasilcel was €7,500 million, €4,500 million of which was paid at the closing of the transaction on September 27, 2010 and €1,000 million of which was paid on December 30, 2010, with the remaining €2,000 million due on October 31, 2011 (though Portugal Telecom may request for this final payment to be made on July 29, 2011, in which case such final payment, and correspondingly, the price of the acquisition would be reduced by €25 million). Coincident with the closing of the transaction, the agreements signed in 2002 between Telefónica and Portugal Telecom, relating to their joint venture in Brazil (Subscription Agreement and Shareholders Agreement), were terminated.
- On July 28, 2010, we executed a syndicated facility agreement with several domestic and international financial entities in an aggregate amount up to €8,000 million. This facility agreement is divided into two tranches: the first is a three-year term loan facility, in an aggregate amount up to €5,000 million and the second is a five-year revolving credit facility, in an aggregate amount up to €3,000 million.
- On October 26, 2010, following the completion of the acquisition of Portugal Telecom's 50% stake in Brasilcel, we announced a tender offer for all the outstanding voting shares of Vivo Participações not held by Brasilcel, which represented approximately 3.8% of Vivo's equity. This offer was approved by the Brazilian market regulator (C.V.M.) on February 11, 2011, and was completed on March 18, 2011.
-

On December 28, 2010, Telefónica, S.A., through its subsidiary, Telefónica de Contenidos, S.A.U., completed the acquisition of 22% of the capital stock of Distribuidora de Televisión Digital S.A. (“DTS”) for approximately €488 million, €228 million of which was settled by cancelling the subordinated loan between Telefónica de Contenidos, S.A.U. (as creditor) and Sogecable, S.A. (currently Prisa Televisión, S.A.U., as debtor).

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Business areas

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

- Telefónica Spain: oversees the fixed and mobile telephony services in Spain.
- Telefónica Europe: oversees the fixed and mobile telephony services in the United Kingdom, Germany, Ireland, the Czech Republic and Slovakia.
- Telefónica Latin America: oversees the fixed and mobile telephony services in Latin America. In addition, Telefónica Latin America's other members include: Telefónica Empresas, Telefónica International Wholesale Services (TIWS), the business unit responsible for other telecommunications operators and for managing our international services and the network which supports these services, and Terra Networks Latin América.

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

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The following chart shows the organizational structure of the principal subsidiaries of the Telefónica Group at December 31, 2010, including their jurisdictions of incorporation and our ownership interest. For further detail, see Exhibit 8.1 to this Annual Report.

- (1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.
- (2) 85.57% representing voting interest.
- (3) Ownership in Telefónica International Wholesale Services, S.L. (Spain) is held 92.51% by Telefónica, S.A. (Spain) and 7.49% by Telefónica Datacorp, S.A.U. (Spain).
- (4) Ownership in O2 (Europe) Ltd. is held directly by Telefónica, S.A.
- (5) Companies held indirectly by Telefónica, S.A.
- (6) Ownership in Telefónica International Wholesale Services II is held directly by Telefónica, S.A.

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

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

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

Capital Expenditures and Divestitures

Our principal capital expenditures during the three years ended December 31, 2010 consisted of additions to property, plant and equipment and additions to intangible assets, including spectrum. In 2010, 2009 and 2008, we made capital expenditures of €10,844 million, €7,257 million and €8,401 million, respectively.

Year ended December 31, 2010

Our capital expenditures increased 49.4% to €10,844 million in 2010 compared to €7,257 million in 2009, mainly as a result of the acquisition of spectrum in Germany (€1,379 million) and Mexico (€1,237 million) and the full consolidation in the fourth quarter of 2010 of Vivo. Excluding such spectrum acquisitions, capital expenditures growth would have been 13.4%. Our investments in Spain were directed toward further developing the fixed broadband business with a selective roll-out of fiber optics, Imagenio and data services for large corporate customers and expanding mobile third generation, or 3G, offerings. In Latin America, capital expenditures were directed toward the transformation of the fixed telephony business and continuing to expand coverage and capacity of 3G and GSM networks in our mobile telephony business. In Europe, capital expenditures were directed toward improving the capacity and coverage of our mobile networks and greater investments in the ADSL business.

Year ended December 31, 2009

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

Year ended December 31, 2008

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

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Financial Investments and Divestitures

Our principal financial investments in 2010 relate to the acquisition of 50% of Brasilcel (approximately €7,500 million), the acquisition of HanseNet (approximately €275 million) and the acquisition of a 22% stake in DTS (approximately €488 million). Our principal divestiture in 2010 was the reduction of our stake in Portugal Telecom by 7.98%, resulting in cash inflow of €631 million, though we retained a certain amount of economic exposure to fluctuations in the value of Portugal Telecom's shares through the use of derivative instruments.

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

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

Public Takeover Offers

The principal public takeover offers which occurred in 2010 and in 2011 through the date of this Annual Report were the following:

- On July 28, 2010, Telefónica and Portugal Telecom signed an agreement for the acquisition by Telefónica of 50% of the capital stock of Brasilcel (a company then jointly owned by Telefónica and Portugal Telecom, which owned shares representing approximately 60% of the capital stock of Vivo (the "Brasilcel Acquisition Agreement"). The acquisition price for the aforementioned capital stock of Brasilcel was €7,500 million, of which €4,500 million was paid at the closing of the transaction on September 27, 2010, €1,000 million on December 30, 2010, with the remaining €2,000 million due October 31, 2011 (though Portugal Telecom may request for this last payment to be made on July 29, 2011, in which case the price of the acquisition and the final payment would be reduced by €25 million).
- On December 21, 2010, the merger between Telefónica and Brasilcel was registered in the Madrid Mercantile Register, with the company becoming a direct shareholder of the Brazilian consolidated group Vivo, by virtue of its ownership of approximately 60% of Vivo Participações's capital stock.

Pursuant to Brazilian legislation, on October 26, 2010, Telefónica announced a tender offer for the acquisition of all outstanding voting shares of Vivo not already owned or controlled by Telefónica, representing approximately 3.8% of Vivo Participações's capital stock, for an amount equivalent to 80% of the price per share to be paid to Portugal Telecom pursuant to the Brasilcel Acquisition Agreement, subject to regulatory approval. This offer was approved by the Brazilian market regulator (C.V.M.) on February 11, 2011 and completed on March 18, 2011.

Recent Developments

The principal events that have occurred since December 31, 2010 are set forth below:

- On January 23, 2011, Telefónica and China Unicom signed an extension to their strategic alliance agreement, pursuant to which both companies agreed to strengthen and deepen their strategic cooperation in certain business

areas, and committed to investing the equivalent of \$500 million in ordinary shares of the other party toward the alliance. Telefónica will acquire, through its subsidiary Telefónica Internacional, S.A.U, a number of China Unicom shares amounting to \$500 million from third parties, within nine months of the date of the agreement.

Following the completion of the transaction, Telefónica will hold, through its subsidiary Telefónica Internacional, S.A.U., approximately 9.7% of China Unicom's voting share capital. Telefonica is in the process of making the required investment in China Unicom and its final ownership percentage of

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China Unicom's voting capital after such investment may vary from the foregoing as it will depend upon the prevailing share prices at which the investment is made. In recognition of China Unicom's stake in Telefónica, Telefónica has committed to proposing the appointment of a board member to be selected by China Unicom at our next General Shareholders' Meeting, in accordance with applicable legislation and our bylaws.

China Unicom completed its acquisition of Telefónica shares on January 28, 2011, resulting in its ownership of 1.37% of our capital. For information related to this acquisition, see "Item 5. Operating and Financial Review and Prospects—Business Overview—Strategic Partnership", "Item 5. Operating and Financial Review and Prospects – Significant Factors Affecting the Comparability of our Results of Operations in the Periods Under Review." and Note 24 to our consolidated financial statements.

- On February 11, 2011, the Brazilian market regulator (C.V.M.) approved the tender offer made by Telefónica, S.A. to holders of all outstanding voting shares of Vivo Participações not already held or controlled by Telefónica. For information related to this tender offer, see "Item 5. Operating and Financial Review and Prospects – Significant Factors Affecting the Comparability of our Results of Operations in the Periods Under Review."
- On February 24, 2011, we announced that we are considering a possible divestiture of our subsidiary, Atento Inversiones y Teleservicios, S.A.U., contemplating, among other alternatives, a potential public offering of shares of that company.
- On March 25, 2011, the Board of Directors of each of our controlled subsidiaries, Vivo Participações and Telecomunicações de São Paulo, S.A.—Telesp ("Telesp"), respectively, approved the terms and conditions of a restructuring whereby all shares of Vivo Participações that Telesp does not own will merge into Telesp in exchange for Telesp shares, converting Vivo Participações into a wholly-owned subsidiary of Telesp (the "Restructuring"). The Restructuring was approved by shareholders of Vivo Participações at an Extraordinary General Shareholders' Meeting held on April 27, 2011 and by shareholders of Telesp at an Extraordinary General Shareholders' Meeting held on that same date.
- On March 30, 2011, we announced that the Brazilian market regulator (C.V.M) authorized the termination of Telefónica's BDRs Program in Brazil and the subsequent delisting of Telefónica shares from the São Paulo stock exchange. The termination and delisting process started on March 30, 2011 and it is expected to conclude in the second half of 2011.
- On April 12, 2011, our Board of Directors resolved to call Telefónica's 2011 General Shareholders' Meeting to be held on May 17, on first call, or on May 18, 2011 on second call. The main items included in the agenda of this meeting are the following:
 - Examination and approval, if applicable, of the Individual Annual Accounts, the Consolidated Annual Accounts and the Management Report of Telefónica, and of its consolidated group of companies, as well as of the proposed allocation of the profits/losses of Telefónica, S.A. and the management of its Board of Directors, all with respect to Fiscal Year 2010.
 - Compensation of shareholders: Distribution of dividends to be charged to Unrestricted Reserves.
 - Amendment of the By-Laws principally for adjustments related to the latest legislative developments.
 - Amendment of the Regulations for the General Shareholders' Meeting principally for adjustments related to the latest legislative developments.

-Re-election, appointment and ratification, as applicable, of the following Directors: Mr. Isidro Fainé Casas, Mr. Vitalino Manuel Nafría Aznar, Mr. Julio Linares López, Mr. David Arculus, Mr. Carlos Colomer Casellas, Mr. Peter Erskine, Mr. Alfonso Ferrari Herrero, Mr. Antonio Massanell Lavilla, and Mr. Chang Xiaobing.
(Determination of the number of Directors)

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-Authorization to increase the share capital pursuant to the terms and conditions of Section 297.1.b) of the Companies Act, over a maximum period of five years, delegating the power to exclude pre-emptive rights pursuant to Section 506 of the Companies Act.

-Long-term share incentive plans including: (i) approval of a long-term incentive plan aimed at members of the executive team of the Telefónica Group (including executive Directors); (ii) restricted share plan aimed at employees and executive personnel; (iii) global incentive share purchase plan for the employees of the Telefónica Group.

For information related to our significant financing transactions completed in 2010 and through the date of this Annual Report, see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Anticipated Sources of Liquidity.”

B. Business Overview

We increased our customer base, measured in terms of total accesses, by 8.7% to 287.6 million accesses at December 31, 2010 from 264.6 million accesses at December 31, 2009, which was a 2.1% increase from the 259.1 million accesses we had at December 31, 2008. This growth from December 31, 2009 to December 31, 2010 was primarily driven by an 8.9% increase in mobile accesses, a 27.0% increase in broadband accesses and a 12.0% increase in pay TV accesses. Growth in our total number of accesses from December 31, 2008 to December 31, 2009 was primarily driven by growth in mobile accesses, broadband accesses and pay TV accesses.

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

| | At December 31, | | |
|-------------------------------|-----------------|-----------|-----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses(1) | 42,930.8 | 40,606.0 | 41,355.7 |
| Internet and data accesses | 14,654.3 | 15,082.5 | 18,611.4 |
| Narrowband accesses | 1,997.2 | 1,427.5 | 1,314.1 |
| Broadband accesses(2) | 12,472.1 | 13,492.6 | 17,129.6 |
| Other accesses(3) | 185.0 | 162.4 | 167.8 |
| Mobile accesses(4)(5) | 195,818.6 | 202,332.5 | 220,240.5 |
| Pay TV accesses | 2,267.5 | 2,489.2 | 2,787.4 |
| Final clients accesses | 255,671.1 | 260,510.2 | 282,994.9 |
| Unbundled local loop accesses | 1,748.1 | 2,206.0 | 2,529.2 |
| Shared UL accesses | 602.3 | 447.7 | 264.0 |
| Full UL accesses | 1,145.8 | 1,758.3 | 2,265.3 |
| Wholesale ADSL accesses(6) | 534.7 | 463.4 | 687.4 |
| Other accesses(7) | 1,150.1 | 1,426.0 | 1,420.7 |
| Wholesale accesses | 3,433.0 | 4,095.3 | 4,637.4 |
| Total accesses | 259,104.1 | 264,605.5 | 287,632.3 |

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- (1) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes our accesses for internal use. It also includes VoIP and naked ADSL accesses.
- (2) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits and naked ADSL accesses.
- (3) Includes remaining non-broadband final client circuits.
- (4) Includes accesses of Telemig. Medi Telecom accesses are excluded at December 31, 2009.
- (5) In 2009 in order to align the criteria for the key performance indicators of our mobile operations, the definition of mobile accesses (and, therefore, of total accesses) was revised to include machine-to-machine accesses. In addition, we revised the accounting criteria for pre-pay mobile accesses at Telefónica O2 Czech Republic and Telefónica O2 Slovakia to conform to the accounting criteria for pre-pay mobile

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accesses throughout the Group. In order to count a pre-pay mobile access, such access must have been active in the most recent three months prior to counting. As a result of both revisions, we restated 2008 mobile accesses, adding 0.2 million accesses in the aggregate.

(6) Includes unbundled lines by Telefónica O2 Germany.

(7) Includes circuits for other operators.

Our Services and Products

Fixed business

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

- Traditional fixed telecommunication services. Our principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long distance and fixed-to-mobile communications services; corporate communications services; supplementary value-added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business-oriented value-added services; intelligent network services; leasing and sale of handset equipment; and telephony information services.
- Internet and broadband multimedia services. Our principal Internet and broadband multimedia services include Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL; naked ADSL (broadband connection without the monthly fixed line fee); narrowband switched access to Internet for universal service, and other technologies; residential-oriented value-added services (including instant messaging, concerts and video clips by streaming video, e-learning, parental control, firewall protection, anti-virus protection, content delivery and personal computer sales); television services such as Imagenio, our IPTV business, cable television and satellite television; companies-oriented value-added services, like puesto integral o puesto informático, which includes ADSL, computer and maintenance for a fixed price and VoIP services. Also, in some regions, (Spain and Brazil) we are providing services based on Fiber to the Home (FTTH), including a new range of products and services. This line of products includes high speed Internet access (currently up to 30 Mb), which allows Telefónica Spain to provide its customers with advanced IPTV services, such as high definition channels (HDTV), and in Spain, Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR).
- Data and business-solutions services. Our data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, or ASP, service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.
- Wholesale services for telecommunication operators. Our wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators' network deployment; and local loop leasing under the unbundled local loop regulation framework. It also includes bit stream services, bit stream naked, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

Mobile business

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

- Mobile voice services. Our principal service in all of our markets is mobile voice telephony.
- Value added services. Customers in most of our markets have access to a range of enhanced mobile calling features, including voice mail, call hold, call waiting, call forwarding and three-way calling.

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- Mobile data and Internet services. Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allow customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide mobile broadband connectivity and Internet access. Through mobile broadband and Internet access, our customers are able to send and receive e-mail, browse the Internet, download contents (like games), purchase goods and services in m-commerce transactions and use our other data services.
- Wholesale services. We have signed network usage agreements with several MVNOs in different countries.
- Corporate services. We provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on line billing.
- Roaming. We have roaming agreements that allow our customers to use their mobile handsets when they are outside of our service territories, including on an international basis.
- Fixed wireless. We provide fixed voice telephony services through mobile networks in Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.
- Trunking and paging. In Spain and Guatemala, we provide digital mobile services for closed user groups of clients and paging services.

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

Telefónica Spain Operations

Telefónica Spain provides fixed and mobile telephony services in Spain.

Telefónica Spain's total accesses increased by 1.7% to 47.6 million accesses at December 31, 2010 from 46.8 million accesses at December 31, 2009. Total accesses at December 31, 2010 included 24.3 million mobile accesses, 13.3 million fixed telephony accesses, 5.9 million Internet and data accesses and 0.8 million pay TV accesses. Additionally, it included 2.5 million unbundled local loop accesses and 0.6 million of wholesale ADSL accesses.

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

| | At December 31, | | |
|----------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 15,326.3 | 14,200.1 | 13,279.7 |
| Internet and data accesses | 5,670.0 | 5,722.5 | 5,879.8 |
| Narrowband accesses | 388.0 | 219.5 | 136.1 |
| Broadband accesses | 5,246.4 | 5,476.8 | 5,722.3 |
| Other accesses | 35.6 | 26.2 | 21.4 |
| Mobile accesses | 23,604.8 | 23,538.6 | 24,309.6 |
| Pre-pay accesses | 9,037.0 | 8,204.5 | 7,919.8 |

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| | | | |
|------------------------|----------|----------|----------|
| Pay TV accesses | 612.5 | 703.0 | 788.2 |
| Final clients accesses | 45,213.6 | 44,164.2 | 44,257.4 |
| Wholesale accesses | 2,136.1 | 2,614.0 | 3,333.8 |
| Total accesses | 47,349.7 | 46,778.2 | 47,591.2 |

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Telefónica Spain - Fixed business

Telefónica Spain provides fixed telephony services in Spain.

Operations

The following table presents, at the dates indicated, selected statistical data relating to the operations of Telefónica Spain's fixed business:

| | At December 31, | | |
|--------------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 15,326.3 | 14,200.1 | 13,279.7 |
| Internet and data accesses | 5,670.0 | 5,722.5 | 5,879.8 |
| Narrowband accesses | 388.0 | 219.5 | 136.1 |
| Broadband accesses | 5,246.4 | 5,476.8 | 5,722.3 |
| Other accesses | 35.6 | 26.2 | 21.4 |
| Pay TV accesses | 612.5 | 703.0 | 788.2 |
| Final clients accesses | 21,608.8 | 20,625.6 | 19,947.8 |
| Wholesale line rental accesses | 9.5 | 97.4 | 294.5 |
| Unbundled local loop accesses | 1,698.0 | 2,153.8 | 2,477.1 |
| Shared UL accesses | 602.3 | 447.7 | 264.0 |
| Full UL accesses | 1,095.7 | 1,706.1 | 2,213.1 |
| Wholesale ADSL accesses | 423.8 | 359.0 | 561.3 |
| Other accesses | 4.7 | 3.7 | 0.9 |
| Wholesale accesses | 2,136.1 | 2,614.0 | 3,333.8 |
| Total accesses | 23,744.8 | 23,239.6 | 23,281.6 |

Telefónica Spain's fixed telephony accesses decreased by 6.5% to 13.3 million accesses at December 31, 2010, from 14.2 million accesses at December 31, 2009. Telefónica Spain had net fixed telephony accesses losses of 0.9 million in 2010, lower than the 1.1 million net fixed telephony accesses losses recorded in 2009.

Telefónica Spain's broadband accesses increased 4.5% to 5.7 million at December 31, 2010 from 5.5 million accesses at December 31, 2009.

Unbundled local loops at December 31, 2010 amounted to 2.5 million accesses, of which nearly 10.7% were shared access loops, while the remainder were full unbundled loops (including 602 thousand naked shared loops). Decreasing growth rates in 2010 contributed to fewer net additions for the full year (323 thousand loops), 29.1% below net additions in 2009. Shared loops decreased by 184 thousand accesses in 2010, while full unbundled loops increased by 507 thousand.

Telefónica Spain's total wholesale ADSL accesses were 0.6 million accesses at December 31, 2010, an increase of 56.4% compared to the accesses at December 31, 2009, mainly due to new modalities and price reductions.

In 2010, Telefónica Spain continued to increase its presence in the pay TV market, achieving a customer base of 0.8 million accesses at December 31, 2010, up from 0.7 million accesses at December 31, 2009, an increase of 12.1%.

Since 2005 Telefónica Spain has bundled its ADSL services with other products in Duo bundles, which include voice services, and Trio bundles, which include voice and IPTV services. At December 31, 2010, approximately 89% of Telefónica Spain's broadband accesses were included in Duo or Trio bundles compared to 88% at December 31, 2009.

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Sales and marketing

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

In 2010, we rebranded in connection with our customer-focused strategy. In May 2010, Movistar was launched as the sole trademark for all residential and business customers, in order to foster emotional connections with customers.

In order to boost the value of its services, in June 2010 Telefónica Spain added to its broadband bundles the option for free fixed-to-mobile calls for customers on weekends.

In addition, on October 1, 2010 a new type of broadband access called “hasta 6Mb” was launched. This allows each customer to enjoy increased network speed.

In addition to these measures aimed at improving the products and services offered to broadband customers, ADSL speeds are being increased without concurrent price increases.

We also implemented a local strategy involving different offers adapted to local conditions in each area. Pursuant to this strategy, we focus on areas where competition is particularly high, creating comprehensive plans and outstanding commercial processes such as the establishment of a Convergent Customer Service Centre.

The value of fixed lines was also enhanced by redesigning our fixed line catalogue and launching new types of contracts for fixed line customers that offer more favorably priced packages for access plus calls, which addresses basic domestic communication needs (“Contrato Básico Hogar”, “Planazo Hogar a Fijos y Móviles”).

In the business segment, we continued to promote our Puesto de Trabajo services, which is a package of services designed to meet the voice (fixed and/or mobile), data and IT needs of self-employed, and small- and medium-sized businesses. During 2010 we advanced this initiative with the roll out of Aplicateca services, focusing mainly on management, localization, security and office automation software.

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

- a 24-hour personal customer service line for purchasing any type of product and service and handling customer queries;
- Telefónica stores (Tiendas Telefónica), where customers can test and buy the products we market, the highlight of which is our flagship store at the historic Telefónica headquarters building on the Gran Vía (Madrid), which is the largest telecommunications store in Spain. We also continue to work to improve our stores, equipping them with the resources to meet the needs of residential and business customers. Special attention has been given to the Telyco stores to improve the customer experience;
- the Telefónica On Line Store, accessible by Internet (www.telefonica.es), which offers customers clear and accessible information regarding the services and products we offer and the ability to purchase these services and products online, as well as manage their accounts and access their bills, easily and securely;

- a dedicated customer service system for corporate and residential customers, to ensure each customer's particular needs are met. The technical service centers also help customers resolve possible service problems, and offer enhanced service to customers via specialized and highly-skilled staff.

Competition

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

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

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

Telefónica Spain's estimated market share at December 31, 2010 was as follows:

- fixed telephony accesses market share amounted to approximately 69% of retail accesses;
- broadband market share amounted to approximately 53% of retail accesses; and
- pay TV market share amounted to approximately 19% of the market in terms of accesses.

In November 2008, the CMT approved "Wholesale Access for Telephone Lines," or AMLT, a new product that allows operators to resell telephone lines to their final customers. After more than two years on the market, this service has been consolidated and continues to grow and function correctly, both at systems and operational level.

Network and technology

Telefónica Spain continued to further develop the fixed broadband business with a selective roll-out of fiber optics, Imagenio and data services for large corporate customers, as well as improvements in capacity and security of its aggregation, transport and data network.

Telefónica Spain - Mobile business (Spain)

Telefónica Spain provides mobile services in Spain.

Operations

The estimated penetration of the Spanish mobile market reached 125% at December 2010. The Spanish mobile market showed growth primarily as a result of the growth of data services.

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

| | At or for the year ended December | | |
|--------------------------------------|-----------------------------------|----------|----------|
| | 2008 | 2009 | 2010 |
| Total mobile accesses (in thousands) | 23,604.8 | 23,538.6 | 24,309.6 |
| Pre-pay accesses (in thousands) | 9,037.0 | 8,204.5 | 7,919.8 |
| MOU (minutes) | 156 | n.a. | n.a. |
| Traffic (millions of minutes) | 43,568 | 42,039 | 41,700 |
| ARPU (in euros) | 30.4 | 27.5 | 25.4 |

Our mobile customer base in Spain, measured in terms of accesses, stood at 24.3 million accesses at December 31, 2010, an increase of 3.3% from 23.5 million at December 31, 2009. This evolution was primarily driven by a 6.9% increase in accesses in the contract segment, which offset the decrease of 3.5% in the prepaid segment. In May 2010 we disconnected 113 thousand prepaid accesses from our customer base, without a significant impact on our economic

results.

In the context of an increasingly competitive market, with strong competition in number portability and pressure on pricing, Telefónica Móviles España continues to maintain its leadership in difference between revenue and access share, due to its strong focus on high value customers. Telefónica Spain's mobile business achieved net adds of 771 thousand accesses in 2010, compared to negative net adds of 66 thousand accesses in 2009, with a noteworthy number of net accesses gains in the contract segment: 1.1 million accesses in 2010, up from 0.8 million in 2009.

At December 31, 2010, approximately 67.4% of our mobile accesses in Spain were contract, which represents an increase of 2.3 percentage points from December 31, 2009.

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ARPU for Telefónica Spain's mobile business decreased 7.3% to €25.4 in 2010 from €27.5 in 2009, primarily due to by mobile termination rate cuts (-19.2% year-on-year following the cuts implemented in October and April 2010), lower usage by customers in the current environment and increased price-oriented competition, offsetting higher contribution from connectivity revenue.

Traffic for 2010 decreased 0.8% to 41,700 million minutes compared to 42,039 million minutes in 2009 mainly due to lower voice usage.

Sales and marketing

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

- in-depth market segmentation, with a focus on customer value;
- programs to promote customer loyalty;
- pricing policies to stimulate usage, including launching segmented packages and innovative tariff options; and
- a focus on the latest market trends involving mobile Internet access, either from devices used to make voice calls or from devices that complement fixed broadband and enable large amounts of data to be downloaded on the move.

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

During 2010 Telefónica Spain's main marketing campaigns focused on boosting demand for mobile broadband, with the launch of data flat rates for browsing the web using a smartphone or mobile internet to access (content, music, television, etc) as well as browsing the web using a laptop or mobile connectivity device, developing new concepts such as "try and buy". In addition, Telefónica Spain offers access to mobile broadband services with HSPA technology. These favorable data rates and mobile broadband capable devices have been bundled by Telefónica Spain in order to promote an increase in the number of accesses and level of use of mobile broadband services in Spain. In order to help achieve this goal:

- In 2010, Telefónica Spain launched complementary mobile and fixed broadband services at very competitive prices.
- In 2010, Telefónica Spain advanced its portfolio of data tariffs for the residential segment, launching tariffs that address technology needs such as multi-device flat-rate data plans enabling users to browse with tablets and smartphones at no extra cost, and new tranches to existing plans that better meet customer needs. The main innovations in our mobile voice portfolio for corporate customers have focused on increasing voice time allotments. We have also initiated plans to bundle mobile voice and data, which offers single-contract advantages.

Competition

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

principal shareholder is TeliaSonera, and other MVNO operators.

Telefónica Spain's estimated market share in Spain in terms of mobile accesses was approximately 41.4% at December 31, 2010.

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Network and technology

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

In 2010, Telefónica Spain invested in and expanding mobile third generation, or 3G, in Spain and developing its technological platforms and information systems.

Telefónica Europe

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

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

| | At December 31, | | |
|----------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 1,952.7 | 1,827.5 | 3,672.4 |
| Internet and data accesses | 1,354.5 | 1,754.7 | 4,496.4 |
| Narrowband accesses | 163.4 | 137.3 | 503.2 |
| Broadband accesses | 1,158.7 | 1,589.1 | 3,964.9 |
| Other accesses | 32.4 | 28.3 | 28.3 |
| Mobile accesses | 41,401.8 | 44,095.0 | 46,675.5 |
| Pay TV accesses | 114.5 | 137.6 | 206.4 |
| Final clients accesses | 44,823.5 | 47,814.9 | 55,050.6 |
| Wholesale accesses | 1,237.9 | 1,425.2 | 1,247.7 |
| Total accesses | 46,061.4 | 49,240.1 | 56,298.3 |

Telefónica Europe's total accesses increased 14.3% to 56.3 million accesses at December 31, 2010 from 49.2 million accesses at December 31, 2009. This increase was mainly driven by the inclusion of accesses from HanseNet into Telefónica Europe's accesses during 2010. Total accesses at December 31, 2010 included 46.7 million mobile accesses, 3.7 million fixed telephony accesses, 4.5 million Internet and data accesses and 0.2 million pay TV accesses. Additionally, it included 1.2 million ADSL wholesale accesses.

United Kingdom – Telefónica O2 UK

Operations

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

| | At December 31, | | |
|--|-----------------|------|------|
| | 2008 | 2009 | 2010 |

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| | (in thousands) | | |
|----------------------------|----------------|----------|----------|
| Internet and data accesses | 340.9 | 591.5 | 671.6 |
| Broadband accesses | 340.9 | 591.5 | 671.6 |
| Mobile accesses | 20,274.7 | 21,299.3 | 22,211.5 |
| Pre-pay accesses | 11,862.5 | 11,740.3 | 11,712.3 |
| Final clients accesses | 20,615.6 | 21,890.8 | 22,883.1 |
| Total accesses | 20,615.6 | 21,890.8 | 22,883.1 |

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| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| MOU (minutes) | 207 | n.a. | n.a. |
| Traffic (millions of minutes) | 46,585 | 53,856 | 58,143 |
| ARPU (in euros) | 29.0 | 24.7 | 25.1 |

The estimated mobile penetration rate in the United Kingdom was approximately 133% at December 31, 2010, compared to approximately 126% at December 31, 2009.

Total accesses for Telefónica O2 UK, Telefónica Europe's operating company in the United Kingdom, increased 4.5% to 22.9 million accesses at December 31, 2010 compared to 21.9 million accesses at December 31, 2009 (excluding the Tesco mobile customer base, which is the result of a joint venture in which Telefónica O2 UK holds a 50% stake and whose customers use the Telefónica O2 UK network). Telefónica O2 UK, had net adds of 0.9 million accesses in 2010, 11% less than its net additions in 2009.

Telefónica O2 UK added 0.9 million mobile contract accesses in 2010, bringing the total at December 31, 2010 to 10.5 million mobile contract accesses, an increase of 9.8% from December 31, 2009. Pre-pay mobile accesses decreased from 11.74 million accesses at December 31, 2009 to 11.71 million accesses at December 31, 2010. At December 31, 2010 mobile contract accesses made up 47.3% of Telefónica O2 UK's mobile customer base, compared to 44.9% at December 31, 2009. At December 31, 2010 Telefónica O2 UK had 0.7 million broadband accesses compared to 0.6 million broadband accesses at December 31, 2009.

ARPU was €25.1 in 2010 up from €24.7 in 2009 (a decrease of 2.1% in local currency). The decrease in local currency ARPU was caused by the impact of lower mobile termination rates, or MTRs, which was partially offset by the increased demand for data from smartphone users. Traffic in 2010 increased 8% to 58,143 million minutes compared to 53,856 million minutes in 2009.

Sales and marketing

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

In 2010, Telefónica O2 UK continued its focus on high-value customers across various segments and offered a wide range of smartphones such as the iPhone 4 and a range of android devices, in addition to mobile broadband, representing one of the key drivers of revenue growth in 2010.

Competition

Telefónica O2 UK's estimated market share was approximately 26.6% at December 31, 2010 compared with approximately 26.2% at December 31, 2009, based on the number of mobile accesses.

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

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

Network and technology

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

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Germany – Telefónica O2 Germany

Operations

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in Germany (2010 data includes HanseNet figures).

| | At December 31, | | |
|-------------------------------|-------------------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | — | — | 1,916.4 |
| Internet and data accesses | 214.8 | 285.1 | 2,914.7 |
| Narrowband accesses | — | — | 385.7 |
| Broadband accesses | 214.8 | 285.1 | 2,529.1 |
| Mobile accesses | 14,198.5 | 15,507.4 | 17,049.2 |
| Pre-pay accesses | 7,231.5 | 7,807.0 | 8,795.2 |
| Pay TV accesses | — | — | 77.2 |
| Final clients accesses | 14,413.3 | 15,792.5 | 21,957.5 |
| Wholesale accesses | 1,128.4 | 1,316.8 | 1,116.5 |
| Total accesses | 15,541.7 | 17,109.3 | 23,074.0 |
| | Year ended December 31, | | |
| | 2008 | 2009 | 2010 |
| MOU (minutes) | 138 | n.a. | n.a. |
| Traffic (millions of minutes) | 22,313 | 23,257 | 25,543 |
| ARPU (in euros) | 17.4 | 15.6 | 14.8 |

The estimated mobile penetration rate in Germany was approximately 131% at December 31, 2010, compared to approximately 132% at December 31, 2009.

The total customer base of Telefónica O2 Germany, Telefónica Europe's operating company in Germany, increased by 6.0 million accesses from December 31, 2009 to 23.1 million accesses at December 31, 2010, due primarily to our acquisition of HanseNet.

Telefónica O2 Germany had net adds of 0.6 million mobile contract accesses and 1.0 million mobile pre-pay accesses in 2010, bringing the contract and pre-pay customer base at December 31, 2010 to 8.3 million accesses and 8.8 million accesses respectively.

At December 31, 2010, Telefónica O2 Germany had a customer base of 2.5 million broadband accesses. Telefónica O2 Germany reported 1.1 million ULL lines at December 31, 2010, a decrease of 15.2% from 1.3 million ULL lines at December 31, 2009. The decrease in ULL lines was due to the absorption of former HanseNet lines.

During March 2010 and following the acquisition of HanseNet, Telefónica O2 Germany added 2.1 million broadband accesses, 1.8 million fixed telephony accesses, 0.4 million narrowband accesses and 0.1 million pay TV accesses to its portfolio.

Mobile ARPU continued to decline in 2010, decreasing 5.5% to €14.8 in 2010 from €15.6 in 2009, mainly as a result of an approximately 62% regulated cut in MTRs in the last two years, through December 2010. Traffic in 2010

increased 9.8% to 25,543 million minutes compared to 23,257 million minutes in 2009.

Sales and marketing

During 2010, Telefónica O2 Germany bolstered its commercial model with the introduction of the iPhone to its portfolio. In addition, Telefónica O2 Germany unveiled its O2 Blue tariff, specifically targeted at Smartphone users and providing simple and affordable tariffs for this growing segment of the market.

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Competition

Telefónica O2 Germany's estimated market share in Germany was approximately 15.7% at December 31, 2010 compared to approximately 14.6% at December 31, 2009, based on number of mobile accesses.

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

Telefónica O2 Germany purchased spectrum licenses in 2010 for approximately €1,379 million in connection with its efforts to provide next-generation mobile services.

Network and technology

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

Czech Republic and Slovakia – Telefónica O2 Czech Republic and Telefónica O2 Slovakia

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

Operations

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

| | At December 31, | | |
|-------------------------------|-------------------------|---------|---------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 1,893.4 | 1,770.6 | 1,669.2 |
| Internet and data accesses | 779.5 | 848.7 | 898.8 |
| Narrowband accesses | 163.4 | 137.6 | 117.5 |
| Broadband accesses | 583.7 | 683.1 | 753.0 |
| Other accesses | 32.4 | 28.3 | 28.3 |
| Mobile accesses | 4,802.1 | 4,944.6 | 4,838.6 |
| Pre-pay accesses | 2,282.8 | 2,130.2 | 1,975.0 |
| Pay TV accesses | 114.5 | 137.6 | 129.2 |
| Final clients accesses | 7,589.5 | 7,701.5 | 7,535.8 |
| Wholesale accesses | 109.5 | 108.4 | 131.2 |
| Total accesses | 7,698.9 | 7,810.0 | 7,667.0 |
| | Year ended December 31, | | |
| | 2008 | 2009 | 2010 |
| MOU (minutes) | 121 | n.a. | n.a. |
| Traffic (millions of minutes) | 7,420 | 8,232 | 8,790 |

| | | | |
|-----------------|------|------|------|
| ARPU (in euros) | 22.8 | 19.3 | 18.5 |
|-----------------|------|------|------|

The estimated mobile penetration rate in the Czech Republic based on registered customers was approximately 135% at December 31, 2010, compared to approximately 134% at December 31, 2009.

Fixed telephony accesses for Telefónica O2 Czech Republic, Telefónica Europe's operating company in the Czech Republic, decreased by 5.7% to 1.7 million accesses at December 31, 2010 from 1.8 million accesses at December 31, 2009, mainly due to the challenging environment.

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Telefónica O2 Czech Republic's broadband accesses increased 10.2% compared to December 31, 2009 to 0.8 million accesses at December 31, 2010. These increases are primarily as a result of increased demand for accesses in the Czech Republic. Meanwhile, the pay TV customer base decreased 6.1% to 0.1 million accesses at December 31, 2010.

Telefónica O2 Czech Republic's mobile accesses decreased 2.1% to 4.8 million accesses at December 31, 2010, from 4.9 million accesses at December 31, 2009. Contract mobile accesses accounted for 59.2% of these accesses at December 31, 2010, up from 56.9% at December 31, 2009. The number of pre-pay mobile accesses decreased 7.3%, to 2.0 million accesses at December 31, 2010, from 2.1 million accesses at December 31, 2009.

ARPU decreased to €18.5 in 2010 from €19.3 in 2009 (a reduction of 8.1% in local currency), primarily due to MTR cuts and reduced roaming rates. Traffic in 2010 increased 6.8% to 8,790 million minutes compared to 8,232 million minutes in 2009.

Sales and marketing

Continued uptake of "O2 Neon" tariffs, a postpaid tariff with attractive prices, an increased retail fixed broadband customer base as well as a stabilization of fixed line losses contributed to solid commercial momentum in 2010, despite the challenging economic environment.

Competition

Telefónica O2 Czech Republic had an estimated mobile market share of approximately 38.5% at December 31, 2010, compared to approximately 39.2% at December 31, 2009, based on number of mobile accesses.

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

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

Network and technology

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

Slovakia

At December 31, 2010, Telefónica O2 Slovakia's total number of mobile accesses amounted to 0.9 million accesses, an increase of 59.2% compared to December 31, 2009. Contract mobile accesses accounted for 38.0% of these accesses at December 31, 2010 compared to 35.4% at December 31, 2009. Throughout 2010, Telefónica O2 Slovakia continued with "O2 Fér" plan, a simple tariff which unifies pre-pay and contract mobile rates and offers SIM-only products without a handset subsidy.

Ireland – Telefónica O2 Ireland

Operations

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

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| | At December 31, | | |
|-------------------------------|-------------------------|---------|---------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Total mobile accesses | 1,727.7 | 1,714.3 | 1,695.8 |
| Pre-pay accesses | 1,084.6 | 1,022.5 | 966.5 |
| | Year ended December 31, | | |
| | 2008 | 2009 | 2010 |
| MOU (minutes) | 245 | n.a. | n.a. |
| Traffic (millions of minutes) | 4,867 | 4,672 | 4,732 |
| ARPU (in euros) | 43.2 | 39.6 | 37.0 |

The estimated mobile penetration rate in Ireland was approximately 118% at December 31, 2010, compared to 120% at December 31, 2009.

Telefónica O2 Ireland had net losses of 18 thousand mobile accesses in 2010. Telefónica O2 Ireland's customer base, in terms of mobile accesses, decreased 1.1% from December 31, 2009 to 1.7 million mobile accesses at December 31, 2010.

Telefónica O2 Ireland had net adds of 38 thousand contract mobile accesses in its mobile business in 2010, a decrease of 22.7% on December 31, 2009.

ARPU decreased by 6.6% in 2010 to €37.0 from €39.6 in 2009 as a result of MTR cuts and continued mobile usage optimization by customers, including reduced roaming activity. Traffic in 2010 increased 1.3% to 4,732 million minutes compared to 4,672 million minutes in 2009.

Sales and marketing

During 2010, despite Telefónica O2 Ireland's performance being impacted by difficult economic conditions, intense competition and MTR cuts, Telefónica O2 Ireland posted growth in mobile postpay.

Competition

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

Telefónica O2 Ireland's estimated market share was approximately 32.0% at December 31, 2010 compared to approximately 32.3% at December 31, 2009 based on number of mobile accesses.

Network and technology

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

Telefónica Latin America

Telefónica Latin America provides fixed and mobile telephony services through the operators described in the following sections in the main Latin American markets. In addition, Telefónica Latin America's other members include: Telefónica Empresas, TIWS, the business unit responsible for other telecommunications operators and for managing our international services and the network which supports these services, and Terra Networks Latin América.

The following table presents statistical data relating to our operations in Latin America:

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| | 2008 | At December 31, 2009 2010 (in thousands) | |
|----------------------------|-----------|------------------------------------------------|-----------|
| Fixed telephony accesses | 25,644.5 | 24,578.3 | 24,403.6 |
| Internet and data accesses | 7,629.8 | 7,605.2 | 8,235.1 |
| Narrowband accesses | 1,445.8 | 1,070.6 | 674.8 |
| Broadband accesses | 6,067.0 | 6,426.8 | 7,442.3 |
| Other accesses | 117.0 | 107.8 | 118.0 |
| Mobile accesses | 123,385.2 | 134,698.9 | 149,255.4 |
| Pay TV accesses | 1,540.5 | 1,648.6 | 1,792.7 |
| Final clients accesses | 158,200.1 | 168,531.1 | 183,686.9 |
| Wholesale accesses | 59.0 | 56.1 | 55.9 |
| Total accesses | 158,259.0 | 168,587.2 | 183,742.8 |

Telefónica Latin America's total accesses increased 9.0% to 183.7 million accesses at December 31, 2010 from 168.6 million accesses at December 31, 2009. Total accesses at December 31, 2010 include 149.3 million mobile accesses, 24.4 million fixed telephony accesses, 8.2 million Internet and data accesses and 1.8 million pay TV accesses. Additionally, it includes 56 thousand wholesale accesses.

The following table sets forth certain information at December 31, 2010 regarding the principal Latin American operating companies of Telefónica Latin America.

| Country | Company | Population (in millions) | Interest (%) |
|-------------|----------------------------------------------|-----------------------------|-----------------|
| Brazil | Telecomunicações de São Paulo, S.A.—Telesp | 41.3 (*) | 87.95 |
| | Vivo Participações S.A. | 194.0 | 59.42 |
| Mexico | Telefónica Móviles México, S.A. de C.V. | 110.6 | 100.00 |
| Panama | Telefónica Móviles Panamá, S.A. | 3.5 | 100.00 |
| Nicaragua | Telefónica Móviles Nicaragua, S.A. | 5.6 | 100.00 |
| Guatemala | Telefónica Móviles Guatemala, S.A. | 13.9 | 99.98 |
| El Salvador | Telefónica Móviles El Salvador, S.A. de C.V. | 6.0 | 99.08 |
| Venezuela | Telcel, S.A. | 28.8 | 100.00 |
| Colombia | Colombia Telecomunicaciones, S.A. ESP. | 45.5 | 52.03 |
| | Telefónica Móviles Colombia, S.A. | | 100.00 |
| Peru | Telefónica del Perú, S.A.A. | 29.6 | 98.34 |
| | Telefónica Móviles Perú, S.A.C. | | 99.99 |
| Ecuador | Otecel, S.A. | 14.3 | 100.00 |
| Argentina | Telefónica de Argentina, S.A. | 40.4 | 100.00 |
| | Telefónica Móviles Argentina S.A. | | 100.00 |
| Chile | Telefónica Chile, S.A. | 16.9 | 97.89 |
| | Telefónica Móviles Chile, S.A. | | 100.00 |
| Uruguay | Telefónica Móviles Uruguay, S.A. | 3.4 | 100.00 |

(*)

Concession area only.

Brazil

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

| | At December 31, | | |
|----------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 11,661.9 | 11,253.8 | 11,292.6 |
| Internet and data accesses | 3,625.8 | 3,440.2 | 3,848.2 |
| Narrowband accesses | 996.4 | 723.1 | 446.2 |
| Broadband accesses | 2,557.8 | 2,638.4 | 3,319.2 |
| Other accesses | 71.6 | 78.7 | 82.8 |
| Mobile accesses | 44,945.0 | 51,744.4 | 60,292.5 |
| Pre-pay accesses | 36,384.0 | 41,960.7 | 47,658.6 |
| Pay TV accesses | 472.2 | 487.2 | 486.3 |
| Final clients accesses | 60,704.9 | 66,925.7 | 75,919.6 |
| Wholesale accesses | 34.1 | 34.2 | 33.9 |
| Total accesses | 60,739.1 | 66,959.8 | 75,953.5 |

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Telefónica Latin America's accesses in Brazil increased 13.4% to 76.0 million accesses at December 31, 2010 from 67.0 million accesses at December 31, 2009. This growth reflects a 16.5% year-on-year increase in Vivo's customer base and, to a lesser extent, the expansion of Telesp's (Telefónica Latin America's Brazilian fixed line business) fixed telephony accesses and broadband business, while pay TV accesses were largely unchanged.

Brazil Fixed Business – Telecomunicações de São Paulo, S.A. – Telesp

Operations

Telesp provides fixed telephony and other telecommunications services in the Brazilian state of São Paulo under concessions and licenses from Brazil's federal government.

Telesp achieved significant operating and commercial improvements in 2010, a year during which the company reoriented its management focus and repositioned its commercial efforts, attaining improvements in quality and customer loyalty levels. As a result of this, Telesp's fixed telephony, Internet and data and pay TV accesses increased 2.9% to 15.7 million accesses at December 31, 2010 from 15.2 million accesses at December 31, 2009 primarily due to sharp increases in broadband accesses. Telesp's fixed telephony accesses increased 0.3% to 11.29 million accesses at December 31, 2010 from 11.25 million accesses at December 31, 2009. Of these, 29.9% were pre-pay accesses or accesses with consumption limits.

The Brazilian broadband market continued to grow in 2010. Telesp increased its broadband customer base by 25.8% to 3.3 million accesses at December 31, 2010 compared to 2.6 million accesses at December 31, 2009, recovering market share in this business. Telesp offers pay TV mainly through a DTH solution and, since the fourth quarter of 2007 after the acquisition of Navy Tree, also offers MMDS technology, reaching 0.5 million accesses at December 31, 2010.

Sales and marketing

In Brazil, we employ a differentiated approach to marketing whereby we use a mix of human and technological resources (a specialized team and business intelligence tools, respectively), in addition to specific studies that allow us to target various market segments according to the relevant needs of the customers in each segment. We continuously monitor market trends in an effort to develop new products and services that may address the future needs of our customers.

Telefónica Latin America employs direct sales, telesale and indirect channels to deliver fixed telephony and other telecommunications solutions to residential, small and medium enterprises, or SMEs, and corporate customers in Brazil.

We offer bundled products, which include both local and long-distance traffic and minutes bundled with broadband. We believe that the trend towards bundled offers in Brazil will continue to grow, and that further developing such offers will be important to maintaining our competitiveness in the market. Also, since 2009 Telesp launched its "X-treme" products, based on FTTx technology.

Competition

Our fixed telephony business in Brazil currently faces strong competition in the corporate and premium residential segments in respect of several types of services. In the corporate segment, there is strong competition in both voice services (local and long distance) and data transmission, resulting in greater retention costs to maintain client

relationships. We also face fierce competition in IT services from multinational companies with considerable experience in this business.

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Our main competitors in the corporate fixed telephony line segment are Oi, Intelig and Embratel, a subsidiary of Telmex Internacional. In the high-income residential service segment, we compete for long-distance customers with Embratel and for broadband customers with cable TV providers, mainly NET Serviços de Comunicação S.A. The niche operator owned by Vivendi, GVT, started operating in the state of São Paulo in 2010. For the local voice and high-income segments, we also face increasing competition from mobile operators. To defend ourselves from increasing competition, we focus on improving our broadband products, offering bundled services that include voice, broadband and pay TV, and we are increasing the access speed offered to our clients. In addition, we are improving our market segmentation and developing more competitive products intended to defend our client base from our competitors' product offerings and to defend our market share.

In the low-income fixed local telephony segment, we face less direct competition due to the low profitability of this market. The most significant competition is from pre-pay mobile telecommunications providers.

Telesp had an estimated market share in the fixed telephony market in the State of São Paulo of approximately 72.7% at December 31, 2010 based on the number of fixed telephony accesses, down from approximately 74.4% at December 31, 2009.

Brazil mobile business –Vivo

Operations

With approximately 203.1 million mobile accesses, Brazil ranked first in Latin America in terms of number of mobile accesses at December 31, 2010. At December 31, 2010, Brazil had an estimated mobile market penetration rate of approximately 104.7% compared to approximately 90.5% at December 31, 2009.

Since September 2010, Telefónica has control of Vivo, after acquiring Portugal Telecom's stake in Brasilcel. The license of Vivo considers the Brazilian market on a nationwide basis with an aggregate population of approximately 194 million people. Vivo is the leading operator in Brazil, with an approximate 29.7% market share in terms of mobile accesses.

Vivo's customer base, in terms of number of accesses, increased 16.5% to 60.3 million accesses at December 31, 2010 from 51.7 million accesses at December 31, 2009. Of these, 12.6 million were mobile contract accesses. The primary factors contributing to this growth include new mobile broadband accesses, the wider range of handsets available, Vivo's leadership in terms of brand and distribution chain, ongoing marketing campaigns for pre-pay mobile traffic and an improved capacity to attract contract accesses with the Vivo Voçe plans launched at the end of 2009.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 40,547 | 52,134 | 77,463 |
| ARPU (in euros) | 11.2 | 9.9 | 11.0 |

Traffic in 2010 increased 48.6% to 77,463 million minutes compared to 52,134 million minutes in 2009 due to the characteristics of the promotions that Vivo offered in 2010, focusing on pre-pay and control segments, which require minimum consumption and a prepaid recharge when such consumption is complete.

ARPU was €11.0 in 2010 compared to €9.9 in 2009 (a decrease of 6.0% in local currency), reflecting the increased proportion of "SIM only" accesses and a strong growth in the customer base.

Sales and marketing

Vivo actively manages its distribution channels, which consisted of approximately 11,834 points of sale at December 31, 2010. Also, pre-pay mobile customers have access to a wide range of top up points. Credit top ups can also be made by electronic transfers through an automatic teller machine. At December 31, 2010, approximately 21.0% of Vivo's customer base were contract mobile accesses and the remaining 79.0% were pre-pay accesses. Contract mobile accesses growth was driven by customer acquisition and retention campaigns focused on high-value customers, with an emphasis on the Vivo Voçe plans and mobile internet offers.

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Vivo voçe plans are customized plans that allow customers to choose among various service mixes and include free voice minutes, messaging, and/ or mobile Internet access. Vivo Voçe also aims to increase customer loyalty by encouraging increased usage and advertising competitive prices. These plans are divided into different categories depending on the number of minutes included, and feature additional upgrades, such as extra SMS, extra long distance minutes and extra MMS as well as a 3G Internet upgrade option.

Competition

Vivo was the leading mobile operator in Brazil in terms of number of accesses at December 31, 2010. The growth of the Brazilian market was considerable during the past years while being accompanied by an increase in competition due to the introduction of new competitors in the regions in which Vivo operates. Vivo's major competitors are subsidiaries of TIM Brasil (a subsidiary of Telecom Italia), Claro (a subsidiary of America Móvil) and Oi.

Vivo's estimated market share in terms of mobile accesses in the Brazilian mobile markets in which it operates was approximately 29.7% at December 31, 2010, largely unchanged from December 31, 2009.

Network and technology

The licenses granted to the companies integrated under the Vivo brand allow operations over the WCDMA, GSM, CDMA, CDMA 1XRTT, CDMA EVDO and TDMA systems. Vivo offers both analog and digital services in the bands of 800 MHz, 1900 MHz and 2100 MHz. In 2010 migration from the CDMA to the GSM network continued, increasing Vivo's GSM customer base at December 31, 2010 to 49.6 million accesses, 82.3% of its total customer base.

Venezuela

Venezuela mobile business – Telcel, S.A. – Telcel

Operations

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

| | 2008 | At December 31, | |
|-------------------------|----------|-----------------|----------|
| | | 2009 | 2010 |
| | | (in thousands) | |
| Total mobile accesses | 10,584.0 | 10,531.4 | 9,514.7 |
| Pre-pay accesses | 9,970.7 | 9,891.1 | 8,740.3 |
| Fixed wireless accesses | 1,312.8 | 1,214.3 | 966.2 |
| Pay TV | 8.5 | 62.8 | 69.3 |
| Total accesses | 11,905.3 | 11,808.5 | 10,550.2 |

The mobile penetration rate in Venezuela stood at an estimated 101% at December 31, 2010, an increase of 0.3 percentage points from December 31, 2009.

Telefónica Latin America operates in Venezuela through Telcel, S.A., or Telcel, whose accesses decreased 10.7% to 10.5 million accesses at December 31, 2010 from 11.8 million accesses at December 31, 2009, mainly due to higher handset prices as a consequence of the devaluation of the Venezuelan bolivar.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 14,993 | 14,951 | 14,195 |
| ARPU (in euros) | 16.9 | 21.2 | 14.3 |

Traffic in 2010 decreased 5.1% to 14.195 million minutes from 14,951 million minutes in 2009, due primarily to lower pre-pay accesses.

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ARPU for 2010 was €14.3 compared to €21.2 in 2009, primarily explained by the effects of the devaluation of the Venezuelan bolivar (an increase of 26.3% in local currency, which reflects the increased proportion of contract mobile accesses in the customer base and the continued growth in data revenues).

Sales and marketing

In Venezuela, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market our products. At December 31, 2010, 8% of our mobile accesses in Venezuela were contract mobile accesses, while approximately 92% were pre-pay mobile accesses.

In 2010, Telcel reinforced its position as a leading company in the data business, known for developing new, innovative products and services.

Competition

The major competitors in the Venezuela mobile business are Movilnet and Digitel. Movilnet is a mobile services communication provider owned by the public operator CANTV. Movilnet currently uses CDMA and GSM technologies. Digitel is a mobile communications provider that uses GSM technology and focuses its strategy on mobile internet services based on 3G.

Telefónica's estimated market share in the Venezuelan mobile market, in terms of mobile accesses, was approximately 32.7% at December 31, 2010, down from approximately 36.9% at December 31, 2009. This decrease was due principally to higher handset prices as a consequence of the devaluation of the Venezuelan bolivar, which limited our competitiveness and our ability to increase gross adds.

Argentina

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

| | At December 31, | | |
|----------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 4,603.1 | 4,607.7 | 4,621.5 |
| Fixed wireless accesses | 22.4 | 36.2 | 35.5 |
| Internet and data accesses | 1,284.3 | 1,351.0 | 1,505.4 |
| Narrowband accesses | 182.8 | 112.7 | 65.7 |
| Broadband accesses | 1,082.0 | 1,238.3 | 1,439.7 |
| Other accesses | 19.5 | — | |
| Mobile accesses | 14,829.6 | 15,931.9 | 16,148.9 |
| Pre-pay accesses | 9,687.6 | 10,736.8 | 10,370.4 |
| Final clients accesses | 20,717.0 | 21,890.7 | 22,275.8 |
| Wholesale accesses | 10.0 | 9.3 | 13.0 |
| Total accesses | 20,726.9 | 21,900.0 | 22,288.8 |

Telefónica Latin America managed a total of 22.3 million accesses in Argentina at December 31, 2010, an increase of 1.8% from December 31, 2009. This increase was underpinned by growth in mobile accesses, which increased by 1.4% to 16.1 million accesses at December 31, 2010 from 15.9 million accesses at December 31, 2009, and in the

number of broadband accesses, which increased by 16.3% to 1.4 million accesses at December 31, 2010 from 1.2 million accesses at December 31, 2009.

Argentina fixed business – Telefónica de Argentina S.A.

Operations

Telefónica Latin America conducts its Argentine fixed business through Telefónica de Argentina, S.A., or Telefónica de Argentina, the leading provider of fixed telephony services in Argentina in 2010 based on number of accesses, according to information provided by its competitors and regulatory authorities.

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Telefónica de Argentina's accesses increased 2.9% to 6.1 million accesses at December 31, 2010 from 6.0 million accesses at December 31, 2009. This modest growth was primarily driven by a 16.3% increase in broadband accesses to 1.4 million accesses at December 31, 2010 from 1.2 million accesses at December 31, 2009. The growth in broadband accesses was accompanied by a slight increase in fixed telephony accesses of 0.3% to 4.6 million accesses at December 31, 2010.

Sales and marketing

In Argentina, Telefónica de Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its fixed telephony products and services. Telefónica de Argentina continued answering customers' needs through the development of its broadband business and by providing them new value added services. Telefónica de Argentina also focused its product strategy on bundles, such as flat-rate plans (tarifa plana). In 2010, we continued commercializing long distance flat-rate plans. The flat-rate plan was primarily sold with the bundling of broadband access together with a local traffic plan. At December 31, 2010 approximately 72% of the broadband customer base subscribed to broadband through a bundled package.

Competition

Telefónica de Argentina is the incumbent provider of fixed telephony services in the southern region of Argentina. However, other licensees currently providing local telephony services include Telecom Argentina, S.A. and Telecentro. Claro, a mobile phone company owned by America Móvil, also competes in the fixed telephony market.

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

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

Telefónica had an estimated market share in the Argentine fixed telephony market of approximately 47.1% at December 31, 2010 based on number of fixed telephony accesses, down from approximately 47.8% at December 31, 2009.

Network and technology

Telefónica de Argentina invested in 2010 to develop its broadband access business through ADSL technology, increasing the network coverage and capacity.

Argentina mobile business – Telefónica Móviles Argentina S.A.

Operations

The Argentine mobile market continued to grow in 2010, with an increase in its penetration to 128.6% at December 31, 2010, from 120.3% at December 31, 2009, based on number of mobile accesses.

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Telefónica Latin America conducts its Argentine mobile business through Telefónica Móviles Argentina, S.A., or Telefónica Móviles Argentina, whose accesses increased 1.4% to 16.1 million accesses at December 31, 2010 from 15.9 million accesses at December 31, 2009. Telefónica Móviles Argentina also increased its number of contract accesses by 11.2% to 5.8 million accesses at December 31, 2010 from 5.2 million accesses at December 31, 2009.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 12,941 | 15,562 | 17,550 |
| ARPU (in euros) | 8.7 | 8.6 | 9.2 |

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Traffic reached 17,550 million minutes in 2010, an increase of 12.8% compared to 15,562 million minutes in 2009, mainly driven by the growth in on-net traffic.

ARPU was €9.2 in 2010 compared to €8.6 in 2009 (an increase of 6.7% in local currency), which was due mainly to higher unit voice consumption and increasing data usage.

Sales and marketing

In Argentina, Telefónica Móviles Argentina uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2010, approximately 35.8% of our accesses in Argentina were contract mobile accesses. During 2010, Telefónica Móviles Argentina continued to pursue its objective of leading the 3G mobile data market and continuing to drive traditional customer revenue growth through greater levels of traditional consumption.

Competition

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

Telefónica Móviles Argentina's estimated market share in the Argentine mobile market in terms of mobile accesses was approximately 31.0% at December 31, 2010, down from approximately 33.0% at December 31, 2009.

Network and technology

In Argentina we operate on digital networks based upon GSM and UMTS technology. At December 31, 2010, GSM accesses represented 96.7% of Telefónica Móviles Argentina's accesses. Also, Telefónica Móviles Argentina developed its mobile broadband business through UMTS technology, increasing coverage.

Chile

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

| | At December 31, | | |
|----------------------------|-----------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 2,121.0 | 2,028.0 | 1,939.3 |
| Internet and data accesses | 743.8 | 807.2 | 836.0 |
| Narrowband accesses | 18.7 | 15.9 | 6.6 |
| Broadband accesses | 716.6 | 783.2 | 821.5 |
| Other accesses | 8.6 | 8.1 | 7.9 |
| Mobile accesses | 6,875.0 | 7,524.7 | 8,794.0 |
| Pre-pay accesses | 4,956.0 | 5,435.9 | 6,179.3 |
| Pay TV accesses | 263.0 | 285.1 | 341.2 |
| Final clients accesses | 10,002.7 | 10,645.0 | 11,910.5 |
| Wholesale accesses | 11.5 | 8.9 | 5.3 |
| Total accesses | 10,014.3 | 10,653.8 | 11,915.8 |

At December 31, 2010 Telefónica Latin America managed a total of 11.9 million accesses in Chile, 11.8% more than at December 31, 2009, underpinned by growth in mobile accesses, which increased by 16.9% to 8.8 million accesses at December 31, 2010 from 7.5 million accesses at December 31, 2009. Growth was also driven by a 4.9% increase in final clients broadband accesses to 0.8 million accesses at December 31, 2010, and a 19.7% increase in pay TV accesses to 0.3 million accesses at December 31, 2010. Fixed telephony accesses decreased 4.4% to 1.9 million accesses at December 31, 2010 from 2.0 million accesses at December 31, 2009.

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Chilean fixed business – Telefónica Chile S.A.

Operations

Telefónica Latin America conducts its Chilean fixed business through Telefónica Chile, the leading fixed line telecommunications operator in Chile based on number of accesses, according to information provided by its competitors and regulatory authorities.

Telefónica Chile's accesses decreased 0.2% to 3.1 million accesses at December 31, 2010. Telefónica Chile's fixed telephony accesses decreased 4.4% from December 31, 2009 to 1.9 million accesses at December 31, 2010. Broadband and pay TV accesses continued to grow in 2010, and Telefónica Chile managed 821 thousand broadband accesses at December 31, 2010 compared to 783 thousand at December 31, 2009.

Telefónica Chile's pay TV business grew to 0.3 million accesses at December 31, 2010. Telefónica Chile established itself as the third pay TV operator in Chile, by number of accesses.

Sales and marketing

Telefónica Chile launched bundle services of broadband and voice to satisfy customers' demand. Also, double and triple play bundles represented one of the drivers of revenue growth. The integration of the fixed and mobile businesses also led to the bundling of the services of both businesses, enabling us to market a greater range of products and permitting customers to combine packages to meet their needs.

The customer service model developed by Telefónica Chile, features the following characteristics:

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

Since October 25, 2009, all fixed and/or mobile businesses products and services have been marketed under the brand "Movistar," formerly used exclusively by the mobile business.

Competition

VTR is our principal competitor in the Chilean fixed telephony market.

Telefónica Chile's estimated market share at December 31, 2010 was approximately 57.7% of retail fixed telephony accesses, down from approximately 58.4% at December 31, 2009.

Network and technology

Telefónica Chile made improvements on its network to support broadband and TV accesses growth, while updating it to be ready for the development of the VDSL and fiber optic, or FTTx, access networks.

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

Operations

The mobile penetration rate in Chile stood at an estimated 125.8% at December 31, 2010, an increase of approximately 20.2 percentage points from December 31, 2009, when such rate was estimated at approximately

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105.6%. This increase was primarily due to a recovery of the mobile market during 2010, compared with 2009, when mobile market activity was lower due to an unstable economy and less consumption.

Telefónica Latin America conducts its Chilean mobile business through Telefónica Móviles Chile, S.A., or Telefónica Móviles Chile, whose customer base increased 16.9% to 8.8 million accesses at December 31, 2010. The number of contract accesses rose by 25.2% to 2.6 million accesses at December 31, 2010 from 2.1 million accesses at December 31, 2009.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 9,703 | 10,521 | 11,791 |
| ARPU (in euros) | 12.3 | 10.7 | 12.1 |

Traffic in 2010 increased 12.1% to 11,791 million minutes at December 31, 2010 from 10,521 million minutes at December 31, 2009, mainly driven by outgoing traffic, primarily on-net.

ARPU was €12.1 in 2010 compared to €10.7 in 2009 (a decrease of 1.8% in local currency). The decrease in local currency was largely due to MTR cuts, which came into effect on January 23, 2009 (a 3% decrease every January for the subsequent three years).

Sales and marketing

Telefónica Móviles Chile offered promotional campaigns associated with top-ups and prepaid sales while developing mobile broadband service.

Competition

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

Telefónica Móviles Chile's estimated market share in the Chilean mobile sector in terms of mobile accesses was approximately 41.4% at December 31, 2010, down from approximately 42.8% at December 31, 2009.

Network and technology

In Chile, Telefónica Móviles Chile operates with GSM and 3G network, launched in December 2007.

Mexico

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

Operations

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

| | At December 31, | | |
|--|-----------------|------|------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |

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| | | | |
|-------------------------|----------|----------|----------|
| Total mobile accesses | 15,330.6 | 17,400.5 | 19,661.6 |
| Pre-pay accesses | 14,432.4 | 16,328.3 | 18,061.3 |
| Fixed wireless accesses | 133.6 | 334.3 | 565.5 |
| Total accesses | 15,464.2 | 17,734.8 | 20,227.1 |

The mobile penetration rate in Mexico was approximately 82.3% at December 31, 2010 an increase of 7 percentage points from December 31, 2009.

Telefónica Latin America conducts its Mexican mobile business through Telefónica Móviles México, S.A. de C.V., or Telefónica Móviles México. Telefónica Móviles Mexico's customer base increased 14.1% to 20.2 million accesses at December 31, 2010 from 17.7 million accesses at December 31, 2009. At December 31, 2010,

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approximately 91.9% of our mobile customers in Mexico were pre-pay mobile accesses while 8.1% were contract mobile accesses.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 22,431 | 23,186 | 23,232 |
| ARPU (in euros) | 8.2 | 6.9 | 6.9 |

Traffic in 2010 was virtually unchanged from 2009 (+0.2% year-on-year), affected by the introduction of a 3% special production and service tax, the 1% hike in VAT, which was passed directly to the consumer, and changes in the company's commercial offers made in the first half of the year. ARPU was flat (decreasing by 10.8% in local currency).

Sales and marketing

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

Telefónica Móviles México's offer was completed with the "Prepago 1.18" plan in the pre-pay segment, based on a price-per-call offer, which aims to boost our competitiveness without reducing profitability.

Competition

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

Telefónica Móviles México's estimated market share in the Mexican mobile market in terms of mobile accesses was approximately 21.6% at December 31, 2010, an improvement from approximately 20.8% at December 31, 2009.

Network and technology

Telefónica Móviles México has 100% of its accesses on its GSM network. Also, Telefónica Móviles México provides UMTS services.

Peru

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

| | At December 31, | | |
|----------------------------|-----------------|---------|---------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 2,986.5 | 2,971.2 | 2,871.2 |
| Fixed wireless accesses | 485.5 | 582.7 | 537.8 |
| Internet and data accesses | 728.9 | 800.6 | 885.4 |
| Narrowband accesses | 17.7 | 16.9 | 15.4 |

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| | | | |
|------------------------|----------|----------|----------|
| Broadband accesses | 698.4 | 768.0 | 850.8 |
| Other accesses | 12.8 | 15.6 | 19.2 |
| Mobile accesses | 10,612.7 | 11,458.2 | 12,507.1 |
| Pre-pay accesses | 9,575.2 | 10,214.2 | 10,104.4 |
| Pay TV accesses | 654.5 | 686.3 | 690.6 |
| Final clients accesses | 14,982.6 | 15,916.3 | 16,954.3 |
| Wholesale accesses | 0.4 | 0.5 | 0.5 |
| Total accesses | 14,983.0 | 15,916.8 | 16,954.8 |

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At December 31, 2010, Telefónica Latin America had 17.0 million accesses in Peru, which represents an increase of 6.5% from December 31, 2009. This growth in accesses was primarily driven by a 9.2% increase in mobile accesses from December 31, 2009 to 12.5 million mobile accesses at December 31, 2010, mostly in the contract segment.

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

Operations

Telefónica Latin America conducts its Peruvian fixed telephony business through Telefónica del Perú, S.A.A., or Telefónica del Perú, which at December 31, 2010 was the leading fixed line telecommunications operator in Peru based on number of fixed telephony accesses.

Telefónica del Perú had total accesses of 4.4 million at December 31, 2010, a decrease of 0.2% from December 31, 2009, due primarily to decreases in fixed wireless telephony accesses. Fixed telephony accesses decreased 3.4% from December 31, 2009 to 2.9 million accesses at December 31, 2010. Broadband accesses grew by 10.8% from December 31, 2009 to 0.9 million accesses at December 31, 2010.

Sales and marketing

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

Telefónica del Perú focuses its commercial strategy on penetration by targeting specific market segments, commercializing Duos and Trios and leveraging on its customer retention campaign.

Competition

In 2010, Telmex and Americatel (now operating under the Claro brand), Telefónica del Perú's two primary competitors, focused on offering bundled products (local and long distance telephony together with broadband and pay TV).

Telefónica del Perú had an estimated market share in the Peruvian fixed telephony market of approximately 89.9% at December 31, 2010, based on number of fixed telephony accesses, down from approximately 93.8% at December 31, 2009.

Network and technology

Telefónica del Peru continued to develop ADSL technology, increasing coverage and speed of its broadband business.

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

Operations

The estimated Peruvian mobile penetration rate reached 66.7% approximately at December 31, 2010, an increase of 2 percentage points compared to December 31, 2009.

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Telefónica Latin America conducts its Peruvian mobile business through Telefónica Móviles Perú, S.A.C., or Telefónica Móviles Perú, whose customer base increased 9.2% from December 31, 2009 to 12.5 million accesses at December 31, 2010. This increase was primarily driven by a 93.1% increase in the number of contract mobile accesses from December 31, 2009 to December 31, 2010.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 10,039 | 11,460 | 13,662 |
| ARPU (in euros) | 6.0 | 5.5 | 6.2 |

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Traffic in 2010 increased 19.2% to 13,662 million minutes compared to 11,460 million minutes in 2009, primarily due to increases in on-net traffic, corresponding to our strategy of offering better tariffs to this type of traffic as a benefit of belonging to the largest mobile network of the country.

ARPU was €6.2 in 2010 compared to €5.5 in 2009 (an increase of 0.3% in local currency), primarily due to an increased focus on contract customers.

Sales and marketing

Telefónica Móviles Perú uses a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market its products. At December 31, 2010, approximately 80.8% of Telefónica Móviles Perú's mobile accesses were pre-pay accesses, while approximately 19.2% were contract accesses.

In May 2009, it started to commercialize mobile broadband and launched push to talk in September 2009, which allows instant communications from a mobile device. Since November 2009, pre-pay commercial offers were changed to focus on each of the pre-pay clusters (defined by recharge frequency and money spent) in order to avoid revenue cannibalization.

In 2010, mobile business growth was driven by the increase of our contract customer base, driven by additional plans and migrations from pre-pay to contract. For pre-pay customers, we shifted from conducting mass campaigns to campaigns focusing on customer behavior through the Descubre tu Promo campaign, which offers free minutes, weekend calls and text messages.

Competition

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

Telefónica's estimated market share in the Peruvian mobile market in terms of mobile accesses was approximately 63.4% at December 31, 2010, up from approximately 62.9% at December 31, 2009.

Network and technology

At December 31, 2010 Telefónica Móviles Perú operated UMTS, GSM and CDMA technology. Its digital network is based upon the CDMA/CDMA 1XRTT standard. Telefónica Móviles Perú continued the migration to GSM technology, and at December 31, 2010, GSM accesses accounted for 93.8 % of its total customer base, which represents an increase of 0.4 percentage points from December 31, 2009.

Colombia

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

| | At December 31, | | |
|--------------------------|-----------------|---------|---------|
| | 2008 | 2009 | 2010 |
| | (in thousands) | | |
| Fixed telephony accesses | 2,299.2 | 1,639.8 | 1,586.9 |

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| | | | |
|----------------------------|----------|----------|----------|
| Internet and data accesses | 395.9 | 428.4 | 553.6 |
| Narrowband accesses | 0.3 | 5.9 | 5.6 |
| Broadband accesses | 393.9 | 420.3 | 548.0 |
| Other accesses | 1.7 | 2.2 | 0.0 |
| Mobile accesses | 9,963.1 | 8,964.6 | 10,004.5 |
| Pre-pay accesses | 8,327.3 | 7,203.2 | 7,679.1 |
| Pay TV accesses | 142.3 | 127.2 | 205.3 |
| Final clients accesses | 12,800.5 | 11,159.9 | 12,350.3 |
| Wholesale accesses | 2.9 | 3.3 | 3.3 |
| Total accesses | 12,803.4 | 11,163.2 | 12,353.6 |

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Telefónica Latin America managed a total of 12.4 million accesses in Colombia at December 31, 2010, an increase of 10.7% from December 31, 2009.

This improvement was underpinned by an increase in mobile accesses, which rose 11.6% to 10.0 million at December 31, 2010 from 9.0 million accesses at December 31, 2009. This growth was also driven by a 30.4% increase in broadband accesses to 0.5 million and a 61.4% increase in pay TV accesses to 0.2 million at December 31, 2010. Fixed telephony accesses decreased 3.2% to 1.59 million accesses at December 31, 2010 from 1.64 million accesses at December 31, 2009.

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

Operations

Telefónica Latin America conducts its Colombian fixed telephony business through Colombia Telecomunicaciones, S.A. ESP, or Colombia Telecom, which is present in approximately 1,000 municipalities in Colombia.

Colombia Telecom reached 2.3 million accesses at December 31, 2010, which represents an increase of 6.8% from 2.2 million accesses at December 31, 2009, primarily due to the increase of 30.4% in broadband accesses to 0.5 million at December 31, 2010 from 0.4 million accesses at December 31, 2009. Fixed telephony accesses decreased 3.2% from December 31, 2009 to 1.59 million at December 31, 2010.

Colombia Telecom also launched a pay TV product using satellite technology at the beginning of 2007, allowing it to begin offering Trio bundles (voice, broadband and pay TV). As of December 31, 2010, Colombia Telecom had 0.2 million pay TV accesses, a 61.4% increase compared to December 31, 2009.

Colombia Telecom has a finance lease agreement with PARAPAT. PARAPAT is the consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia Telecom and regulates the operation of assets, goods and rights relating to the provision of telecommunications services by Colombia Telecom. This finance lease agreement includes the lease of the telecommunications assets and the transfer of these assets to Colombia Telecom once the last installment of the lease has been paid which, in accordance with the payment schedule, is expected to be in 2022. We are currently engaged in discussions with the Colombian government, the minority shareholder in Colombia Telecom, in order to explore different strategic alternatives and measures that could maximize value for shareholders and reinforce the capital structure of the company. These conversations include the PARAPAT lease payments structure corresponding to the usage of telecom assets.

Sales and marketing

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

Competition

Colombia Telecom's principal competitors in the Colombian market are Telmex and ETB.

Colombia Telecom had an estimated market share in the Colombian fixed telephony market of approximately 22.3% at December 31, 2010 based on number of fixed telephony accesses, virtually unchanged from approximately 22.4% at December 31, 2009.

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Network and technology

Colombia Telecom continued expanding and upgrading the network to support a broader range of product and services in 2010.

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

Operations

At December 31, 2010 the Colombian mobile market had an estimated penetration rate of 98.3%, an increase of 5.4 percentage points from December 31, 2009.

Telefónica Latin America conducts its Colombian mobile business through Telefónica Móviles Colombia, S.A., or Telefónica Móviles Colombia, whose customer base increased by 11.6% from December 31, 2009 to 10.0 million accesses at December 31, 2010. At December 31, 2010, approximately 23.2% of our mobile accesses in Colombia were contract accesses, compared to 19.6% at December 31, 2009.

| | Year ended December 31, | | |
|-------------------------------|-------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| Traffic (millions of minutes) | 13,568 | 13,665 | 16,226 |
| ARPU (in euros) | 6.8 | 5.9 | 7.2 |

Traffic in 2010 increased 18.7% to 16,226 million minutes compared to 2009.

ARPU was €7.2 in 2010 compared to €5.9 in 2009 (an increase of 2.0% in local currency).

Sales and marketing

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

Competition

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

Telefónica Móviles Colombia’s estimated market share in the Colombian mobile market in terms of mobile accesses was approximately 22.4% at December 31, 2010, up from approximately 21.3% at December 31, 2009.

Network and technology

TDMA was switched off during 2008 and the CDMA network was switched off in 2010. The GSM network continued to increase coverage.

Atento—Contact Center Business

Atento offers a wide range of services and solutions aimed at managing companies' relations with customers throughout their life cycle. In addition to offering customer services, Atento provides back-office services, technical support, credit and collection management, and tailor-made solutions for the various business segments it serves. During 2010, Atento continued to diversify its client base, serving companies in the telecom, financial, consumer and energy sectors, as well as public institutions. At December 31, 2010, Atento operated more than 100 contact centers and had 151,896 contact center personnel in 17 countries on three continents, including Europe (Spain and Czech Republic), Latin America, the United States and North Africa (Morocco).

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Strategic Partnerships

China Unicom

Since 2005, we have had a stake in China Unicom and its predecessor company. On September 6, 2009 we entered into a strategic alliance agreement with China Unicom, which provides for, among other areas for cooperation, joint procurement of infrastructure and client equipment, common development of mobile service platforms, joint provisions of service to multinational customers, roaming, research and development, sharing of best practices and technical, operational and management know-how, joint development of strategic initiatives in the area of network evolution, joint participation in international alliances and exchanges of senior management. In furtherance of this strategic alliance we entered into a subscription agreement with China Unicom, pursuant to which we increased our voting interest in the share capital of China Unicom to 8.06% and China Unicom obtained 0.87% voting interest in our share capital in October 2009.

Pursuant to the strategic alliance agreement mentioned above, China Unicom has agreed to use its best endeavors to maintain a listing of all the issued ordinary shares of China Unicom on the Hong Kong Stock Exchange. For so long as the strategic alliance agreement with us is in effect, China Unicom shall not (i) offer, issue or sell any significant number of its ordinary shares (including treasury shares), or any securities convertible into or other rights to subscribe for or purchase a significant number of China Unicom's ordinary shares (including treasury shares), to any current major competitor of Telefónica or (ii) make any significant investment, directly or indirectly, in any current major competitor of Telefónica. We have made similar undertakings.

The strategic alliance agreement between us and China Unicom terminates on September 6, 2012 subject to automatic annual renewal, subject to either party's right to terminate on six months' notice. Also, the strategic alliance agreement may be terminated by China Unicom if our shareholding in China Unicom drops below 5% of its issued share capital or if China Unicom's shareholding in us drops below 0.5% of our issued share capital. In addition, the strategic alliance agreement is subject to termination in the event either party is in default and automatically terminates on a change in control of China Unicom.

To enhance our already existing strategic alliance with China Unicom, on January 23, 2011, Telefónica and China Unicom entered into the Enhanced Strategic Alliance Agreement pursuant to which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas and each party agreed to invest the equivalent of \$500 million ordinary shares of the other party into the alliance. The transaction was completed by China Unicom on January 28, 2011 with its acquisition of 21,827,499 Telefónica shares, which represents approximately 1.37% of Telefónica's voting share capital. Furthermore, we have undertaken to propose at our next General Shareholders' Meeting the appointment of a director nominated by China Unicom. We have a nine-month period following the execution of this agreement to complete the acquisition from third parties of such a number of China Unicom shares representing an aggregate consideration of \$500 million. Following completion of the transaction, we will own approximately a 9.7% of China Unicom's voting share capital. Telefonica is in the process of making the required investment in China Unicom, and its final ownership percentage of China Unicom's voting capital after such investment may vary from the foregoing as it will depend upon the prevailing share prices at which the investment is made. As of the date of such Agreement, we held shares representing 8.37% of China Unicom's voting share capital and since 2008 Mr. Cesar Alierta is a member of its board of directors.

Telecom Italia

Through a series of transactions from 2007 through 2009, we acquired an indirect holding of 10.49% in the voting shares of Telecom Italia (7.21% of the dividend rights) through our holdings in Telco. The Telecom Italia group is

principally engaged in the communications sector and, particularly, in telephone and data services on fixed lines for final and wholesale customers, in the development of fiber optic networks for wholesale customers in the provision of broadband services and Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector. Telecom Italia operates primarily in Europe, the Mediterranean basin and in South America.

For more information, please see “Item 4. Information on the Company —History and Development of the Company—Recent Developments,” “Item 5. Operating and Financial Review and Prospects —Operating Results—

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Significant Factors Affecting the Comparability of our Results of Operations in the Period Under Review” and “Item 10. Additional Information—Material Contracts.” Telco, through which we hold our stake in Telecom Italia, is included in our consolidated financial statements using the equity method.

Regulation

As a telecommunications operator, we are subject to sector-specific telecommunications regulations, general competition law and a variety of other regulations. The extent to which telecommunications regulations apply to us depends largely on the nature of our activities in a particular country, with traditional fixed telephony services usually subject to more extensive regulations, which can have a direct and material effect on our business areas, particularly in countries that favor regulatory intervention.

To operate our networks, we must obtain general authorizations, concessions or licenses from national regulatory authorities, or NRAs, in those countries in which we operate. Licensing procedures also apply to our mobile operations with respect to radio frequencies. The duration of any particular license or spectrum right depends on the legal framework in the relevant country.

Electronic Communication Regulation in the EU

The EU legal framework for electronic communications services has been developed with the aim of reinforcing the liberalization of the market and improving the functioning of the EU internal market for telecommunications networks and services, which culminated in the adoption of the 2002 EU regulatory framework for electronic communications sector (the “EU Framework”). Such regulatory framework has been subsequently modified in order to take into account technological changes through the adoption of certain new rules by the European Parliament and the Council during the end of 2009. On December 18, 2009 Regulation 1211/2009/EC was published, establishing the framework for the creation of a European regulatory body for the telecommunications industry. The Directive of Better Regulation (Directive 2009/136/EC), which was also published on the same date, modifies the following directives: (i) Directive 2002/21/EC of 7 March 2002 on a common regulatory framework for electronic communications networks and service (“Framework Directive”); (ii) Directive 2002/20/EC of the European Parliament and of the Council of 7 March 2002 on the authorization of electronic communications networks and services (“Authorization Directive”); (iii) Directive 2002/19/EC of the European Parliament and of the Council of 7 March 2002 on access to, and interconnection of, electronic communications networks and associated facilities (“Access Directive”).

The passage and subsequent publication on December 18, 2009 of Directive 2009/140/EC, on citizens’ rights (“Citizens’ Rights Directive”) modifies Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users’ rights relating to electronic communications networks and services (“Universal Service Directive”) and the e-Privacy Directive (2002/58/EC) (the “e-Privacy Directive”) complements and supplements the more general provisions of the Data Protection Directive in the area of electronic communications. It provides for basic obligations to ensure the security and confidentiality of communications over EU electronic communications networks and gives consumers a set of tools to protect their privacy and personal data. These Directives set forth the main principles and procedures that NRAs should follow with respect to regulation for the provision of electronic communications services. The EU Framework establishes an authorization regime containing measures to ensure the universal provision of basic services to consumers and sets out the terms on which providers may access each other’s networks and services.

In 2006, the European Union established a new regulation regarding retention of electronic communications data in order to ensure that electronic communication data are available for the purpose of the investigation, detection and prosecution of serious crimes. These data retention rules set minimum standards for the type of data to be retained

and the retention period. The initial impact of this new regulation is estimated to be significant, although it will depend on the requirements established at the national level and the extent to which operators will be compensated for the costs associated with its implementation. Some European countries, such as Spain and Germany, have already adopted the new regulation at the national level. In Spain, operators shall retain data from their pre-pay customers and extend the data retention period. In Germany the implementation of such regulations has been legally challenged for constitutional reasons and until a decision is made, it will not be applicable. For

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further information regarding the matters discussed above and other aspects of the regulatory risks derived from the new regulation, see “Item 3. Key Information—Risk Factors—Risks related to our business.”

Notably, the EU Framework also harmonizes the rules for deciding when regulation may be imposed on electronic communications providers. In particular, it provides that electronic communications providers can generally only be subject to specific regulation in markets in which they have “significant market power,” or SMP. The concept of SMP, for these purposes, has been aligned to the competition law concept of dominance, which essentially means a market position which allows a company to act independently of customers, suppliers and competitors.

Accordingly, the European Commission has identified in a Recommendation a list of relevant markets whose conditions may justify the application of ex ante specific regulation. The Recommendation was published on February 2003 and it has been modified by another Recommendation published in December 2007, which reduces the relevant markets from 18 to seven. In order to determine whether a company has SMP in any of the markets identified in the Recommendations, NRAs must conduct a market analysis for the relevant market. When an NRA determines a company has SMP in a relevant market, that NRA must impose at least one obligation relating to price control, transparency, non-discrimination, accounting separation or access obligations.

Regulation with respect to voice roaming tariffs in the EU entered into force on June 30, 2007. The regulation introduces a maximum level for the charges that operators may levy at wholesale level as well as maximum retail ceilings (referred to “Eurotariff”) for making and receiving calls while roaming in the EU. In 2009 Regulation 544/2009 was also adopted, which extended tariff regulation through 2012 and also extended the scope of the previous roaming regulation to cover SMS and data services. The wholesale tariff price cap has been set at €0.26 per minute (excluding VAT) from July 2009 and will continue to decrease to €0.22 and €0.18 from July 2010 and from July 2011, respectively. The retail tariff price cap (excluding VAT) has been set at €0.43 per minute for making a call and €0.19 per minute for receiving a call from July 2009, and these prices will continue to decrease for making a call to €0.39 and €0.35, and for receiving a call to €0.15 and €0.11 from July 2010 and from July 2011, respectively. In addition, the new regulation mentioned above limits the price for sending a text message for wholesale and for customers roaming within the EU at €0.04 and at €0.11, respectively. Moreover, the regulation subjects the cost of data transfers to a maximum wholesale cap of €1.00 per megabyte downloaded from August 2009. This cap will be reduced to €0.80 from July 2010 and to €0.50 from July 2011. Receiving an SMS in another EU country will remain free of charge. The new rules will also require that operators protect consumers from “bill shocks” by introducing a cut-off mechanism once a customer’s bill reaches €50 (unless a customer chose another cut-off limit). This cut-off mechanism, along with per second billing after the first 30 seconds for calls made and immediately for calls received must be implemented by March 31, 2010. The Commission will complete a full review of the EU roaming rules by June 30, 2011 and will assess the extent to which the objectives of the rules, including addressing competition in roaming services, have been met.

In addition, the European Parliament and the Council approved Directive 372/87/EC amending Council Directive 87/372/EEC on the frequency band 900 MHz in order to allow the use of such band by systems capable of providing electronic communication services not limited to GSM. Finally, the Commission also adopted a Recommendation on termination rates for mobile and fixed networks.

EU Competition Law

The EU’s competition rules have the force of law in EU Member States and are, therefore, applicable to our operations in EU Member States.

The EC Treaty prohibits “concerted practices” and all agreements for undertakings that may affect trade between Member States and which restrict, or are intended to restrict, competition within the EU. It also prohibits any abuse of a dominant competitive position within the common market of the EU, or any substantial part of it, that may affect trade between Member States.

The EU Merger Regulation requires that all mergers, acquisitions and joint ventures involving participants meeting certain turnover thresholds be submitted to the EU Commission for review, rather than to the national competition authorities. Under the amended EU Merger Regulation, market concentrations will be prohibited if they

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significantly impede effective competition in the EU common market. European Commission and the EU Competition Commissioner are granted the authority to apply the European Competition framework.

Similar competition rules are set forth in each EU Member State’s legislation and are enforced by each of their national competition authorities, or NCAs. All European countries where we have activities and referred to below are Member States of the EU.

Telefónica Spain

Spain

General regulatory framework

The legal framework for the regulation of the telecommunications sector in Spain is principally governed by the General Telecommunications Law (32/2003) and several Royal Decrees. The General Telecommunications Law, among other things, sets forth rules regarding the new system of notification for electronic communications services, establishes the terms by which operators interconnect their networks, defines the universal service provision regime and subjects providers with SMP in particular telecommunications markets to specific obligations.

The Spanish Government has produced a draft which amends the current General Telecommunications Law (32/2003) and implements the new European Telecomm Package. The principal change is the introduction of functional separation as a measure that can be imposed in exceptional circumstances upon operators with a dominant position.

Regulatory supervision

The Telecommunications Market Commission, or the CMT, is the NRA responsible for regulating the telecommunications and audiovisual service markets in Spain. The CMT supervises the specific obligations imposed on operators in the telecommunications market, and it has the requisite power to enforce its decisions whenever necessary.

The Framework Directive requires that NRAs have the power to issue binding decisions to resolve disputes arising in connection with obligations imposed under the regulatory framework.

The Spanish regulatory framework explicitly acknowledges the right for third parties who are affected by a Spanish NRA decision to challenge this decision before the appeal body.

Licenses and concessions

Pursuant to the EU Framework, parties intending to operate a telecommunications network or engage in the provision of electronic communication services must notify the CMT prior to commencing such activity. The CMT will register the telecommunications operator in the Public Operator Registry. Every three years, operators must notify the CMT of their intention to continue offering electronic communications services or operating telecommunications networks.

Concessions to use spectrum are awarded on a non-discriminatory basis by way of a competitive procedure. Telefónica Móviles España is entitled to provide mobile services on several spectrum bands. Our main concessions are:

| Technology | Duration | Ending Date | Extension Period |
|------------|----------|-------------|------------------|
|------------|----------|-------------|------------------|

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| | | | |
|-----------|----------|------------------|----------|
| GSM 900 | 5 years | February 3, 2015 | -- |
| E-GSM 900 | 15 years | June 6, 2020 | 5 years |
| DCS-1800 | 25 years | July 24, 2023 | 5 years |
| UMTS | 20 years | April 18, 2020 | 10 years |

Telefónica Móviles España has obtained the extension of the GSM 900 right of use until February 3, 2015.

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In April 2011, the Spanish Government has adopted a Royal Decree that includes the procedures for the refarming of the 900 and 1800 MHz bands (technology and service neutrality) and announces new award procedures for the 900, 800, 1800 and 2600 MHz bands within the second quarter of 2011.

The Government will assign by an auction process two blocks (of 5 and 4.8 MHz) in the 900 MHz band (available in February 2015). The initial auction price per block in the 900 MHz band will be €169 million. As part of the Digital Dividend, it will also assign by an auction process six blocks of 5 MHz in the 800 MHz band, which will not be available before the end of 2014. The initial auction price per block in the 800 MHz band will be €170 million. Finally in the 2.6 GHz band, the Government will assign by an auction process 2x70 MHz (FDD) and 50 MHz (TDD), with national and regional coverage (available in 2011).

This Royal Decree has established a spectrum cap of 20 MHz below 1GHz and another spectrum cap of 115 MHz spectrum above one GHz (in 1800, 2100 and 2600 MHz bands). The principle of neutrality will apply to technology and services, moreover spectrum trade will be allowed in those bands.

Market analysis

In accordance with the EU Framework, the CMT should identify those markets which lack effective competition, in which case it would impose specific obligations upon operators with SMP. During 2008, the CMT conducted a second round of market analyses to determine which operators have SMP in which markets, the results of which are described below.

Fixed markets

Retail access to the public telephone network at a fixed location market; Retail market for calls at a fixed location and Retail lease lines market

In March 2006, and following a market analysis, the CMT concluded that Telefónica de España is an operator with SMP in the provision of retail access to the public telephone network service at a fixed location market. As an SMP operator, Telefónica de España has certain specific obligations and is subject to certain restrictions, the most relevant of which are maximum price caps for installation and monthly fees. Telefónica de España also has obligations regarding carrier selection, cost accounting and accounting separation.

Offerings of Telefónica de España are also subject to limitations regarding the maximum and minimum amounts in connection with promotions. These limits are updated every 6 months.

Wholesale fixed call origination market

On March 22, 2007, the CMT adopted new regulations concerning call origination on the wholesale fixed call origination market, introducing additional obligations for Telefónica de España to provide wholesale access to its fixed network to other operators, allowing competitors to use its networks to provide access services and other associated services to their customers.

In December 2008, the CMT concluded that Telefónica de España is an operator with SMP in this market and it has requested that Telefónica de España offer wholesale service to assist other operators in offering IP telephony services and provide transparent information of migration to Next Generation Networks, or NGN, centrals, which implies the provision of broad information to competitors about network evolution.

Fixed call termination market on individual networks

As an operator with SMP in fixed call termination market on individual networks, Telefónica de España is required to submit an “Interconnection Reference Offer (OIR)” outlining the terms and conditions under which it will interconnect with other operators.

In December 2008, the CMT concluded that Telefónica de España is an operator with SMP in this market. The CMT maintained its obligations for Telefónica de España to submit an Interconnection Reference Offer (OIR). The

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CMT also added the obligation that Telefónica de España provide transparent information with respect to migration to NGN centrals, which implies the provision of broad information to competitors about network evolution.

In addition, on November 25, 2010 the CMT approved a modification of the Telefónica Interconnection Reference Offer (RIO), reducing interconnection prices paid by alternative operators for call termination in Telefónica network.

Mobile market

Mobile voice call termination

In September 2006, the CMT established a progressive reduction schedule for MTRs (the “glide path”) from October 2006 to September 2009. In July 2009, the CMT established a new glide path for mobile voice call termination rates with an objective price of €0.04 per minute by April 2012, through which the mobile voice call termination rates of the four Spanish mobile operators will converge by 2012.

In December 2008, Telefónica Móviles España was again identified by the CMT as an operator with SMP in mobile voice call termination on individual mobile networks, and therefore continues to be subject to the obligations already imposed on it by the CMT and as well as the additional obligation to charge for seconds of usage according to a single termination price established by the CMT.

Mobile voice call origination

MVNOs are mobile operators that are not entitled to use spectrum for the provision of mobile services. Consequently, they must reach an access agreement with a mobile network operator in order to provide mobile access to their customers.

On February 2, 2006, the CMT established that mobile network operators collectively hold a dominant position in the mobile access and voice call origination market. Mobile operators are, therefore, obliged to negotiate reasonable access to their network upon request from an MVNO, charging reasonable prices for access services provided. MVNOs and mobile operators negotiate an access agreement on a commercial basis. If parties are unable to reach an agreement independently, the CMT may intervene to resolve the dispute.

Wholesale (physical) network infrastructures access

In January 2009, the CMT concluded that Telefónica de España is an operator with SMP in the wholesale (physical) network infrastructures access market, and imposed the following obligations on Telefónica de España: access to full and shared unbundled access to copper loops, sub-loops and ducts, cost oriented tariffs and accounting separation, transparency and non-discrimination obligations including an “Unbundling Reference Offer” and a “Ducts Reference Offer.” In February 2008, the CMT imposed similar obligations with respect to vertical access to buildings.

Wholesale broadband access

In January 2009, the CMT identified Telefónica de España as an operator with SMP in the wholesale broadband access market, and consequently the CMT has imposed on Telefónica de España the obligation to provide wholesale broadband access service until 30 Mbps to other operators in copper and fiber infrastructure. The CMT also obliges Telefónica de España to publish a wholesale broadband access reference offer, provide cost-oriented tariffs and accounting separation, non-discrimination in network access and to communicate broadband retail changes in services prior to offering them in the market.

On November 16, 2010 the CMT approved a new wholesale broadband offer (new broadband ethernet service, or NEBA), which will allow alternative operators to provide retail services to consumers more independently from Telefónica retail offers. Telefónica proposed prices for these wholesale services in March 2011 and we are currently awaiting approval by the CMT. Until the NEBA service is available, Telefónica will offer its FTTH retail services for resale through third parties.

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Universal service obligations

The General Telecommunications Law outlines provisions to ensure that certain basic telecommunications services are guaranteed to all Spanish citizens.

Universal service is defined, under the law, as a set of communication services guaranteed to all end users, irrespective of their geographic location, of a determined quality and at an affordable price. Universal service ensures that all citizens receive a connection to the fixed line public network and network services, a telephone directory service, a sufficient number of public telephones and functional Internet access. Additional provisions are included under the scope of universal service obligation, or USO, in order to ensure that users with disabilities and special social needs, including those with low incomes, have access to the services enjoyed by the majority of users.

In December 2008, following applications by three operators, Telefónica de España was awarded a tender for the provision of directory enquiry services for a period of three years and it has also been designated for the provision of the remaining universal service elements until a new tender process takes place. A new tender process is expected to take place during the third quarter of 2011.

To finance the USO, the General Telecommunications Law stipulates that the CMT must determine whether the net cost to provide universal service implies an unfair burden for the operators. On September 2008, the CMT published a resolution which established net cost of USO for the years 2003, 2004 and 2005, the obligation of operators to contribute to USO funding and the amount of contributions these operators must make. During 2009, the CMT established the net cost of USO for the years 2006 and 2007.

The Sustainable Economy Law, adopted in March 2011, has introduced the obligation to offer a data connection of broadband at a 1 Mb speed as part of the universal service scope.

Protection of consumers

On December 29, 2006, Law 44/2006 regarding the protection of consumers and users was approved. Under this law, users may only be charged for services actually used. Consequently, operators can only charge for the exact seconds of usage. On May 22, 2009 a set of User's Rights was adopted through secondary legislation and it constitutes a holistic approach to users' rights. Most of the content has been extracted from the General Telecommunications Law 32/2003 (LGT), Royal Decree 424/2005 of April 15, 2005 (RSU) and Order ITC/912/2006 (Quality Order).

Service quality

On March 29, 2006, a regulation was approved which established certain quality of service, or QoS, obligations for electronic communications service providers such as including service level agreements, or SLAs, commitments in electronic communication retail contracts. This regulation also requires operators to provide adequate information to customers in relation to service quality levels and detailed billing disclosure to customers. Additionally, a standardized process for billing customers has been implemented under this regulation.

Data retention for law enforcement purposes

The 2006 Directive 2006/24/EC of the European Parliament and of the Council on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks ("Data Retention Directive") was incorporated into Spanish legislation on November 9, 2007. Electronic communications operators are obliged to ensure the retention of data on electronic communications

for a period of twelve months.

Additionally, Spain has implemented a register of pre-pay mobile customers in conjunction with these requirements. Existing pre-pay customers have a period of two years for the registration since the law entered into force and the new clients must be registered immediately.

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Public Broadcasting TV funding mechanism

In August 2009, the Spanish Parliament approved a new funding policy for public television, Radio Televisión Española (“RTVE”), which includes the discontinuation of advertising on public television. The law includes a tax on telecommunications companies and television stations to help fund the phasing out of advertising on RTVE.

The law applies a tax of 0.9% on the gross revenue of telecommunications companies providing audiovisual services in Spain and 3.0% in the case of regular TV broadcasters. Pay television stations will pay 1.5% of their gross revenue. Both the Spanish regulator and competition authority questioned the legality of this funding mechanism in light of the national and European regulatory framework. The EU Directorate General of Competition concluded that such funding mechanism did not constitute illegal state aid. Without prejudice to the state aid investigation initiated in December 2009, the European Commission sent on March 18, 2010 a formal request for information to the Spanish government over the new charge imposed on telecommunications operators to offset the discontinuation of advertising on RTVE. The Commission is concerned that this administrative charge, based on authorized operators’ gross revenue, may be incompatible with EU law since it does not appear to be related to costs arising from regulatory supervision. In March 2011, the Commission issued its decision to continue with the infringement procedure and referred the case to the European Court of Justice.

General Audiovisual Law

In May 2010, the Spanish Parliament approved a new General Audiovisual Law, supplanting the EU legal framework (Audiovisual Media Services Directive), which regulates the audiovisual service market (linear and non-linear services). It provides the rights and obligations in connection with the provision of different types of audiovisual services and creates a new National Audiovisual Counsel in charge of ensuring the fulfillment of such obligations by operators.

Telefónica Europe

United Kingdom

The EU Regulatory Framework was implemented in the United Kingdom by the Communications Act in 2003. Under this act, responsibility for the regulation of electronic communications networks and services rests with the Office of Communications, or Ofcom.

Licenses and concessions

Telefónica O2 UK has provided GSM services since July 1994. In January 2011 its license was re-issued to allow UMTS to be deployed at both 900MHz (2 x 17.4 MHz) and 1800MHz (2 x 5.8MHz) frequencies. The license was also amended to extend the minimum notice period to five years; the license retains its indefinite duration. In April 2000 Telefónica O2 UK was awarded a UMTS license, which expires on December 31, 2021 (2 x 10 MHz + 5 MHz). On February 2, 2011, Ofcom issued a notice proposing to amend this license to provide for an indefinite duration (subject to five years notice after the end 2021) in exchange for a commitment to provide greater population coverage. Telefónica O2 UK is not obliged to accept this variation, but may opt to apply for it. Such negotiation is still pending.

The license can be surrendered by the operator at any time. However, Ofcom can only revoke the license if the licensee does not pay its fees, there has been a breach of the license or for reasons related to the management of the radio spectrum, provided that in such case the power to revoke may only be exercised after one year’s notice is given in writing and after Ofcom has considered any pertinent factors. The UK government may also revoke the license for

national security reasons or in order to comply with the United Kingdom's EU or other international obligations.

Future spectrum

Ofcom has published its proposals for the award of 800MHz and 2.6GHz spectrum. In these proposals, Ofcom seeks to ensure that at least four carriers hold a minimum spectrum portfolio deemed sufficient to provide high

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quality data services. Ofcom plans to pursue these goals through an elaborate auction structure that incorporates spectrum “floors” and safeguard caps. Ofcom has scheduled the auction for the first quarter of 2012.

Market reviews

Currently, the mobile termination charges that Telefónica O2 UK, Vodafone and Everything Everywhere (the merged entity operating the T-Mobile and Orange brands) levy must not exceed 4.42ppm, on average. H3G must not exceed 4.75ppm.

The current regime expires on 31 March 2011. Ofcom has recently decided to reduce termination rates to 0.69 pence per minute (in real 2008/09 terms), starting with a reduction to 2.984 pence per minute from April 1, 2011. In each of the subsequent three years (i.e. from April 1, 2012, 2013 and 2014), termination rates will fall by 37.4% minus inflation.

Germany

The EU Regulatory Framework was implemented in Germany at the end of June 2004 by the Telecommunications Act. Responsibility for regulation of electronic communications networks and services rests with the telecommunications regulator, Bundesnetzagentur, or BNetzA.

Licenses, concessions and frequency usage rights

Telefónica O2 Germany was awarded a GSM license for 1800 MHz spectrum in October 1998, and in February 2007 Telefónica O2 Germany was awarded 900 MHz GSM spectrum for GSM use. Accordingly, Telefónica O2 Germany is now licensed to use GSM900 (2 x 5 MHz) and GSM 1800 (2 x 17.4MHz). The GSM license expires on December 31, 2016.

Under Section 58 VIII TKG (the “German Telecommunications Act”) frequency assignments are limited in time, although a renewal or extension of the term is possible. The federal network agency has not yet decided on the conditions for renewing the frequency assignments. However, before expiration, we expect there to be a public hearing, and for BNetzA to set out its approach to renewal, including the terms on which the licenses will be extended (pricing, technology neutrality, etc.).

In August 2000, Telefónica O2 Germany was awarded a UMTS license, which expires on December 31, 2020 (2 x 9.9 MHz).

In May 2010, Telefónica O2 Germany was awarded spectrum for an amount of approximately €1,379 million, including 10 MHz of Digital Dividend, 20 MHz of 2.6 GHz (paired), 10 MHz 2.6 GHz (unpaired), 5 MHz 2.0 (paired), 20 MHz 2.0 (unpaired), frequency usage rights expire on December 31, 2025. This spectrum is technologically neutral (can be used for each technology).

In March 2011, the German Federal Administrative Court granted in part an appeal by Eplus, challenging the auction decision and has referred the claim to a lower court.

Market reviews

In August 2006, BNetzA completed its review of voice call termination on individual mobile networks and concluded that, as an operator with SMP, the charges Telefónica O2 Germany made to other operators for terminating calls on

Telefónica O2 Germany network had to be reduced, requiring Telefónica O2 Germany to lower its call termination charges from €1.24 per minute to €0.994 per minute. In 2007, Telefónica O2 Germany was required to reduce further its termination charges from €0.994 per minute to €0.880 per minute. Telefónica O2 Germany has brought legal challenges against BNetzA's 2006 and 2007 decision that Telefónica O2 Germany has significant market power and against the imposition of regulatory remedies. The Federal Administrative Court, as the highest level of appeal, confirmed all regulatory remedies meaning that the price controls stay in force for all mobile operators. All four German mobile operators filed a Constitutional Complaint in order to challenge the decision regarding significant market power. All other actions (regarding the amount of MTRs) are pending and a decision by the Constitutional Court. The new market analysis of BNetzA in 2008 again concluded that all mobile

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network operators have SMP, and the decision on remedies does not contain changes in comparison to 2006. This 2008 decision has also been challenged by Telefónica O2 Germany. The claim has been suspended until a decision of the Constitutional Court has been issued. In March 31, 2009 and as of April 1, 2009, BNetzA approved MTR for Telefónica O2 Germany at €0.714 per minute for a period of 20 months (until November 30, 2010) Telefónica O2 Germany challenged that decision and the claim has been suspended pending the Constitutional Court's decision.

Subsequently BNetzA developed its own cost model and imposed it on all 4 MNOs to be the basis for the calculation of MTRs in 2010. Since December 2010, BNetzA decreased MTRs significantly: 3.39 c/min for Telefónica O2 Germany; 3.36 c/min for Vodafone and Eplus; 3.38 c/min for T-Mobile. Telefónica O2 Germany challenged that decision and its claim is pending. These prices will be applicable until November 2012.

Spectrum

BNetzA decided in February 2006 that Telefónica O2 Germany may use GSM 900 spectrum in exchange for GSM 1800 spectrum. This decision is under the condition that Telefónica O2 Germany provides access to spectrum to German Railways if it is necessary for the European Train Control System (ETCS). Telefónica O2 Germany took legal action against this condition. In the meantime, this condition was repealed by BNetzA in April 2009, and therefore, Telefónica O2 Germany declared the case as settled. However, German Railways, Airdata and Inquam (providers of local networks) appealed the decision. All cases have been dismissed in the first instance in December 2007 and each party appealed its decision. In the German Railways case, the Higher Administrative Court dismissed the appeal of German Railways on September 16, 2009. German Railways did not appeal this decision at the Federal Administrative Court, and the decision is legally binding. In the Airdata case, the appeal to the Higher Administrative Court has been dismissed. Airdata is now appealing at the Federal Administrative Court. The appeal was dismissed by the Federal Administrative Court on January 16, 2011. The decision is legally binding and no further challenge is possible. In the Inquam case, the Administrative Court dismissed the claim of Inquam on October 21, 2009, and the decision is legally binding with no further challenge possible.

Czech Republic

The EU Regulatory Framework was implemented in the Czech Republic in 2005 by the Electronic Communications Act. Responsibility for regulation of electronic communications networks and services rests with the Czech Telecommunication Office, or CTO. Governmental responsibility for the area of electronic communications lies with the Ministry of Industry and Trade.

Telefónica O2 Czech Republic performs communication activities under the Electronic Communications Act pursuant to a notification to and a certificate Number 516 from the CTO, as amended by Numbers 616/1, 516/2 and 516/3.

Several changes occurred in the legal environment of the electronic communications market in the Czech Republic in 2010. Act No. 127/2005 Coll. on electronic communications and on amendment of related laws was amended by the Act No. 153/2010 Coll., mainly in respect of spectrum allocation and universal service financing. Furthermore, the Decree No. 105/2010 Coll., pertaining to frequency band allocation (national frequency table), the Decree No. 318/2010 Coll., pertaining to the collection of traffic and localization data statistics and their submission to be submitted to the Czech Telecommunication Office, the Decree No. 360/2010 Coll. pertaining to the draft electronic form complaint to be submitted to the Czech Telecommunication Office and the Decree No. 22/2011 Coll., pertaining to measuring the coverage of radio and television broadcasting were enacted.

Licenses and concessions

Telefónica O2 Czech Republic provides mobile electronic communications services in the 900 and 1800 MHz frequency bands under the GSM standard on the basis of radio frequency assignments from CTO valid until February 7, 2016; in the 2100 MHz frequency band under the UMTS standard on the basis of radio frequency assignments from CTO valid until January 1, 2022; and in the 450 MHz frequency band using CDMA 2000 (Code Division Multiple Access, or CDMA) technology on the basis of radio frequency individual authorization from CTO valid until November 30, 2013. The CDMA 2000 (450 MHz) frequency assignment expired on February 7, 2011. Telefónica O2 Czech Republic applied for prolongation in accordance with the assignment on August 7, 2010. CTO rejected the application primarily on procedural grounds, despite the fact that the assignment grants the holder

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a specific right to apply for prolongation. Telefónica O2 Czech Republic appealed to the CTO Council. A decision on the appeal is pending.

In March 2009 CTO conducted a tender for 32 free channels in the former E-GSM band. Telefónica O2 Czech Republic was awarded seven channels in June 2009 with the same conditions as former GSM900 allotment (including date of expiration). The fee for Telefónica O2 Czech Republic's seven channels was CZK 29,654,000.

Market reviews

CTO finished its second review of relevant markets in 2010. Following these analyses, Telefónica O2 Czech Republic was designated as an SMP entity in 7 relevant markets: 1 retail market (access to the public telephone network at a fixed location) and 6 wholesale markets (call origination on the public telephone network provided at a fixed location; call termination on individual public telephone networks provided at a fixed location; wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location; wholesale broadband access; wholesale terminating segments of leased lines; and voice call termination on individual mobile networks).

On April 21, 2010 CTO issued a decision requiring mobile operators to gradually reduce call termination charges (to 1.66 Czech Koruna per minute from July 1, 2010, to 1.37 Czech Koruna per minute from January 1, 2011 and to 1.08 Czech Koruna per minute from July 1, 2011).

In May 2010 CTO requested proposals for consultancy services for the development and implementation of an LRIC model (regulation of mobile call termination charges is currently based on an FAHC model) for the regulation of mobile call termination charges, won by PricewaterhouseCoopers Ceska republika. It is expected that CTO will set mobile call termination charges based on the LRIC model at the end of 2012 or beginning of 2013.

Future spectrum

CTO held a public consultation on spectrum strategy in 2010. Subsequently, CTO submitted to the Government for approval a document outlining the main principles applicable to the upcoming auction of spectrum bands dedicated to mobile broadband services. The document was approved by the Government in January 2011. CTO will organize a combined auction for available spectrum in 800MHz (Digital Dividend), 1800MHz (GSM1800) and 2.6 GHz bands. A spectrum cap per operator is proposed for spectrum below 1GHz (i.e. combined cap for 800MHz and 900MHz band assignments). Specific auction conditions and spectrum caps have not been defined thus far and are expected in the third quarter of 2011.

Slovakia

Telefónica O2 Slovakia performs electronic communication activities under Act No. 610/2003 Coll., the Electronic Communications Act, (as amended) and General Authorization (as amended) issued by the Slovak NRA (the Telecommunications Office of Slovak Republic) based on a notification, as well as a number of allocation certificates issued by the NRA.

Responsibility for regulation of electronic communications networks and services rests with the Telecommunication Office of Slovakia. Governmental responsibility for the area of electronic communications lies with the Ministry of Transport, Construction and Regional Development of Slovakia.

Licenses and concessions

On September 7, 2006, Telefónica O2 Slovakia was granted a license to provide electronic communications services by the means of the public electronic communications network using the GSM and UMTS mobile telephone network standards and became a third mobile operator in Slovakia after 10 years of duopoly of two original mobile operators. The license has been granted for 20 years and expires in September 2026. The commercial operations were launched on February 2, 2007.

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Market analysis

In accordance with the market review performed by the NRA, Telefónica O2 Slovakia has been designated an SMP operator on the wholesale mobile termination market, the only regulated mobile market in Slovakia. Wholesale termination price regulation is effective from August 2009, and since February 2010 the wholesale termination price regulation is based on the EU benchmarking methodology. From September 2009, Telefónica O2 Slovakia as a new entrant and market challenger also benefits from a shorter mobile number portability process, a maximum length of which was set by the regulator to five working days. No retail price regulation is applicable in Slovakia.

Future mobile spectrum

A tender for 800MHz and 2600MHz bands suitable for 4G/LTE is expected in 2011.

Ireland

In Ireland responsibility for the regulation of electronic communications networks and services rests with the Commission for Communications Regulation, or ComReg. The main legislation under which Telefónica O2 Ireland operates includes: the Wireless Telegraphy Act 1926, as amended, (45 of 1926), Post and Telecommunications Services Act 1983 as amended, (24 of 1983), Communications Regulation Acts 2002 (20 of 2002) and 2007 (22 of 2007), 3G Mobile Telephony Licensing Regulations (340 of 2003) and GSM Mobile Telephony Licensing Regulations (339 of 2003).

Licenses and concessions

Telefónica O2 Ireland has provided GSM services since March 1997 after having been awarded a license in May 1996. Its GSM900 license has a duration of 15 years (GSM900: 2 x 7.2 MHz) from 1996. In 2000 it was awarded an additional GSM 1800 license (2 x 14.4 MHz), which also has a term of 15 years. In October 2002 Telefónica O2 Ireland was granted a UMTS license, which has duration of 20 years (2 x 15 MHz + 5 MHz).

The license can be surrendered by the operator at any time. However, ComReg can only revoke the license before its expiration date if the licensee does not pay its fees or if there has been a substantial breach of the terms of the license.

The Minister for Communications, Energy and Natural Resources may also revoke the license for national security reasons, or in order to comply with EU or other international obligations.

Future mobile spectrum

ComReg has proposed during the third and fourth quarters of 2011 to hold an auction to determine the future licenses in the 800MHz, 900MHz, and 1800MHz bands. The spectrum rights bought at auction will be service and technology neutral (subject to requirements to prevent interference) and the spectrums will be available for commercial service by February 2013. ComReg has also proposed to grant O2 an interim license in the 900MHz band to provide continuity until the availability of the new spectrum assigned under auction. The draft text of this license has been provided for comment. ComReg has yet to decide on its approach to licensing of the 2.6GHz band.

Market reviews

Telefónica O2 Ireland has been found to have SMP in the market for mobile termination. ComReg has previously decided to forebear from the imposition of regulated pricing so long as it could reach agreement with the main

operators for a “glide path” for annual reductions in mobile termination rates. ComReg has started to collect data for a revised mobile termination market review and in the interim has set the Irish MTR rate in line with the BEREC Europe MTR average. The Irish rate changed to 5.36c in January 2011 and will be revised further in July 2011. The market review with revised SMP designations is expected to be completed in 2012.

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Telefónica Latin America

Brazil

Regulatory framework

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997.

The National Agency for Telecommunications, ANATEL, is the principal regulatory authority for the Brazilian telecommunications sector.

Licenses and concessions

Concessions are granted for services provided in the public regime and authorizations are granted for services provided in the private regime. The only service provided in both regimes is the switched fixed telephone service, or STFC. All other services are provided only in the private regime.

The main differences between the public regime and the private regime relate to the obligations imposed on the companies. The concessionaires in the public regime, such as Telesp, have network expansion obligations (universal services obligations) and continuity of service obligations. These obligations are not imposed on the companies which provide services in the private regime.

In the state of São Paulo, Telesp provides local and long distance STFC under the public regime. In the other Brazilian states, Telesp provides local and long distance STFC under the private regime and broadband services under the private regime.

Telesp's concession agreements (local and long distance) were extended in December 2005 for an additional period of 20 years. These agreements contemplate possible revisions in their terms by ANATEL in 2010, 2015 and 2020. In 2009, Telesp presented comments and suggestions to ANATEL's public consultation regarding the 2010 concession contract revision, but ANATEL has not presented the final version of the contract yet. Telesp's terms of authorization (local and long distance) were granted for an unlimited period of time.

Under the renewed concession agreements and during the 20-year renewal period, Telesp will be required to pay a biannual fee equal to 2% of its annual net revenue (excluding taxes and social contributions), for the provision of fixed-line public telecommunications services in its concession area (State of São Paulo) for the prior year.

Brazilian telecommunications regulations require ANATEL to authorize private regime companies to provide local, national, and international long distance STFC.

On November 20, 2008, the Presidential Decree 6,654 altered the General Concessions' Plan, enabling one economic group to hold two of the four existing area concessions for providing STFC services. Thus, the Decree increased the flexibility of telecommunications provider groups as STFC concessionaires by allowing such providers to provide services in up to two General Plan regions. Prior to the Decree telecommunications provider groups could offer STFC services in only one region.

Telesp also has an authorization to provide data and broadband services in the private regime in the State of São Paulo.

On December 4, 2002, ANATEL authorized the migration from the cellular mobile service, or SMC, regime to a new licensing regime, personal mobile service. Brasilcel's operators replaced all their old licensing titles granted under the old SMC regime with new personal mobile service authorization titles. The new personal mobile service licenses include the right to provide mobile services for an unlimited period of time but restrict the right to use the spectrum according to certain schedules included in the licenses. All Telefónica's Brazilian mobile operating companies (the existing ones and some new acquisitions) were renamed "Vivo" with the exception of Vivo Participações (the latter being the result of the ANATEL-authorized merger of Telemig Celular into Vivo

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Participações in March 2010). The following licenses are held by our Brazilian mobile operating company, Vivo Participações:

- Vivo-Rio Grande do Sul (“A” Band) until 2022 (renewed in 2006);
- Vivo-Rio de Janeiro (“A” Band) until 2020 (renewed in 2005);
- Vivo-Espírito Santo (“A” Band) until 2023 (renewed in 2008);
- Vivo-Bahia (“A” Band) and Vivo-Sergipe (“A” Band) until 2023 (renewed in 2008);
- Vivo-São Paulo (“A” Band) until 2023 or 2024, for the cities of Ribeirão Preto and Guatapar (renewed in 2008);
 - Vivo-Paraná/Santa Catarina (“B” Band) until 2013;
 - Vivo-Distrito Federal (“A” Band) until 2021, (renewed in 2006);
- Vivo-Acre (“A” Band), Vivo-Rondnia (“A” Band), Vivo-Mato Grosso (“A” Band) and Vivo-Mato Grosso do Sul (“A” Band) until 2024 (renewed in 2008);
 - Vivo-Gois/Tocantins (“A” Band) until 2023 (renewed in 2008);
 - Vivo-Amazonas/Roraima/Amap/Par/Maranho (“B” Band) until 2013;
 - Vivo Participaes (Minas Gerais) (“A” Band) until 2023 (renewed in 2007);
- Vivo Participaes (for the cities where CTBC Telecom operates in the state of Minas Gerais) (“E” Band) until 2020.

For “A” and “B” Bands, the renewal of licenses must be solicited 30 months before expiration. Spectrum rights may be renewed only once for a 15-year period, after which title to the license must be renegotiated.

For “E” Band, the renewal of licenses must be solicited between 36 and 48 months before expiration. Spectrum rights may be renewed only once for a 15-year period, after which title to the license must be renegotiated. In December 2007, ANATEL auctioned fifteen new licenses in the 1900 MHz radio frequency band, denominated as “L” Band. Vivo acquired 13 spectrum licenses in “L” Band.

- Vivo-Rio Grande do Sul (“L” Band) until 2022 (renewed in 2006) or 2022 for the cities of the metropolitan area of Pelotas;
 - Vivo-Rio de Janeiro (“L” Band) until 2020 (renewed in 2005);
 - Vivo-Esprito Santo (“L” Band) until 2023 (renewed in 2008);
 - Vivo-Bahia (“L” Band) and Vivo-Sergipe (“L” Band) until 2023 (renewed in 2008);
- Vivo-So Paulo (“L” Band) until 2023 or 2024, for the cities of Ribeiro Preto and Guatapar (renewed in 2008) or 2022 for the cities where CTBC Telecom operates in the state of So Paulo;

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- Vivo-Paraná (excluding the cities of Londrina and Tamarana)/Santa Catarina (“L” Band) until 2013;
 - Vivo-Distrito Federal (“L” Band) until 2021, (renewed in 2006);
- Vivo-Acre (“L” Band), Vivo-Rondônia (“L” Band), Vivo-Mato Grosso (“L” Band) and Vivo-Mato Grosso do Sul (“L” Band) until 2024 (renewed in 2008) or 2022 for the city of Paranaíba of Mato Grosso do Sul; and

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- Vivo-Goiás/Tocantins (“L” Band) until 2023 (renewed in 2008) or 2022 for the cities where CTBC Telecom operates in the state of Goiás; and Vivo-Alagoas/Ceará/Paraíba/Piauí/Pernambuco/Rio Grande do Norte (“L” Band), until 2022.

For “L” Band, the renewal of licenses must be solicited between 36 and 48 months before expiration. Spectrum rights may be renewed only once for a 15-year period, after which title to the license must be renegotiated.

In April 2008, ANATEL auctioned 36 new licenses in the 1900-2100 MHz radio frequency bands (3G licenses). Vivo was awarded seven spectrum licenses in Band J and Vivo Participações was awarded two licenses.

- Vivo-Rio Grande do Sul (including the cities of the metropolitan area of Pelotas) (“J” Band) until 2023;
 - Vivo-Rio de Janeiro (“J” Band) until 2023;
 - Vivo-Espírito Santo (“J” Band) until 2023;
 - Vivo-Bahia (“J” Band) and Vivo-Sergipe (“J” Band) until 2023;
- Vivo-São Paulo (including the cities of Ribeirão Preto and Guatapara and the cities where CTBC Telecom operates in the state of Sao Paulo) (“J” Band) until 2023;
 - Vivo-Parana (including the cities of Londrina and Tamarana)/Santa Catarina (“J” Band) until 2023;
 - Vivo-Distrito Federal (“J” Band) until 2023;
- Vivo-Acre (“J” Band), Vivo-Rondonia (“J” Band), Vivo-Mato Grosso (“J” Band) and Vivo-Mato Grosso do Sul (including the city of Paranaiba) (“J” Band) until 2023;
- Vivo-Goias (including the cities where CTBC Telecom operates in the state of Goias)/Tocantins (“J” Band) until 2023;
 - Vivo-Alagoas/Ceara/Paraiba/Piauí/Pernambuco/Rio Grande do Norte (“J” Band), until 2023;
 - Vivo-Amazonas/Roraima/Amapa/Para/Maranhao (“J” Band) until 2023; and
- Vivo Participaoes (including the cities where CTBC Telecom operates in the state of Minas Gerais) (“J” Band) until 2023.

For “J” Band, the renewal of licenses must be solicited between 36 and 48 months before expiration. Spectrum rights may be renewed only once for a 15-year period, after which title to the license must be renegotiated.

In December 2010, Vivo was awarded 23 licenses (14 spectrum licenses in 1800 MHz bands (“D”, “E”, “M” and extension bands) and 9 spectrum licenses in 900 MHz extension bands). The agreements related to the frequencies we acquired in this auction have not yet been executed:

- “M” band (1800 MHz) of the Federal District and the states of Parana, Santa Catarina, Rio Grande do Sul, Goias, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondonia and Acre;

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- 1800 MHz extension band of the state of São Paulo;
- “D” band (1800 MHz) of the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu in the state of Rio Grande do Sul;
- “E” band (1800 MHz) of the states of Alagoas, Ceará, Paraíba, Piauí, Pernambuco and Rio Grande do Norte;
 - 900 MHz extension band of the state of Rio de Janeiro;
 - 900 MHz extension band of the state of Espírito Santo;

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- 900 MHz extension band of the states of Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Federal District, with the exception of the cities of Paranaíba, in the state of Mato Grosso do Sul, and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás;
- 900 MHz extension band of the state of Rio Grande do Sul, with the exception of the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu;
- 900 MHz extension band of the cities of the registration area number 43 of the state of Paraná, with exception of the cities of Londrina and Tamarana;
- 900 MHz extension band of the states of Paraná and Santa Catarina, with exception of the cities of the registration area number 43 of the state of Paraná and the cities of Londrina and Tamarana;
 - 900 MHz extension band of the state of Bahia;
 - 900 MHz extension band of the state of Sergipe;
- 900 MHz extension band of the states of Amazonas, Amapá, Maranhão, Pará and Roraima;
- 1800 MHz extension band of the state of São Paulo, with exception of the cities of the metropolitan region of São Paulo and the cities where CTBC Telecom operates in the state of São Paulo;
 - 1800 MHz extension band of the states of Amazonas, Amapá, Maranhão, Pará and Roraima;
 - 1800 MHz extension band of the city of Paranaíba, in the state of Mato Grosso do Sul;
- 1800 MHz extension band of the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás;
- other 1800 MHz extension band of the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás;
 - 1800 MHz extension band of the states of Rio de Janeiro, Espírito Santo, Bahia and Sergipe;
 - 1800 MHz extension band of the states of Amazonas, Amapá, Maranhão, Pará and Roraima;
- 1800 MHz extension band of the states of Alagoas, Ceará, Paraíba, Piauí, Pernambuco and Rio Grande do Norte;
- 1800 MHz extension band of the city of Paranaíba, in the state of Mato Grosso do Sul, and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás;
 - 1800 MHz extension band of the cities of Londrina and Tamarana, in the state of Paraná. Prices and tariffs

ANATEL regulates rates for the STFC provided in the public regime. Operators with licenses to operate under the personal mobile regime are authorized to increase basic plan tariffs only for inflation and only on an annual basis. Operators are also allowed to establish non-basic tariffs and modify them without ANATEL's prior approval.

Interconnection

In July 2005, ANATEL published a new regulation for interconnection among providers of telecommunications services, which require operators to issue a public document disclosing all of the conditions for the establishment of interconnection for all classes and types of services.

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The SMP regime allows operators to freely negotiate interconnection rates with other operators. If they fail to reach an agreement, each operator may call upon ANATEL to determine the terms and conditions of interconnection.

Competition law

Brazilian competition regulation is based on Law No. 8,884 of June 11, 1994 which prohibits any practice aimed at restricting free competition, dominating the relevant market of goods or services, arbitrarily increasing profits, or abusively exercising dominant market position. The Economic Law Office, or SDE, the Secretariat for Economic Monitoring, or SEAE, and the Administrative Council for Economic Defense, or CADE, are the agencies authorized to enforce the competition rules.

Mexico

Regulatory framework

The provision of all telecommunication services in Mexico is governed by the Federal Telecommunication Law and various service-specific regulations. The governmental agencies which oversee the telecommunications industry in Mexico are the Secretariat of Communications and Transportation, or SCT, and the Federal Telecommunications Commission, or COFETEL.

Licenses and concessions

In Mexico, authorizations to provide mobile telephony services (mobile and personal communication services, or PCS, for the 800 MHz and 1.9 GHz bands, respectively) are granted through concessions. Currently, regarding the mobile concessions (800 MHz), only one Band A and one Band B service provider may provide mobile telephony services in each of the nine regions of the country. Regarding PCS concessions, there is no exclusivity in the provision of service, in each region by more than one operator. In fact, there are currently four operators in each region (including “Nextel,” which in 2010 was granted one concession in Region 4, with 10 MHz). These concessions were granted in 1998, 2005 and 2010 for a period of twenty years, and may be renewed for additional 20-year periods, subject to the fulfillment by the operator of certain terms and conditions.

In total, Telefónica Móviles México, and its subsidiaries and participated companies have 40 licenses granted by SCT, which enable it to provide telecommunications services:

Telefónica Móviles México’s mobile operating companies have been granted concessions to operate mobile telephony services on Band A until 2010. SCT granted licenses to Baja Celular Mexicana, S.A. de C.V., or Bajacel, dated July 17, 1990; Movitel del Noroeste, S.A. de C.V., or Movitel, also dated July 17, 1990; Telefonía Celular del Norte, S.A. de C.V., or Norcel, dated July 23, 1990; and Celular de Telefonía, S.A. de C.V., or Cedetel, dated August 2, 1990. The renewal of these four concessions was requested in 2005. We presented in 2005 four requests for extension of these concessions before SCT. The concessions of Bajacel, Movitel Norcel and Cedetel have been renewed for 15 years from 2010; all of them were granted on May 28, 2010. The terms and conditions of the renewed concessions are consistent with those concessions that SCT has recently assigned and to those terms and conditions that it will establish in future concessions, with the exception that the new renewal terms are established at 15 years rather than 20 years. The SCT granted one additional concession to each of the aforementioned four firms, to install, operate and exploit one public telecommunications network with the same valid concessions included in the spectrum license.

Furthermore, SCT granted to Telefónica Móviles México, through Pegaso Comunicaciones y Sistemas, S.A. de C.V. a concession to provide public telecommunications services, on June 23, 1998, and nine spectrum licenses, dated October 7, 1998, in the 1900 MHz band to provide personal communication services in each of the nine PCS service region, and valid until 2018. Those licenses may be extended for additional twenty-year periods. For all of these licenses renewal was requested in 2008, the renewal decision is still pending, and we are permitted to continue operating under the terms of the expired licenses until the renewal has been approved. On April 21, 2005, SCT granted Telefónica México four more spectrum licenses in the same 1900 MHz band, to provide the PCS service and have more bandwidth in regions 3, 5, 7 and 8, valid for 20 years, and with the possibility be renewed for up to 20

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additional years. On September 7, 2009, a modification to Pegaso's concession was authorized to provide trunked radio services.

On July 22, 2010, SCT granted to Telefónica Móviles México, through Pegaso Comunicaciones y Sistemas, S.A. de C.V., 8 more spectrum licenses in 1,900MHz band to provide PCS service and offer additional bandwidth in regions 1, 2, 3, 4, 5, 6, 7 and 9, each with a 20 year validity and a right to be renewed for a maximum term of twenty years.

On November 8, 2010, SCT granted to Telefónica Móviles México, through Pegaso Comunicaciones y Sistemas, S.A. de C.V., 6 spectrum licenses in 1.7-2.1GHz band to provide AWS service in regions 2, 3, 4, 6, 7 and 9, each with a 20 year validity and a right to be renewed for a maximum term of twenty years.

SCT also granted to Grupo de Telecomunicaciones Mexicanas, S.A. de C.V., or GTM, a company in which Telefónica Móviles México has an interest, several licenses:

- on June 24, 1998, to install microwave links in 23 GHz frequencies, for a period of 20 years;
- on December 13, 1999, to install microwave links in 7 GHz frequencies, for a period of 20 years, and that can be renewed;
- on June 5, 2003, to install a public telecommunication network to provide domestic and international long distance service granted, for a period of 15 years, and that can be renewed; and
- on March 28, 2006, GTM was authorized a renewal of the concession to provide fixed telephony and public telephony, nationwide for a period of 15 years, that can be renewed.
- on January 6, 2011, GTM was granted a concession to install a public telecommunication network to provide pay-tv and data transmission by satellite for a period of 30 years, which can be renewed.

Prices and tariffs

Tariffs charged to customers are not regulated. They are set by mobile operating companies and must be registered with COFETEL. Rates do not enter into force until registered by COFETEL.

Interconnection

Mexican telecommunications regulations obligate all telecommunications network concessionaires to execute interconnection agreements on specific terms when requested by other concessionaires. Interconnection rates and conditions may be negotiated by the parties. However, should the parties fail to agree, COFETEL must fix the unresolved issues, including tariffs.

Foreign ownership/restrictions on transfer of ownership

Mexican foreign investment law restricts foreign investment in local fixed service and other telecommunications services to a maximum of 49% of the voting stock, unless the Mexican National Commission of Foreign Investment approves a higher percentage participation, which it can do only in the case of mobile telecommunications companies.

Bajacel, Movitel, Norcel, Cedetel and Pegaso, as mobile telecommunications companies, received the required approvals from the National Commission of Foreign Investment permitting our ownership of more than 49% of their

outstanding voting capital.

GTM, a company in which Telefónica México has an interest, provides local fixed and long distance services. This operator complies with Mexican foreign investment law, and has a stock structure that includes the participation of its Mexican partner, Enlaces del Norte S.A. de C.V., which owns 51% of the voting stock.

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Competition law

The Federal Economic Competition Law enacted in 1992 and amended on June 28, 2006 prohibits monopolies and any practices that tend to diminish, harm or impede competition in the production, processing, distribution or marketing of goods and services. The Federal Competition Commission, or COFECO, is the administrative body empowered to enforce the Law.

Venezuela

On December 2009, a new regulation applicable to all subscription TV service providers was enacted by CONATEL in order to stipulate a new obligation concerning a mandatory percentage of inclusion (12%) of national production services (channels in which both reception and diffusion of sound and images take place in the country to later transmit it by means of subscription TV service providers) in the regular programming packages. The calculation of the mandatory percentage is to be made on the basis of the totality of the TV channels. Qualification of a channel as a “national productions service” is a task of CONATEL, who must keep an updated record of those services.

An Administrative Decision on Services Agreements (Providencia n° 1302 sobre Condiciones Generales de los Contratos de Servicios de Telecomunicaciones) was adopted. As a consequence of this regulation (2009), Telcel proceeded to adapt all of its nine services agreements to fulfill all the conditions and impositions established, mainly related to consumer protection. We have currently received regulator observations of two of the agreements (TV service and radio localization service), and we are in process of including the modifications based on the observations.

An Amendment to the Organic Telecommunications Law (June 1, 2000) was published on December 28, 2010 in Official Gazette No. 6.015. The principal aspects to consider and/or changes with respect to the Law of 2000 are summarized as follows:

- Telecommunications are defined as “a public service and interest”
- Licenses and concessions are defined as personal in nature, and therefore, such instruments may not be assigned or transferred, nor acquired by succession or contract, as a result of mergers or by limitation. Such actions are grounds for revocation of the license and/or concession.
- The Law provides a new maximum term for licenses and concessions of 15 years, renewable for equal periods. In the Law of 2000 the maximum term was up to 25 years. In the opinion of the company’s management, the licenses and concessions granted to Telcel, C.A. and currently in force will not be affected by the new provision; however, it will be applicable to the new administrative certificates resulting from the renewal application process of the general license and concessions by Timetrac, and to the renewal of the General Concessions of 806-890 MHz and 890-902 MHz bands to be applied for in March 2011.
- Licenses and Concessions shall not be granted to former holders whose concession was revoked, to persons providing services without the corresponding certificates, or the shareholders, members, partners, interest owners or directors thereof.
- The free-pricing system for telecommunication services remains the same, except for basic telephony services (Local, LDN and LDI) and services rendered under the universal service obligations; however, the regulatory entity may, considering CONATEL’s opinion, set the prices for telecommunication services for “public interest reasons.” The amendment does not define the term “public interest reasons.”

- The provision enabling CONATEL to set the maximum and minimum prices for services provided by companies involved in cartels, monopolies, oligopolies, etc., was repealed.
- It is expressly provided that CONATEL may impose universal service obligations directly on the State's operator of basic telephony.

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- First-level domain names “.ve” are included in the management, control and regulation of the national numbering plan. The management of such domain names shall entail payment of one tax unit per annum.
- The sale of satellite capacity to authorized operators for rendering services to third parties shall require a permit for satellite capacity provision.

Law on Social Responsibility in Radio, Television and Electronic Media

On December 22, 2010, in the Official Gazette No. 39.579, it was published the Law on Social Responsibility in Radio, Television and Electronic Media, which purpose is to establish, in the broadcasting and reception of messages, the social responsibility of radio and television service providers, electronic media providers, advertisers, national independent producers, and users within the national territory. Among the most important aspects of the Law, it is worth mentioning the following:

- It is clear that the most important change is the inclusion of the electronic media (which are not defined in the Law) and electronic media providers in the regulatory framework.
- The hour-block rating structure for radio and television remains the same (all-user block, supervised block and adult block).
- It establishes the obligation to broadcast at least 50% of nationally produced programming in the all-user and supervised blocks. Promotion of programs intended to the adult block must be broadcasted during hour blocks in which such programs are permitted. Live-and-direct messages presenting actual or graphic images of violence may be broadcasted during the all-user and supervised blocks, subject to the terms and conditions set forth in the Law.
- The Law creates the Television Programming Commission, which role is to establish the terms and conditions for the allocation of programming spaces to national independent produces in order to guarantee the democratization of the radio-electric spectrum, diversity, freedom of creation and effective conditions for free competition.
- Electronic media providers (this is, media or access providers, not content providers) must establish mechanisms to restrict, without delay, the dissemination of messages that: incite or promote intolerance, hatred, xenophobia; endorse and incite criminal acts, constitute war propaganda, foment citizens’ anxiety or alter public order, or disrespect authorities.

Providers will be liable to the extent that they had originated the transmission, modified the data to select addressees or had failed to limit the access.

Accordingly, CONATEL may order the Internet service providers to restrict the access to prohibited messages and services disseminated through the Internet or other electronic media pursuant to this Law (Art. 27), in which case, it will be applicable the procedure set forth for precautionary measures (Art. 33).

In addition, according to the Law, content providers are banned from disseminating messages that:

- a) Incite or promote hatred or intolerance based on religion, political opinion, sex, race or xenophobia.
- b) Incite, endorse or promote criminal acts.
- c) Constitute war propaganda.

- d) Foment citizens' anxiety or alter public order.
- e) Disrespect legal authorities.
- f) Encourage assassination.
- g) Incite or promote disobedience of the laws in force.

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h) Promote discrimination.

i) Are expressed under anonymity.

j) Are contrary to the security of the nation.

Failure to comply with this law may be punished by the following penalties:

o Fines between 50 and 200 Tax Units (a – g).

o Fine up to 10 percent of the previous year's gross income and up to 72 hours of continuous suspension (a, b, c, d, e, h, i).

o Revocation of Licenses and Concession (c, f, j).

• Failure to comply with precautionary measures: Failure to comply with precautionary measures issued by CONATEL (including statutory and non-statutory measures) shall be punished by revocation of the license.

Licenses and concessions

Telcel has been granted a mobile telephony concession to operate and offer mobile services in the 800 MHz band with national coverage, granted in 1991 and expiring on May 31, 2011. Telcel, in accordance with the relevant legal provisions in force, applied before CONATEL for the renewal of general concessions of 806-890 MHz and 890-902 MHz within 90 days following expiration of the relevant concessions. This took place February 28, 2011. In the opinion of Telcel management, all the obligations derived from the general license and general concessions have been met, and it is expected that the renewal application process will result in a favorable decision for Telcel.

Telcel also holds a private network services concession, granted in 1993 and renewed on November 28, 2007, until December 15, 2025, that allows Telcel to offer point-to-point or point-to-multipoint private telecommunication services to corporations. In 2000, Telcel was granted a general license (Habilitación General) to offer local telephony services, national long distance services and international long distance services and to otherwise operate telecommunications networks for a 25-year period expiring on December 15, 2025. In 2001, Telcel obtained a concession to offer fixed wireless access services nationwide using mobile local loop technology.

On November 28, 2007, the National Telecommunications Commission, or CONATEL, in accordance with the Telecommunications Law, incorporated into the general license the rest of the services provided by Telcel: mobile, private networks, Internet access and transport. On that same date, Telcel was granted a concession to operate in the 1990 MHz band for a period of 15 years, until November 22, 2022, renewable for a period of ten years.

Prices and tariffs

As mentioned above, under new Venezuelan regulations, the free-pricing system for telecommunication services remains the same, except for basic telephony services (Local, LDN and LDI) and services rendered under universal service obligations; however, the regulatory entity may, considering CONATEL's opinion, alter prices for telecommunication services for "public interest reasons." The amendment does not define the term "public interest reasons."

Competition law

Venezuelan law governing competition is the Promotion and Protection of Free Competition Act 1992. It prohibits monopolistic and oligarchic practices and other means that could impede, restrict, falsify, or limit the enjoyment of economic freedom. The Office of the Superintendent for the Promotion and Protection of Free Competition is the agency empowered to apply the Competition Act.

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Chile

Regulatory framework

The General Telecommunications Law No. 18,168 of 1982, as amended, establishes the legal framework for the provision of telecommunications services in Chile.

The main regulatory authority in Chile is the Under-Secretary of Telecommunications, or SUBTEL.

Licenses and concessions

Under the General Telecommunications Law, companies must obtain licenses in order to provide fixed telecommunications services. Licenses granted for public and intermediate services generally have 30-year terms and may be renewed indefinitely for 30-year periods at the request of the operator, though certain licenses held by Telefónica Chile have longer terms.

Telefónica Chile holds the following licenses for the provision of telecommunications services:

- Local telephony public service licenses. Telefónica Chile holds a license for local telephone service in all regions of Chile for a 50-year renewable period which began on December 1982, except Regions X and XI, which were incorporated to such license in 1995. In addition, Telefónica Chile holds various other renewable license for nationwide local telephone services oriented, exclusively, to rural localities. Telefónica Chile also holds a nationwide public service renewable license for data transmission for a 30-year period beginning as of July 1995, and four other public service renewable licenses for data transmission for a 30-year period beginning as of June 2008. Telefónica Chile also holds a nationwide public VoIP service renewable license, for a 30-year period beginning August 2010.
- Multicarrier long-distance licenses. Under the Multicarrier System, Telefónica Chile's former long-distance subsidiary, Telefónica Mundo Larga Distancia S.A. (before Telefónica Mundo), held 30-year renewable licenses, for a period beginning as of November 1989, to install and operate a nationwide fiber-optic network, a network of base stations and other transmission equipment, and to provide domestic and international long-distance services, including voice, data and image transmission, throughout Chile. In addition, Telefónica Mundo Larga Distancia S.A. held 30-year renewable licenses, for a period beginning as of June 1993, to nationwide public service data transmission. Telefónica Chile's other long-distance subsidiary, Globus, also held licenses for an indefinite term to provide domestic and international long-distance services through central switches and cable and fiber-optic networks nationwide. After the merger of these subsidiaries in 2006, all the aforementioned licenses remain under the ownership of the same company, which is now known as Telefónica Larga Distancia.
 - Public service data transmission. In addition to the 30-year data transmission license previously mentioned, Telefónica Chile, through Telefónica Empresas, holds, as of March 1987, nationwide public service data transmission licenses for an indefinite term.
- Public service mobile telephony licenses. Telefónica Móviles Chile holds licenses with indefinite terms, beginning as of November 1989, to provide public service mobile telephony services throughout Chile in the 800 megahertz frequency range. Telefónica Móviles Chile also holds three concessions for the provision of mobile telecommunications services nationwide in the 1900 MHz band. These concessions may be renewed for successive thirty-year periods as of 2002 at the request of the holder.

- Limited television license. Telefónica Chile's subsidiary Telefónica Multimedia, has a license to establish, operate, and use a part of the spectrum of the 2.6 GHz bandwidth in Santiago, Chile, for an intermediate telecommunications service concession, authorizing the frequencies used to communicate voice, data and images, for a 30-year period beginning as of May 2008 Telefónica Multimedia also holds a license authorized by Resolution No. 47 enacted on November 28, 1990, amended by Resolution No. 1536 of 1994, and Resolution 1453 of 2002, to provide limited television service in 2,6 GHz. Since December 2005, Telefónica Chile, through

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Telefónica Multimedia, holds a nationwide 10-year renewable license to provide limited satellite television service. Additionally, in January of 2006, Telefónica Chile, through Telefónica Multimedia, was assigned a limited television service license to provide the service nationwide in the main municipalities, except Region III, through Telefónica Chile's xDSL broadband network for an indefinite period. Moreover, in March 2007, a limited television service license was granted in order to provide this service, through the DSL broadband network, in the Santiago Metropolitan area, for an indefinite period.

Prices and tariffs

Under the General Telecommunications Law, maximum tariffs for telephony services are set every five years by the Ministry of Transport and Telecommunications and the Ministry of Economy. In addition, the Competition Tribunal may subject any telephony service to price regulation, except for mobile telephone services to the public that are expressly exempted under the General Telecommunications Law.

The Competition Tribunal ruled in January 2009 that only some local telephone services were to be subject to tariff regulation (line connections, monthly fixed charges, variable traffics charges, and public payphone services are excluded). Accordingly, it was determined that every local telephone company, within its service zones, would be regulated with respect to tariff levels and structure. In addition, Telefónica Chile, in its capacity as a "dominant operator" (except in regions where other companies are the dominant operators), is regulated on a non-price basis, with requirements that it not engage in discriminatory pricing and that it give previous notice of plans and packages.

Interconnection

Interconnection is obligatory for all license holders with the same type of public telecommunications services and between telephony public services and intermediate services that provide long distance services. The same requirement applies to holders of those intermediate service licenses, who are required to interconnect their networks to the local telephone network.

A "calling party pays" tariff structure was implemented on February 23, 1999. Under this tariff structure, local telephone companies pay mobile telephone companies an access charge for calls placed from fixed networks to mobile networks. Local telephone companies may pass this interconnection charge on to their customers. Every five years, SUBTEL sets the applicable tariffs for services provided through the interconnected networks.

Competition law

The principal regulation concerning competition in Chile is Decree No. 211 of 1973, whose current text was established in Decree N° 1 of 2005. Pursuant to the provisions of this law, acts or behavior involving economic activities that constitute abuse of a dominant market position, or limit, restrain, or distort free competition in a manner that injures the common economic interest in the national territory are prohibited. The Competition Tribunal deals with infringements of competition law.

Argentina

Regulatory framework

The basic legal framework for the provision of telecommunications services in Argentina is set forth in the National Telecommunications Law (No. 19,798) of 1972 and in the specific regulations governing each type of telecommunications service. Also, Decree 264/98 established a transitory period from a monopolistic market towards

a free market, promoting the protection of small operators while imposing obligations on basic services licensees. Decree 764/00 established the new and actual regulatory framework rules for a free market, and includes interconnection, licenses, universal service and spectrum rules.

The following regulatory authorities oversee the Argentine telecommunications industry:

- the National Communications Commission, or CNC, supervises compliance with licenses and regulations, and approves changes to mandatory goal and service requirements; and

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- the Secretariat of Communications, or SECOM, grants new licenses, regulates the bidding and selection processes for radio-spectrum authorizations, and approves the related bidding terms and conditions.

Licenses and concessions

Telefónica de Argentina holds licenses for fixed line services, all granted for an unlimited period of time, which entitle it to provide fixed line telecommunications services; international telecommunications services; local services in the northern and southern regions; long distance, international and data transmission telecommunications services in the northern region; and Internet access and international data transmission services.

Telefónica Móviles de Argentina's licenses for the provision of mobile services include PCS licenses and corresponding authorizations for use of spectrum for different regions, licenses and corresponding authorizations for use of spectrum for mobile telephone services for different regions; and licenses for trunking, or closed user group, services for different cities.

These licenses do not expire, but may be cancelled by the SECOM as the result of failure to comply with the terms of its license.

Prices and tariffs

On October 21, 2003, Law No. 25,790 became effective, extending the term for the renegotiation of concession or licensing agreements with public utilities until December 31, 2004, which was subsequently extended until December 31, 2011. This law also established that the decisions made by the Argentine government during the renegotiation process shall not be limited by, nor subject to, the stipulations contained in the regulatory frameworks currently governing concession or licensing agreements for the respective public utilities. Renegotiated agreements may cover some aspects of concession or licensing agreements and may contain formulas to adjust such agreements or temporarily amend them. As an investor in Argentina through Telefónica de Argentina, we commenced arbitration proceedings against the Republic of Argentina based on the Reciprocal Protection of Investments Treaty between Spain and Argentina for damages suffered by us because of the measures adopted by the Argentine government. On August 21, 2009, the parties requested the Tribunal, in accordance with Rule 43 of the ICSID Arbitration Rules, declare a resolution of the termination of the proceedings. The agreement of the parties envisages the possibility of a new request for arbitration under the ICSID Convention being submitted by Telefónica. Such request would be processed in accordance with the ICSID Convention and the Center's normal rules and procedures taking note of the discontinuance issued by the Tribunal on September 24, 2009.

Additionally, Decree No. 764/00 established that providers of telephone services may freely set rates and/or prices for their service which shall be applied on a non-discriminatory basis. However, until the Secretary of Communications determines that there is effective competition for telecommunications services, the "dominant" providers in the relevant areas (which include Telefónica de Argentina) must respect the maximum tariffs established in the general tariff structure. Providers may freely set their rates by areas, routes, long distance legs and/or customer groups so long as they are below the amounts established by the general tariff structure.

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

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

Interconnection

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

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Competition law

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

Colombia

Regulatory framework

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

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

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

In 2010 the telecommunications authority made a review of relevant markets and published drafts concerning certain markets and projects, such as the migration to NGN networks (where interconnection prices between traditional networks and NGN networks were proposed), a review of the mobile voice market (where modifications of mobile termination rates were proposed) and a review of end user protection measures.

Licenses and concessions

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

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

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

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Interconnection

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

Prices and tariffs

The Technologies of Information and Communications Law, provides for free pricing for voice and Internet access services. Therefore, mobile tariffs charged to customers are not regulated, although they may not be discriminatory. Nevertheless fixed-to-mobile tariffs are subject to a price cap. Rates are fixed by mobile operating companies and must be registered with the Comisión de Regulación de Telecomunicaciones. The regulator set a price cap of 392 Colombian pesos per minute for fixed to mobile tariffs since November 1, 2006, and in 2009 the CRC reduced the tariff to 198.4 Colombian pesos per minute.

Television services

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

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

In December 2010, the National Television Commission published Agreement Number 006 to modify the fees payable to exploit closed television. Before Agreement Number 006, operators paid 10% of gross incomes; now the percentage has been reduced to 7% of gross incomes.

Finally, in January 2011, Colombia Telecom signed with the National Television Commission an amendment to its concession agreement with the effect of including an arbitration clause.

Competition law

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

Peru

Regulatory framework

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

Licenses and concessions

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

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

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

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

Prices and tariffs

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

Interconnection

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

Competition law

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

Seasonality

Our main business is not significantly affected by seasonal trends.

Patents

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

C. Organizational Structure

See “—History and Development of the Company” and “—Business Overview.”

D. Property, Plant and Equipment

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

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Fixed Networks

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

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

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

Mobile Networks

We operate mobile networks in Spain, the United Kingdom, Germany, Ireland, the Czech Republic, Slovakia, Brazil, Argentina, Venezuela, Chile, Peru, Colombia, Mexico, Guatemala, Panama, El Salvador, Nicaragua, Costa Rica, Ecuador and Uruguay.

We use a number of mobile technologies in the countries in which we operate, namely: GSM and UMTS in Spain, the United Kingdom, Ireland, Germany, Czech Republic, Slovakia and Latin America; CDMA 1X in other countries in

Latin America (such as, Brazil, Venezuela and Colombia) and, in the Czech Republic (CDMA 450 MHz). We continue the work of upgrading our mobile networks in line with market trends, the demand of new services from customers and the evolution of technologies. The main steps we are currently taking include:

- progressive migration from CDMA technologies to GSM or UMTS technologies in markets where we still exploit these legacy technologies;

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- introduction of broadband into mobile access using technologies such as UMTS, HSDPA, HSUPA/HSPA+ and LTE;
- deployment of new services such as mobile television and distribution services for next generation music, video and games;
- exploration of the adequacy of new technologies such as HSPA and LTE to provide mobile accesses with increased bandwidth, in particular:
 - HSPA: we have been committed to the deployment of this technology in countries in which we have a presence and as of December 31, 2010, we have extended our coverage up to the majority of the urban/suburban areas, and we have increased the capacity of the network by upgrading the network technology to the latest available releases of UMTS standards 3GPP REL 6 and REL 7;
 - LTE: together with main vendors and sharing experience with other operators, we have extensively analyzed the opportunities LTE will bring as 4G mobile technology is used to complement current network technology by creating higher capacity at lower relative cost by user/traffic unit, and, in this regard, during 2010 we tested the technology in several operations, both in Europe and in Latin America, with successful results; and
 - convergence of fixed and mobile networks, services and support systems from both technological and operational points of view.

Satellite communications

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

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

Submarine cables

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

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

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

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

Overview

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

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- Telefónica Spain: oversees the fixed and mobile telephony services in Spain.
- Telefónica Europe: oversees the fixed and mobile telephony services in the United Kingdom, Germany, Ireland, the Czech Republic and Slovakia.
- Telefónica Latin America: oversees the fixed and mobile telephone services in Latin America.

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

Presentation of Financial Information

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

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

Non-GAAP financial information

Operating income before depreciation and amortization

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

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

| | Year ended December 31, | | |
|-------------------------------------------------------|-------------------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in millions of euros) | | |
| Operating income before depreciation and amortization | 22,919 | 22,603 | 25,777 |
| Depreciation and amortization expense | (9,046) | (8,956) | (9,303) |

| | | | |
|------------------|--------|--------|--------|
| Operating income | 13,873 | 13,647 | 16,474 |
|------------------|--------|--------|--------|

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

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| | Year ended December 31, 2010 | | | | | Total |
|-------------------------------------------------------|------------------------------|------------------|----------------------|----------------------------|--|----------|
| | Telefónica Spain | Latin America | Telefónica Europe | Others and Eliminations | | |
| | Telefónica | | | | | |
| | (in millions of euros) | | | | | |
| Operating income before depreciation and amortization | 8,520 | 13,782 | 4,014 | (539) | | 25,777 |
| Depreciation and amortization expense | (2,009) | (4,061) | (3,091) | (142) | | (9,303) |
| Operating income | 6,511 | 9,721 | 923 | (681) | | 16,474 |

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

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

Net financial debt and net debt

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

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

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| | As of December 31, | | |
|----------------------------------------------------------------------------------|------------------------|----------|----------|
| | 2008 | 2009 | 2010 |
| | (in millions of euros) | | |
| Non-current interest-bearing debt | 45,088 | 47,607 | 51,356 |
| Current interest-bearing debt | 8,100 | 9,184 | 9,744 |
| Gross financial debt | 53,188 | 56,791 | 61,100 |
| Other non-current payables | 477 | 515 | 1,718 |
| Other current payables (deferred payment for the acquisition of Brasilcel, N.V.) | — | — | 1,977 |
| Non-current financial assets(1) | (4,439) | (2,736) | (3,408) |
| Current financial assets | (2,216) | (1,906) | (1,574) |
| Cash and cash equivalents | (4,277) | (9,113) | (4,220) |

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| | As of December 31, | | |
|------------------------------------------------|------------------------|--------|--------|
| | 2008 | 2009 | 2010 |
| | (in millions of euros) | | |
| Net financial debt | 42,733 | 43,551 | 55,593 |
| Commitments related to financial guarantees | 365 | 71 | — |
| Net commitments related to workforce reduction | 2,687 | 2,261 | 1,710 |
| Net debt | 45,785 | 45,883 | 57,303 |

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

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

During the years ended December 31, 2008, 2009 and 2010, various changes occurred in our composition that affect the comparability of our operating results between the periods. See Appendix I to our Consolidated Financial Statements for a detailed description of the principal changes in our composition affecting our financial statements during the periods under review covered by our Consolidated Financial Statements. The most significant factors affecting the comparability of our results of operations in the periods under review are discussed below.

Acquisition of 50% of Brasilcel, N.V.

On July 28, 2010, Telefónica and Portugal Telecom signed an agreement for the acquisition by Telefónica, S.A. of 50% of the share capital of Brasilcel owned by Portugal Telecom. Brasilcel owned, approximately, 60% of Vivo Participações. This transaction was completed on September 27, 2010, terminating the joint venture agreements entered into by us and Portugal Telecom in 2002. As a result of the foregoing, our accounting treatment of Vivo Participações has been changed from the proportionate to full consolidation method within the scope of consolidation from September 27, 2010.

Additionally, in accordance with IFRS 3 (see “— Significant Changes in Accounting Policies” below), we remeasured the previously held 50% investment in Brasilcel, generating a capital gain of €3,797 million, which is recognized under “Other income” in our accompanying consolidated income statement (for further information, see Note 19 to our consolidated financial statements).

The principal impacts of this transaction are explained in “Item 4. Information on the Company —Business Overview—Strategic Partnerships” and Note 5 to our consolidated financial statements.

Acquisition of HanseNet Telekommunikation GmbH

On December 3, 2009, our subsidiary in Germany, Telefónica Deutschland, GmbH, signed an agreement to acquire all of the shares of the German company HanseNet. The transaction was completed on February 16, 2010. The amount initially paid out was approximately €913 million, which included €638 million of refinanced debt, and an acquisition cost in the amount of €275 million, which was ultimately reduced by €40 million upon completion of the transaction (see Note 5 to our consolidated financial statements).

The company is included in our consolidation scope under the full consolidation method from its date of acquisition.

Reduction of stake in Portugal Telecom

In June 2010, we reduced our ownership interest in Portugal Telecom by 7.98%, resulting in cash inflow of €631 million from the sale of the ownership interests. In addition, we entered into three equity swap contracts on the trading price of Portugal Telecom shares with a number of financial institutions, subject to net settlement, which grant us the economic returns on such investments. The investment is no longer reflected in the scope of consolidation through the equity method of accounting (see Note 9 to our consolidated financial statements).

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Acquisition of DTS Distribuidora de Televisión Digital, S.A.

On December 28, 2010, we completed the acquisition of a 22% stake in DTS, the provider of the pay-TV services offered by the PRISA Group. The acquisition cost amounted to approximately €488 million, of which €228 million was used to repay the outstanding balance on the subordinated loan between Telefónica de Contenidos, S.A.U. and Sogecable, S.A. This company has been included within the scope of consolidation through the equity method of accounting (see Note 9 to our consolidated financial statements).

Devaluation of the Venezuelan bolivar

On January 8, 2010 the Venezuelan bolivar was devalued, impacting our 2010 financial statements in the following regards:

- Decreasing our net assets in Venezuela as a result of the new exchange rate, with a balancing entry in translation differences under our equity, which generated an effect of approximately €1,810 million at the date of devaluation.
- Translating results and cash flows from Venezuela at the new devalued closing exchange rate.

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

Classification of Venezuela as a hyperinflationary economy

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

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

- Adjustment of the historical cost of non-monetary assets and liabilities and the various items of equity of Venezuelan companies from the date of acquisition or inclusion in Telefónica's consolidated statement of financial position to the end of the year to reflect the changes in purchasing power of the currency caused by inflation.
- The cumulative impact of the accounting restatement to adjust for the effects of hyperinflation for years prior to 2009 is reflected in the translation differences at the beginning of the 2009 financial year.
- Adjustment of the income statement to reflect the financial loss caused by the impact of inflation in the year on net monetary assets (loss of purchasing power).
- The various components in the income statement and statement of cash flows have been adjusted for the inflation index since their generation, with a balancing entry in financial results and offsetting reconciling item in the statement of cash flows, respectively.

- All components of the financial statements of the Venezuelan companies have been translated at the closing exchange rate.

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

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

Tax amortization of goodwill

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

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

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

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

On September 6, 2009, we entered into a broad strategic alliance with the Chinese telecommunications company, China Unicom, which includes, among other areas the joint procurement of infrastructure and client equipment; common development of mobile service platforms; joint provision of services to multinational customers; roaming; research and development; co-operation and sharing of best practices and technical, operational and management know-how; joint development of strategic initiatives in the area of the network evolution and joint participation in international alliances; and exchange of senior management.

In addition, on the same date, we executed a mutual share exchange agreement with China Unicom, which was implemented on October 21, 2009 through the subscription by us, through our wholly owned subsidiary Telefónica Internacional, S.A.U., of 693,912,264 newly issued shares of China Unicom, satisfied by a contribution in kind to China Unicom of 40,730,735 shares of Telefónica, S.A. (see Note 12 to our consolidated financial statements).

Following the completion of the transaction, we increased our ownership of China Unicom’s voting share capital from 5.38% to 8.06% and obtained the right to appoint a member to its board of directors, while China Unicom became owner of approximately 0.87% of our voting share capital at that date. Subsequently, after the capital reduction carried out by China Unicom, we reached a shareholding equivalent of 8.37% of its voting share capital.

The investment in China Unicom was included in the consolidation scope through the equity method of accounting.

On January 23, 2011, we broadened our Strategic Alliance Agreement with China Unicom. For more information, please see “Item 4. Information on the Company —History and Development of the Company—Recent Developments” and “Item 5. Operating and Financial Review and Prospects —Business Overview—Strategic Partnership” and Note 24 to our consolidated financial statements.

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Significant Changes in Accounting Policies

In the preparation of our consolidated annual financial statements for the year ended December 31, 2010 we applied the following new standards, amendments to standards and interpretations, published by the IASB (International Accounting Standards Board) and the IFRIC (International Financial Reporting Interpretations Committee), for the first time:

IFRS 3 (2008) Business Combinations

The revised version of IFRS3 introduces significant changes in the accounting for business combinations. The main impacts have been: