TELEFONICA S A
Form 6-K
April 29, 2010

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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of April, 2010
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Distrito C, Ronda de la Comunicación s/n,
28050 Madrid, Spain
3491-482 85 48
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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RAMIRO SÁNCHEZ DE LERÍN GARCÍA-OVIES
General Secretary
and Secretary to the Board of Directors
TELEFÓNICA, S.A.

TELEFÓNICA, S.A.., as provided in article 82 of the Spanish Securities Market Act (*Ley del Mercado de Valores*), hereby reports the following

SIGNIFICANT EVENT

Further to the notice sent on April 28th, 2010, and because of the official calling of the Annual General Shareholders Meeting of the Company to be held on June 2nd and 3rd, 2010 (on first and second call respectively), the following documents are hereby enclosed to this report:

Full text of the official calling

Full text of the proposals to be submitted for approval of the Annual General Shareholders Meeting.

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

The aforesaid proposals, together with the additional information, are available to shareholders, for examination, at the Company s registered office. Additionally, these documents will be accessible on-line via TELEFÓNICA, S.A ´s website: www.telefonica.com.

Madrid, April 29th, 2010

TELEFÓNICA, S.A.

Annual General Shareholders Meeting

By decision of the Board of Directors of TELEFÓNICA, S.A., the shareholders are hereby called to the Annual General Shareholders Meeting, **to be held in Madrid, at the Recinto Ferial de la Casa de Campo, Pabellón de Cristal, Avenida de Portugal, s/n**, on June 2, 2010 at 1:00 p.m. on first call, or, in the event that the legally required quorum is not reached and therefore the Meeting cannot be held on first call, on June 3, 2010 on second call, at the same place and time, in order to deliberate and decide upon the matters included in the following

AGENDA

I. Examination and approval, if applicable, of the Individual Annual Accounts, the Consolidated Financial Statements (Consolidated Annual Accounts) and the Management Report of Telefónica, S.A 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 2009.

II. Compensation of shareholders: Distribution of a dividend to be charged to Unrestricted Reserves.

III. Authorization for the acquisition of the Company s own shares, directly or through companies of the Group.

IV. Delegation to the Board of Directors of the power to issue debentures, bonds, notes and other fixed-income securities, be they simple, exchangeable and/or convertible, granting the Board, in the last case, the power to exclude the pre-emptive rights of shareholders, as well as the power to issue preferred shares and the power to guarantee issuances by the companies of the Group.

V. Re-election of the Auditor for Fiscal Year 2010.

VI. Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders Meeting.

In addition, and following the presentation of the matters included on the Agenda, a Report explaining the matters included in the Management Reports prepared as required by Section 116.bis of the Securities Market Law *[Ley del Mercado de Valores]* will be submitted to the shareholders at the Meeting.

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SUPPLEMENT TO THE CALL TO GENERAL SHAREHOLDERS MEETING

Pursuant to the provisions of Section 97.3 of the Spanish Companies Law *[Ley de Sociedades Anónimas]*, shareholders representing at least five percent of the share capital may request the publication of a supplement to this call to the General Shareholders Meeting, including one or more items in the Agenda. This right must be exercised by means of verifiable notice (which will include the corresponding documents evidencing shareholder status) that must be received at the Company s registered office (Gran Vía, número 28, Madrid, código postal 28013, to the attention of the General Secretary & Secretary of the Board of Directors) within five days of the publication of this call to Meeting.

RIGHT TO RECEIVE INFORMATION

In connection with Items I and IV on the Agenda, and pursuant to applicable laws and regulations, it is stated for the record that shareholders have the right to examine and obtain at the Company s registered office, or to request the Company to send them, immediately and free of charge, a copy of the following documents:

Individual Annual Accounts, Consolidated Financial Statements (Consolidated Annual Accounts) and Management Reports of Telefónica, S.A. and of its Consolidated Group of Companies, the corresponding audit reports, and the proposed allocation of profits/losses.

Proposed delegation of powers to the Board of Directors to issue securities as set forth in Item IV on the Agenda, together with the mandatory Directors Report.

In addition, the following documents are made available to the shareholders:

The text of the proposed resolutions relating to all other items on the Agenda.

The explanatory report required under Section 116.bis of the Securities Market Law.

The Report on Directors Compensation Policy.

The Annual Corporate Governance Report for Fiscal Year 2009.

All of the documents set forth above will be available electronically on the Company s website (www.telefonica.com).

Pursuant to Section 112.1 of the Spanish Companies Law, the shareholders may, until the seventh day prior to the date on which the General Shareholders Meeting is scheduled to be held and by completing the form posted on the Company s website for such purpose, or by postal correspondence sent to the Company s registered office (Gran Vía, número 28, Madrid, código postal 28013, to the attention of the *Oficina del Accionista* [Office of the Shareholder]), request such information or clarifications as they deem necessary, or ask such questions as they deem appropriate, regarding the matters included on the Agenda or about the information available to the public that has been provided by Telefónica, S.A. to the National Securities Market Commission *[Comisión Nacional del Mercado de Valores]* since June 23, 2009, i.e., the date on which the last General Shareholders Meeting was held.

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RIGHT TO ATTEND THE MEETING IN PERSON OR BY PROXY

The right to attend the General Shareholders Meeting hereby called accrues to shareholders that hold at least 300 shares registered in their name in the corresponding book-entry registry five days in advance of the date on which the Meeting is to be held and who provide evidence thereof by means of the appropriate attendance card or by producing a certificate issued by any of the depositaries participating in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores [Securities Registration, Clearing and Settlement Systems Management Company] (IBERCLEAR) or by any other means allowed under applicable Law.

Any shareholder having the right to attend the General Shareholders Meeting may be represented thereat by another person, who need not be a shareholder. A proxy may be granted by using the proxy-granting form printed on the attendance card or by any other means allowed by Law. The documents containing proxies for the General Shareholders Meeting must set forth the instructions regarding the manner of voting, provided that, where no express instructions are given, it shall be understood that the proxy-holder must vote in favor of the proposed resolutions submitted by the Board of Directors regarding the matters on the agenda, and shall vote in such direction as he deems most appropriate, taking into account the interest of the Company and that of the shareholder granting the proxy, in relation to any other matter that are not included in the agenda and are thus unknown on the date that the proxy is granted, but which may be submitted to a vote at the Meeting.

If the proxy-granting form does not set forth a specific person to whom the shareholder grants the proxy, such proxy will be deemed granted in favor of the Chairman of the Board of Directors of the Company or of such other person as may replace him as Chairman of the General Shareholders Meeting. In the event that, in accordance with the foregoing, the representative is involved in a conflict of interest upon voting on any of the proposals, whether or not included in the Agenda, which are put to the vote at the General Shareholders Meeting, the proxy will be deemed granted to the Secretary of the General Shareholders Meeting in his capacity as a shareholder having the right to attend.

Shareholders who do not hold the minimum number of shares required to attend may grant a written proxy in respect thereof in favor of another shareholder having the right to attend, or come together with other shareholders that are in the same situation such that they reach the required number of shares and grant a written proxy to one of such shareholders.

PARTICIPATION OF A NOTARY AT THE MEETING

The Board of Directors has resolved to request the presence of a Notary Public to draw up the minutes of the Meeting, pursuant to Section 114 of the Spanish Companies Law in connection with Sections 101 and 103 of the Regulations of the Commercial Registry.

PROTECTION OF PERSONAL INFORMATION

The personal information sent by the shareholders to the Company to exercise their rights to attend and vote at the General Shareholders Meeting or to grant proxies, or the personal information provided for such purpose by the entities which are the depositaries of the shares held by such shareholders through the entity legally authorized to maintain book-entry registries, Iberclear, shall be dealt with by Telefónica, S.A. to manage the development, compliance with and control of the existing shareholding relationship. Furthermore, pursuant to Personal Data Protection Act [Ley Orgánica 15/1999, de 13 de diciembre, de Protección de Datos de Carácter Personal],the information received will be kept in a database for which Telefónica, S.A. is responsible, the purpose of which is to send shareholders information relating to their investment and any advantage inherent to their status as shareholders in the telecommunications, new information technologies, tourism, culture, insurance, financial and home assistance industries. Shareholders have 30 days from the date of the General Shareholders Meeting to object to such treatment (which they may do by calling toll free 900 111 004); upon expiration of such period they will be deemed to have given their consent for such purpose. The rights of access, correction, cancellation and challenge may be exercised by letter accompanied by copy of the Identity Document (DNI) addressed to the Office of the Shareholder of Telefónica, S.A., Distrito C, Ronda de la Comunicación s/n, Edificio Oeste 2, planta baja, 28050 Madrid.

ACCESSES TO THE RECINTO FERIAL DE LA CASA DE CAMPO PABELLÓN DE CRISTAL

Entrance on Paseo de Extremadura (Puerta del Ángel or Main Gate)

Underground stations: Alto de Extremadura o Puerta del Ángel , line 6 and Lago , line 10

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FOR ANY ADDITIONAL INFORMATION, SHAREHOLDERS MAY CONTACT TELEFÓNICA S OFFICE OF THE SHAREHOLDER BY CALLING TOLL-FREE AT 900 111 004, FROM 9:00 A.M. TO 7:00 P.M., MONDAY THROUGH FRIDAY.

Madrid, 28th April, 2010

General Secretary and Secretary of the Board

Telefónica, S.A.

GENERAL SHAREHOLDERS MEETING

OF TELEFÓNICA, S.A. 2010

PROPOSED RESOLUTIONS SUBMITTED BY THE BOARD OF DIRECTORS

TO THE SHAREHOLDERS FOR DECISION AT THE

GENERAL SHAREHOLDERS MEETING

June 2/3, 2010

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Proposal regarding Item I on the Agenda: Examination and approval, if applicable, of the Individual Annual Accounts, the Consolidated Financial Statements (Consolidated Annual Accounts) and the Management Report of Telefónica, S.A. 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 2009.

A) To approve the Individual Annual Accounts (Balance Sheet, Income Statement, Statement of Changes in Shareholders Equity, Cash Flow Statement and Notes), the Consolidated Financial Statements -Consolidated Annual Accounts- (Statements of Financial Condition, Income Statements, Global Income Statements, Statements of Changes in Shareholders Equity, Cash Flow Statements, and Notes to the Consolidated Financial Statements), and the Management Reports of Telefónica, S.A. and its Consolidated Group of Companies for Fiscal Year 2009 (ended on December 31, 2009), as finalized by the Company s Board of Directors at its meeting of February 24, 2010, as well as the corporate management of the Board of Directors of Telefónica, S.A. during such Fiscal Year.

In the Individual Annual Accounts, the Balance Sheet as of December 31, 2009 discloses assets, liabilities and shareholders equity in the amount of 85,138 million euros each, and the Income Statement as of the end of the Fiscal Year shows a profit of 6,252 million euros.

In the Consolidated Financial Statements (Consolidated Annual Accounts), the Balance Sheet as of December 31, 2009 reflects assets, liabilities and shareholders equity in the amount of 108,141 million euros each, and the Income Statement as of the end of the Fiscal Year reports a profit of 7,776 million euros.

B) To approve the following Proposal for the Allocation of the Profits and Losses of Telefónica, S.A. for Fiscal Year 2009:

To allocate the profits posted by Telefónica, S.A. in Fiscal Year 2009, in the amount of 6,252,932,293 euros, as follows:

2,277,225,576 euros to payment of an interim dividend (fixed gross amount of 0.5 euro per share entitled to receive it). Such dividend was paid in full on May 12, 2009.

1,690,464 euros to funding a restricted reserve for Goodwill.

The balance of profits (3,974,016,253 euros) to a Discretionary Reserve.

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Proposal regarding Item II on the Agenda: Compensation of shareholders: Distribution of a dividend to be charged to Unrestricted Reserves.

To approve a distribution of Unrestricted Reserves by means of payment to each of the existing and outstanding shares of the Company that are entitled to participate in such distribution on the payment date, of the fixed gross amount of 0.65 euro per share, to be charged to the aforementioned Unrestricted Reserves.

Payment will be made on November 8, 2010, through the Entities participating in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. *[Securities Registration, Clearing and Settlement Systems Management Company]* (IBERCLEAR).

Telefónica, S.A.

Proposal regarding Item III on the Agenda: Authorization for the acquisition of the Company s own shares, directly or through Companies of the Group.

A) To authorize, pursuant to the provisions of Section 75 et seq., of the Spanish Companies Law *[Ley de Sociedades Anónimas]*, the derivative acquisition by Telefónica, S.A. -either directly or through any of the subsidiaries of which it is the controlling company- at any time and as many times as it deems appropriate, of its own fully-paid in shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.

Such authorization is granted for a period of 5 years as from the date of this General Shareholders Meeting and is expressly subject to the limitation that the par value of the Company s own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company s own shares established by the regulatory Authorities of the market on which the shares of Telefónica, S.A. are traded shall also be observed.

It is expressly stated for the record that the authorization granted to acquire shares of its own stock may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of companies of its Group, directly or as a result of the exercise by them of option rights, all within the framework of duly approved compensation systems referencing the listing price of the Company s shares.

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B) To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or any other person expressly authorized by the Board of Directors for such purpose.

C) To deprive of effect, to the extent of the unused amount, the authorization granted under Item IV on the Agenda by the shareholders at the Ordinary General Shareholders Meeting of the Company on June 23, 2009.

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Proposal regarding Item IV on the Agenda: Delegation to the Board of Directors of the power to issue debentures, bonds, notes and other fixed-income securities, be they simple, exchangeable and/or convertible, granting the Board, in the last case, the power to exclude the pre-emptive rights of shareholders, as well as the power to issue preferred shares and the power to guarantee issuances by companies of the Group.

To delegate to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (*Ley de Sociedades Anónimas*) and Section 319 of the Regulations of the Commercial Registry (*Reglamento del Registro Mercantil*), the power to issue fixed-income securities and preferred shares, subject to the following terms and conditions:

1. The aforementioned securities may be issued on one or more occasions within a maximum term of five years as from the date of approval of this resolution.
2. The securities issued may be debentures, bonds, notes and other fixed-income securities, both simple and, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company. They may also be preferred shares.
3. The maximum total amount of the issuance(s) of securities approved under this delegation of powers may not exceed, at any given time, the sum of 25 billion euros or the equivalent thereof in another currency. In the case of notes, the outstanding balance of any notes issued under such delegation of powers shall be computed for purposes of the aforementioned limit.
4. The delegation shall include the power to establish the different aspects and terms and conditions of each issuance (nominal value, issue price, reimbursement price, domestic or foreign currency of the issuance, interest rate, amortization, anti-dilution mechanisms, subordination provisions, guarantees supporting the issuance, place of issuance, admission to listing, applicable law, etc.).

5. In the case of issuance of debentures or bonds that are convertible and/or exchangeable and for purposes of determining the terms and conditions of conversion and/or exchange, it is resolved to establish the following standards:
   a) The conversion and/or exchange rate shall normally be fixed and, for such purposes, fixed-income securities shall be valued at their nominal value and shares shall be valued at the fixed exchange rate determined in the Board of Directors resolution, or at such exchange rate as is determinable on the date or dates specified in the resolution of the Board, and on the basis of the listing price of the shares of the Company on the date or dates, or period or periods, used as a reference in such resolution. In any event, the price of the shares may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which shall not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.
   b) Notwithstanding the provisions of sub-section a) above, the debentures or bonds may be resolved to be issued at a variable conversion and/or exchange rate. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board of Directors, which shall not be more than three months or less than five days prior to the date of conversion and/or exchange, at a premium or, if appropriate, at a discount on such price per share. The premium or discount may be different for each conversion and/or exchange date under each issuance (or under each tranche of an issuance, if any), provided, however, that if a discount on the price per share is set, such discount may not be greater than 30%. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.

c) As provided in Section 292.3 of the Companies Act, debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares. In addition, convertible debentures may not be issued in an amount less than the nominal value of such shares.

d) Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holders of the debentures or bonds shall be rounded downward by default to the immediately lower integer, and each holder shall receive in cash the difference that may arise in such instance.

e) When approving an issuance of convertible and/or exchangeable debentures or bonds in reliance on the authorization set forth in this resolution, the Board of Directors shall issue a Directors report elaborating on and specifying, on the basis of the standards described above, the terms and conditions of the conversion that are specifically applicable to the above-mentioned issuance. Such report shall be accompanied by the Auditors report mentioned in Section 292 of the Companies Act.

6. In any event, this delegation of powers to issue convertible and/or exchangeable debentures or bonds shall include:

a) The power to increase share capital by the amount required to accommodate the requests for conversion. Such power may only be exercised to the extent that the Board, adding the capital increase effected to accommodate the issuance of convertible debentures or bonds and any other capital increases it may have resolved to effect pursuant to authorizations granted by the shareholders at General Shareholders Meetings, does not exceed the limit of one-half of the amount of the share capital established in Section 153.1 b) of the Companies Act. This authorization to increase capital includes the power to issue and place into circulation, on one or more occasions, the shares required to carry out the conversion as well as the power to amend the article of the By-Laws relating to the amount of share capital.

b) The power to exclude the pre-emptive rights of shareholders whenever required to raise funds on domestic or international markets, to use bookbuilding techniques, or as otherwise required by the corporate interest. In any event, if the Board decides to exclude pre-emptive rights in connection with a particular issuance of convertible debentures or bonds which it may decide to make pursuant to this authorization, it shall, upon approving the issuance, issue a report describing the specific reasons of corporate interest that justify such measure, which shall be the subject-matter of the related report prepared by an auditor other than the Company s auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 293.2 b) and c) of the Companies Act. Both reports shall be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.

c) The power to elaborate on the terms and conditions of the conversion and/or exchange established in sub-section 5 above and, in particular, the power to determine the time of conversion and/or exchange, which may be limited to a pre-established period, the persons holding the right to convert and/or exchange the debentures, which may be allocated to the Company or to the debenture-holders, the manner in which debenture-holders are to be satisfied (by means of conversion, exchange or even a combination of both methods, which may be selected by them at the time of execution) and, in general, all terms and conditions that may be necessary or appropriate for the issuance.

7. As long as the conversion into and/or exchange for shares of the convertible and/or exchangeable debentures issued in exercise of the powers delegated hereby is possible, the holders thereof shall have all the rights afforded them by applicable legal provisions.
8. The Board of Directors is also authorized to guarantee, on behalf of the Company, the issuance of the securities mentioned in sub-section 2 above by Companies belonging to its Group of Companies.
9. At the subsequent General Shareholders Meetings held by the Company, shareholders shall be informed of the use, if any, that it has theretofore made of the delegation of powers contemplated in this resolution.

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10. Whenever appropriate, the Company shall make application for listing on Spanish or foreign, official or unofficial, organized or other secondary markets of the debentures, bonds and other securities issued pursuant to this delegation of powers, and the Board is authorized to conduct all formalities and take all actions that may be necessary for admission to listing before the appropriate authorities of the various Spanish or foreign securities markets.

For purposes of the provisions of Section 27 of the Stock Exchanges Regulations (*Reglamento de Bolsas de Comercio*), it is expressly stated for the record that if application is subsequently made for delisting the securities issued pursuant to this delegation of powers, such delisting shall be effected in compliance with the formalities set forth in such article and, in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements set out in the Companies Act and related provisions, all of the foregoing pursuant to the provisions of the aforementioned Stock Exchanges Regulations, the Securities Market Act (*Ley del Mercado de Valores*) and the provisions implementing it.

Under the provisions of Section 141, number 1, second paragraph of the Companies Act, the Board of Directors is authorized, in turn, to delegate the powers granted in this resolution to the Executive Commission.

The delegation of powers to issue securities granted by the shareholders at the General Shareholders Meeting held by the Company on May 10, 2007 is hereby deprived of effect to the extent of the unused amount.

Proposal regarding Item V on the Agenda: Re-election of the Auditor for Fiscal Year 2010.

In accordance with the proposal made by the Audit and Control Committee, the Board of Directors submits the following resolution to the shareholders at the General Shareholders Meeting for approval:

To reelect as Auditor of Telefónica, S.A. and its Consolidated Group of Companies for fiscal year 2010 of the firm Ernst & Young, S.L. with registered office in Madrid, at Plaza Pablo Ruiz Picasso, 1, and Tax Identification Code *[C.I.F.]* B-78970506.

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Proposal regarding Item VI on the Agenda: Delegation of powers to formalize, interpret, correct and implement the resolutions adopted by the General Shareholders Meeting.

To authorize the Executive Chairman of the Board of Directors, the Chief Operating Officer, the Secretary of the Board of Directors and the Assistant Secretary of the Board of Directors, jointly and severally, without prejudice to any powers delegated in the foregoing resolutions and to any powers granted to convert resolutions into a public instrument, in order for any of them to formalize and implement the preceding resolutions, with authority to execute all such public or private documents as may be necessary or appropriate (including documents designed to interpret, clarify, elaborate, supplement, correct errors and cure defects) for the more accurate implementation thereof and for registration thereof, to the extent mandatory, with the Commercial Registry or any other Public Registry, as well as to deposit the financial statements of the company.

* * * * *

Telefónica, S.A.

REPORT PREPARED BY THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A. IN CONNECTION WITH THE PROPOSED DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE DEBENTURES, BONDS, NOTES AND OTHER FIXED-INCOME SECURITIES, BE THEY SIMPLE, EXCHANGEABLE AND/OR CONVERTIBLE, GRANTING THE BOARD, IN THE LAST CASE, THE POWER TO EXCLUDE THE PRE-EMPTIVE RIGHTS OF SHAREHOLDERS, AS WELL AS THE POWER TO ISSUE PREFERRED SHARES AND THE POWER TO GUARANTEE ISSUANCES BY COMPANIES OF THE GROUP, TO BE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE ORDINARY GENERAL SHAREHOLDERS MEETING (ITEM IV ON THE AGENDA).

1. PURPOSE OF THE REPORT

The Agenda for the Ordinary General Shareholders Meeting of Telefónica, S.A., called to be held on June 2 and 3, 2010, includes in item IV thereon a proposal regarding the granting of powers to the Board of Directors, with the express power of substitution in favor of the Executive Commission, to issue debentures, bonds, notes and other fixed-income securities, both simple and convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company, as well as preferred shares, including the authorization for the Company to guarantee issuances of such securities by companies within the Group.

2. RATIONALE FOR THE PROPOSAL

The Board of Directors regards it as highly desirable to have the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary for appropriate management of the corporate interests. The purpose of this delegation is to provide the management-level decision-making body of the Company with the maneuverability and responsiveness required by the competitive environment in which it operates, in which the success of a strategic initiative or a financial transaction frequently depends on the possibility of dealing with it quickly, without incurring the delays and costs that inevitably ensue from the call to and holding of a General Shareholders Meeting.

For such purpose, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (Ley de Sociedades Anónimas) and 319 of the Regulations of the Commercial Registry (Reglamento del Registro Mercantil), which authorize the shareholders at a General Shareholders Meeting to delegate to the Board of Directors the power to issue fixed-income securities and preferred shares, on one or more occasions within a term of five years and for a cash consideration, the proposed resolution set forth under item IV of the Agenda is submitted to the shareholders at the General Shareholders Meeting, which proposal also includes the power to deprive of effect, to the extent of the unused amount, the resolution providing for the delegation of powers to issue securities approved by the shareholders at the Meeting held on May 10, 2007.

The proposal provides that the aggregate maximum amount of the issuances to be carried out under the delegation of powers will be 25 billion euros or the equivalent thereof in another currency. In addition, the proposal contemplates authorizing the Board of Directors so that, in the event that the Board decides to issue debentures or bonds, it may issue them as convertible and/or exchangeable and approve, in the event that they are convertible, the capital increase required to accommodate the conversion, provided that such increase effected by delegation does not exceed one-half of the amount of share capital, as prescribed by Section 153.1.b) of the restated text of the Companies Act.

The proposal also includes the standards for determining the terms and conditions for conversion into shares and/or exchange for shares of the debentures or bonds, in the event that the Board resolves to use the authorization granted by the shareholders to issue convertible and/or exchangeable debentures or bonds, but it delegates to the Board of Directors itself the power to specify such terms and conditions for conversion and/or exchange for each particular issuance within the limits and in accordance with the standards set out by the shareholders at the Meeting. Thus, the Board of Directors will determine the rate of conversion and/or exchange of the shares to be issued for the conversion or of those to be used to exchange the fixed-income securities, which rate may be fixed or variable, with the shares being valued in accordance with any of the procedures set forth in the following paragraphs, at the election of the Board and as the Board deems to be more appropriate. In any event, if the Board decides to issue convertible and/or exchangeable debentures or bonds in exercise of the authorization requested of the shareholders at the General Shareholders Meeting, the Board will, upon approving the issuance, issue a report describing the specific terms and conditions of the conversion and/or exchange applicable to such issuance, which will be the subject-matter of the related report prepared by an auditor other than the Company s auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 292 of the Companies Act.

Specifically, the resolution submitted by the Board for approval of the shareholders at the General Shareholders Meeting provides that in the event that the convertible and/or exchangeable debentures or bonds are issued at a fixed conversion and/or exchange rate, the price of the shares to be set by the Board of Directors for purposes of the conversion and/or exchange may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which will not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors meeting at which, exercising the delegated powers, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above will apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules will refer to the listing price of the shares of such company on the respective market. In this way, the Board believes that it is granted an adequate degree of flexibility to set the value of the shares for purposes of the conversion and/or exchange based on market conditions and other relevant factors to take into account, provided, however, that such value must be at least substantially equal to the market value thereof at the time that the Board approves the issuance of the debentures or bonds.

On the other hand, in the event that the issuance is carried out at a variable conversion and/or exchange rate, the price of the shares to be set by the Board of Directors for purposes of the conversion and/or exchange will be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board, which will not be more than three months or less than five days prior to the date of conversion or exchange, with the Board being authorized to set a premium or, if appropriate, a discount on such price per share, which may be different for each conversion or exchange date under each issuance. However, if the Board sets a discount on such price per share, such discount may not be greater than 30% of the listing price of the share during the period prior to the date of conversion into shares and/or exchange for shares of the debentures or bonds established by the Board itself. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above will apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules will refer to the listing price of the shares of such company on the respective market. Again, the Board believes that the foregoing grants it adequate maneuverability to set the variable conversion and/or exchange rate based on market circumstances and any other factors that the Board should take into account, provided, however, that a maximum discount is established in order to ensure that, if a discount is given, the issue price of the new shares in the event of a conversion does not differ by more than 30% from the market value of the shares at the time of the conversion.

In both cases, it is provided that, pursuant to Section 292.3 of the Companies Act (read in conjunction with Section 47.2 of such Act), debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares, and it is also provided that in no event may the value of the shares for purposes of the conversion rate be less than the nominal value thereof. Moreover, it is provided that the Board of Directors is authorized to determine whether or not the valuation of each debenture or bond for purposes of the rate of conversion into shares and/or exchange for shares of the debentures or bonds will include the interest accrued and unpaid at the time of the conversion and/or exchange.

In addition, it is provided that the authorization to issue fixed-income securities includes, in the event that the issuance covers convertible debentures or bonds, granting the Board of Directors the power to exclude the pre-emptive rights of shareholders when this is necessary to raise funds on the markets or as otherwise required by the corporate interest. The Board of Directors believes that this additional power, which significantly increases the maneuverability and responsiveness afforded by a simple delegation of the power to issue convertible debentures or bonds, is justified, on the one hand, by the flexibility and dispatch with which it is necessary to act in today s financial markets in order to take advantage of the times when market conditions are most favorable, and on the other hand, because such measure may be necessary when seeking to raise funds on domestic or international markets or through the use of bookbuilding techniques. Finally, the exclusion of pre-emptive rights makes it possible to relatively reduce the financial cost of the borrowing and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance) as compared to an issuance made with pre-emptive rights, and at the same time reduces the effect of distortion in the trading of the Company s shares during the issuance period.

In any event, it should be noted that the exclusion of pre-emptive rights is a power that the shareholders at the General Shareholders Meeting delegate to the Board of Directors and that it falls upon the Board, considering the particular circumstances and observing legal requirements, to decide in each case whether or not it is appropriate to exclude such rights. In this regard, if the Board decides to exclude pre-emptive rights in connection with a specific issuance of convertible debentures or bonds which it may decide to make pursuant to the authorization requested of the shareholders at the General Shareholders Meeting, it will, upon approving the issuance, issue a report describing the specific reasons of corporate interest that warrant such measure, on which the related Auditor s report required under Section 292.2 of the Companies Act will be issued. Both reports will be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.

Additionally, in view of the fact that in certain circumstances it may be advisable for fund-raising activities to be carried out by a company within the Group, and given that, in such cases, it is an essential condition for the success of the transaction that the issuance, if any, made by any such Group company be fully supported and guaranteed by the Company, the Board of Directors also requests express authorization of the shareholders at the General Shareholders Meeting in order for the Company to be allowed to guarantee the obligations of any kind that may arise for the Group companies from the issuances made thereby in order to raise funds for the Telefónica Group, for a period equal to the period of delegation of the power to issue the securities covered by this report.

It is also proposed that the resolutions required by applicable legal provisions be adopted in order for the securities to be issued pursuant to this delegation of powers to be admitted to listing on any Spanish or foreign, official or unofficial, organized or other secondary market.

Finally, the proposal expressly contemplates that the powers of any kind granted to the Board of Directors may be delegated, in turn, by the Board to the Executive Commission.

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3. *PROPOSED RESOLUTION SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS AT THE ORDINARY GENERAL SHAREHOLDERS MEETING*

The resolutions that the Board of Directors proposes for approval of the shareholders at the Ordinary General Shareholders Meeting are transcribed below:

To delegate to the Board of Directors, in accordance with the general rules governing the issuance of debentures and pursuant to the provisions of Sections 144, 153 and 293 of the Companies Act (Ley de Sociedades Anónimas) *and Section 319 of the Regulations of the Commercial Registry* (Reglamento del Registro Mercantil)*, the power to issue fixed-income securities and preferred shares, subject to the following terms and conditions:*

1. *The aforementioned securities may be issued on one or more occasions within a maximum term of five years as from the date of approval of this resolution.*
2. *The securities issued may be debentures, bonds, notes and other fixed-income securities, both simple and, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of the Company, of any of the companies within its Group or of any other company. They may also be preferred shares.*
3. *The maximum total amount of the issuance(s) of securities approved under this delegation of powers may not exceed, at any given time, the sum of 25 billion euros or the equivalent thereof in another currency. In the case of notes, the outstanding balance of any notes issued under such delegation of powers shall be computed for purposes of the aforementioned limit.*
4. *The delegation shall include the power to establish the different aspects and terms and conditions of each issuance (nominal value, issue price, reimbursement price, domestic or foreign currency of the issuance, interest rate, amortization, anti-dilution mechanisms, subordination provisions, guarantees supporting the issuance, place of issuance, admission to listing, applicable law, etc.).*

Telefónica, S.A.

5. *In the case of issuance of debentures or bonds that are convertible and/or exchangeable and for purposes of determining the terms and conditions of conversion and/or exchange, it is resolved to establish the following standards:*
   a) *The conversion and/or exchange rate shall normally be fixed and, for such purposes, fixed-income securities shall be valued at their nominal value and shares shall be valued at the fixed exchange rate determined in the Board of Directors resolution, or at such exchange rate as is determinable on the date or dates specified in the resolution of the Board, and on the basis of the listing price of the shares of the Company on the date or dates, or period or periods, used as a reference in such resolution. In any event, the price of the shares may not be less than the greater of (i) the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during the period to be determined by the Board of Directors, which shall not be more than three months or less than fifteen days, prior to the date of the holding of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds, and (ii) the closing price of the shares on the above-mentioned Continuous Market on the day prior to the date of the Board of Directors meeting at which, exercising the powers delegated hereby, the Board approves the issuance of the debentures or bonds. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.*

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b) *Notwithstanding the provisions of sub-section a) above, the debentures or bonds may be resolved to be issued at a variable conversion and/or exchange rate. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the shares of the Company on the Spanish Continuous Market during a period to be determined by the Board of Directors, which shall not be more than three months or less than five days prior to the date of conversion and/or exchange, at a premium or, if appropriate, at a discount on such price per share. The premium or discount may be different for each conversion and/or exchange date under each issuance (or under each tranche of an issuance, if any), provided, however, that if a discount on the price per share is set, such discount may not be greater than 30%. In the event of an exchange for shares of another company (whether or not belonging to the Group), the same rules above shall apply, to the extent that they are appropriate and with such adjustments, if any, as may be necessary, provided, however, that such rules shall refer to the listing price of the shares of such company on the respective market.*

c) *As provided in Section 292.3 of the Companies Act, debentures may not be converted into shares when the nominal value of such debentures is less than the value of such shares. In addition, convertible debentures may not be issued in an amount less than the nominal value of such shares.*

d) *Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holders of the debentures or bonds shall be rounded downward by default to the immediately lower integer, and each holder shall receive in cash the difference that may arise in such instance.*

e) *When approving an issuance of convertible and/or exchangeable debentures or bonds in reliance on the authorization set forth in this resolution, the Board of Directors shall issue a Directors report elaborating on and specifying, on the basis of the standards described above, the terms and conditions of the conversion that are specifically applicable to the above-mentioned issuance. Such report shall be accompanied by the Auditors report mentioned in Section 292 of the Companies Act.*

6. *In any event, this delegation of powers to issue convertible and/or exchangeable debentures or bonds shall include:*

   a) *The power to increase share capital by the amount required to accommodate the requests for conversion. Such power may only be exercised to the extent that the Board, adding the capital increase effected to accommodate the issuance of convertible debentures or bonds and any other capital increases it may have resolved to effect pursuant to authorizations granted by the shareholders at General Shareholders Meetings, does not exceed the limit of one-half of the amount of the share capital established in Section 153.1 b) of the Companies Act. This authorization to increase capital includes the power to issue and place into circulation, on one or more occasions, the shares required to carry out the conversion as well as the power to amend the article of the By-Laws relating to the amount of share capital.*

   b) *The power to exclude the pre-emptive rights of shareholders whenever required to raise funds on domestic or international markets, to use bookbuilding techniques, or as otherwise required by the corporate interest. In any event, if the Board decides to exclude pre-emptive rights in connection with a particular issuance of convertible debentures or bonds which it may decide to make pursuant to this authorization, it shall, upon approving the issuance, issue a report describing the specific reasons of corporate interest that justify such measure, which shall be the subject-matter of the related report prepared by an auditor other than the Company s auditor, appointed for such purpose by the Commercial Registry, mentioned in Section 293.2 b) and c) of the Companies Act. Both reports shall be made available to the shareholders and reported to the shareholders at the first General Shareholders Meeting held following adoption of the resolution approving the issuance.*

   c) *The power to elaborate on the terms and conditions of the conversion and/or exchange established in sub-section 5 above and, in particular, the power to determine the time of conversion and/or exchange, which may be limited to a pre-established period, the persons holding the right to convert and/or exchange the debentures, which may be allocated to the Company or to the debenture-holders, the manner in which debenture-holders are to be satisfied (by means of conversion, exchange or even a combination of both methods, which may be selected by them at the time of execution) and, in general, all terms and conditions that may be necessary or appropriate for the issuance.*

7. *As long as the conversion into and/or exchange for shares of the convertible and/or exchangeable debentures issued in exercise of the powers delegated hereby is possible, the holders thereof shall have all the rights afforded them by applicable legal provisions.*
8. *The Board of Directors is also authorized to guarantee, on behalf of the Company, the issuance of the securities mentioned in sub-section 2 above by Companies belonging to its Group of Companies.*
9. *At the subsequent General Shareholders Meetings held by the Company, the shareholders shall be informed of the use, if any, that it has theretofore made of the delegation of powers contemplated in this resolution.*
10. *Whenever appropriate, the Company shall make application for listing on Spanish or foreign, official or unofficial, organized or other secondary markets of the debentures, bonds and other securities issued pursuant to this delegation of powers, and the Board is authorized to conduct all formalities and take all actions that may be necessary for admission to listing before the appropriate authorities of the various Spanish or foreign securities markets.*

For purposes of the provisions of Section 27 of the Stock Exchanges Regulations (Reglamento de Bolsas de Comercio)*, it is expressly stated for the record that if application is subsequently made for delisting the securities issued pursuant to this delegation of powers, such delisting shall be effected in compliance with the formalities set forth in such article and, in such case, the interests of the shareholders or debenture-holders opposing or not voting on the resolution shall be safeguarded in compliance with the requirements set out in the Companies Act and related provisions, all of the foregoing pursuant to the provisions of the aforementioned Stock Exchanges Regulations, the Securities Market Act* (Ley del Mercado de Valores) *and the provisions implementing it.*

Under the provisions of Section 141, number 1, second paragraph of the Companies Act, the Board of Directors is authorized, in turn, to delegate the powers granted in this resolution to the Executive Commission.

The delegation of powers to issue securities granted by the shareholders at the General Shareholders Meeting held by the Company on May 10, 2007 is hereby deprived of effect to the extent of the unused amount.

Madrid, April 28, 2010

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Telefónica, S.A.

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

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

a.- Capital structure.

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

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

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

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

b.- Restrictions on the transfer of securities.

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

c.- Significant shareholdings.

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

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

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

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

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

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

d.- Restrictions on voting rights.

According to Article 21 of the Company s bylaws, no shareholder can exercise votes in respect of more than 10 per cent of the total shares with voting rights outstanding at any time, irrespective of the number of shares they may own. This restriction on the maximum number of votes that each shareholder can cast refers solely to shares owned by the shareholder concerned and cast on their own behalf. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 per cent voting ceiling.

The 10 per cent limit described above also applies to the number of votes that can be cast either jointly or separately by two or more legal entity shareholders belonging to the same corporate group and to the number of votes that may be cast altogether by an individual or legal entity shareholder and any entity or entities that they directly or indirectly control and which are also shareholders.

e.- Agreements between shareholders.

In accordance with the provisions of article 112, section 2 of the Securities Market Law 24/1988, of July 28, on October 22, 2009, the Company notified the CNMV in writing that on September 6, 2009 it had entered into a mutual share exchange agreement between Telefónica and China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per this article. By virtue of these clauses, Telefónica may not, while the strategic alliance agreement is effective, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertakes not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica s voting share capital (excluding intragroup transfers). At the same time, both parties have assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

f.- Rules governing the appointment and replacement of Directors and the amendment of the Company s bylaws.

Appointment, reappointment and ratification.

Telefónica s bylaws state that the Board of Directors shall have between five and twenty Directors who are appointed by shareholders at the Shareholders Meeting. The Board of Directors may, in accordance with Spanish Corporation Law and the Company bylaws, provisionally co-opt Directors to fill any vacant seats.

The appointment of Directors to Telefónica is as a general rule submitted for approval to the Shareholders Meeting. Only in certain circumstances, when seats fall vacant after the conclusion of the General Meeting is it therefore necessary to co-opt Directors onto the board in accordance with the Spanish Corporation Law. Any such co-opted appointment is then ratified at the next Shareholders Meeting.

Also, in all cases, proposals to appoint Directors must follow the procedures set out in the Company s Board of Directors Regulations and be preceded by the appropriate favorable report by the Appointments, Compensation and Good Governance Committee and in the case of independent Directors, by the corresponding proposal by the committee.

Therefore, in exercise of the powers delegated to it, the Appointments, Compensation and Good Governance Committee must report, based on criteria of objectivity and the best interests of the Company, on proposals to appoint, re-appoint or remove Company Directors, taking into account the skills, knowledge and experience required of candidates to fill the vacancies.

As a result, in accordance with its Regulations, the Board of Directors, exercising the rights to co-opt and propose appointments to the Shareholders Meeting, shall ensure that external or non-executive Directors are in an ample majority over the executive Directors. Similarly, it shall ensure that independent Directors make up at least one third of the total Board members.

In all circumstances, where a Director is proposed to the Shareholders Meeting for reappointment or ratification, the report of the Appointments, Compensation and Good Governance Committee, or in the case of independent Directors the proposal of this committee, shall include an assessment of the Director s past work and diligence in the discharge of their duties during their period in office.

Also, both the Board of Directors and the Appointments, Compensation and Good Governance Committee shall ensure, in fulfilling their respective duties, that all those proposed for appointment as Directors should be persons of acknowledged solvency, competence and experience who are willing to devote the time and effort necessary to the discharge of their functions, with particular attention paid to the selection of independent Directors.

Directors are appointed for a period of five years, renewable for one or more subsequent five-year periods.

As with appointments, proposals for the reappointment of Directors must be preceded by the corresponding report by the Appointments, Compensation and Good Governance Committee, and in the case of independent Directors by the corresponding proposal by the committee.

Termination of appointment or removal.

Directors appointments shall end at the expirations of the period for which they were appointed or when shareholders at the General Shareholders Meeting so decide in exercise of their powers under the law.

Also, in accordance with Article 12 of the Board Regulations, Directors must submit their resignation to the Board of Directors and formalize their resignation in the following circumstances:

a) If they leave the executive post by virtue of which they sat on the Board or when the reasons for which they were appointed cease to apply.

b) If their circumstances become incompatible with their continued service on the Board or prohibit them from serving on the Board for one of the reasons specified under Spanish law.

c) If they are severely reprimanded by the Appointments, Compensation and Good Governance Committee for failure to fulfill any of their duties as Director.

d) If their continued presence on the Board could affect the credibility or reputation of the Company in the markets or otherwise threaten the Company s interests.

The Board of Directors shall not propose the termination of the appointment of any independent Director before the expirations of their statutory term, except in the event of just cause, recognized by the Board on the basis of a prior report submitted by the Appointments, Compensation and Good Governance Committee. Just cause shall be specifically understood to include cases where the Director has failed to fulfill their duties as Board member.

The Board may also propose the termination of the appointment of independent Directors in the case of Takeover Bids, mergers or other similar corporate transactions that represent a change in the structure of the Company s capital.

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Amendments to the Company Bylaws.

The procedure for amending the Bylaws is governed by Article 144 of the Spanish Corporation Law and requires any change to be approved by shareholders at the Shareholders Meeting with the majorities stated in Article 103 of the same law. Article 14 of Telefónica s Bylaws upholds this principle.

g.- Powers of Directors and, specifically, powers to issue or buy back shares.

Powers of Directors.

The Chairman of the Company, as Executive Chairman, is delegated all powers by the Board of Directors except where such delegation is prohibited by Law, by the Company Bylaws or by the Regulations of the Board of Directors, whose Article 5.4 establishes the powers reserved to the Board of Directors. Specifically, the Board of Directors reserves the powers, inter alia, to: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as the remuneration of Directors and Senior Executives; and (iv) decide strategic investments.

Meanwhile, the Chief Operating Officer has been delegated all the Board s powers to conduct the business and act as the senior executive for all areas of the Company s business, except where such delegation is prohibited by law, by the Company Bylaws, or by the Regulations of the Board of Directors.

In addition, the other Executive Directors are delegated the usual powers of representation and administration appropriate to the nature and needs of their roles.

Powers to issue shares.

At the Ordinary Shareholders Meeting of Telefónica on June 21, 2006, the Board of Directors was authorized under Article 153.1.b) of the Spanish Corporation Law, to increase the Company s capital by up to 2,460 million euros, equivalent to half the Company s subscribed and paid share capital at that date, one or several times within a maximum of five years of that date. The Board of Directors has not exercised these delegated powers to date.

Also, at the General Shareholders Meeting of May 10, 2007, the Board of Directors was authorized under Articles 153.1.b) and 159.2 of the Spanish Corporation Law to issue bonds exchangeable for or convertible into shares in the Company, this power being exercisable one or several times within a maximum of five years of that date. The Board of Directors has not exercised this power to date.

Powers to buy back shares.

At the General Shareholders Meeting of Telefónica of June 23, 2009, the Board of Directors was authorized, in accordance with articles 75 and following of the Spanish Corporation Law, to buy back its own shares either directly or via companies belonging to the Group. This authorization was granted for 18 months from that date and includes the specific limitation that at no point may the nominal value of treasury shares acquired, added to those already held by Telefónica and those held by any of the subsidiaries that it controls, exceed the maximum legal percentage at any time (currently 10% of Telefónica s share capital).

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h.- Significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

The Company has no significant agreements outstanding that would come into force, be amended or expire in the event of a change of control following a Takeover Bid.

i.- Agreements between the Company and its directors, managers or employees that provide for compensation in the event of resignation or unfair dismissal or if the employment relationship should be terminated because of a Takeover Bid.

In general, the contracts of Executive Directors and some managers of the steering committee include a clause giving them the right to receive the economic compensation indicated below in the event that their employment relationship is ended for reasons attributable to the Company and/or due to objective reasons such as a change of ownership. However, if the employment relationship is terminated for a breach attributable to the executive director or director, the director will not be entitled to any compensation whatsoever. That notwithstanding, in certain cases the severance benefit to be received by the Executive Director or Director, according to their contract, does not meet these general criteria, but rather are based on other circumstances of a personal or professional nature or on when the contract was signed. The agreed economic compensation for the termination of the employment relationship, where applicable, consists of three years of salary plus another year based on length of service at the Company. The annual salary on which the indemnity is based is the Director s last fixed salary and the average amount of the last two variable payments received by contract.

Meanwhile, contracts that tie employees to the Company under a common employment relationship do not include indemnity clauses for the termination of their employment. In these cases, the employee is entitled to any indemnity set forth in prevailing labor legislation. This notwithstanding, contracts of some Company employees, depending on their level and seniority, as well as their personal or professional circumstances or when they signed their contracts, establish their right to receive compensation in the same cases as in the preceding paragraph, generally consisting of a year and a half of salary. The annual salary on which the indemnity is based is the last fixed salary and the average amount of the last two variable payments received by contract.

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Audit Report

TELEFÓNICA, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2009

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Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See note 22)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A.

1. We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2009 and the income statement, the statement of changes in equity, the cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company s Directors. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. In accordance with Spanish mercantile law, for comparative purposes, the Company s Directors have included for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and in the notes thereto, in addition to the figures of 2009, those of the prior year. The presentation of the figures corresponding to the prior year differ from those included in the financial statements approved for such year, as described in note 2.b) to the accompanying financial statements. Our opinion refers only to the financial statements for 2009. On March 6, 2009 we issued our audit report on the 2008 financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying 2009 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2009 and of the results of its operations, changes in equity and cash flow for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with the applicable accounting principles and standards generally accepted in Spain, applied on a consistent basis with those applied in the preparation of the figures corresponding to the prior year, included for comparative purposes in the accompanying financial statements.

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4. The accompanying 2009 management report contains such explanations as the Directors consider appropriate concerning the situation of Telefónica, S.A., the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2009 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company s accounting records.

ERNST & YOUNG, S.L.

/s/ José Luis Perelli Alonso

José Luis Perelli Alonso

March 18, 2010

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TELEFÓNICA, S.A.
ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED DECEMBER 31, 2009

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TELEFÓNICA, S.A.

BALANCE SHEET AT DECEMBER 31
(Millions of euros)

ASSETS	Notes	2009	2008
NON-CURRENT ASSETS		**75,589**	**76,768**
Intangible assets	**5**	**129**	**81**
Patents, licenses, trademarks, and others		45	4
Software		19	15
Other intangible assets		65	62
Property, plant and equipment	**6**	**411**	**404**
Land and buildings		178	178
Property, plant and equipment		179	207
Property, plant and equipment under construction and prepayments		54	19
Investment property	**7**	**328**	**336**
Land		65	65
Buildings		263	271
Non-current investments in group companies and associates	**8**	**70,565**	**69,889**
Equity instruments		66,542	63,795
Loans to companies		4,000	6,070
Other financial assets		23	24
Non-current financial investments	**9**	**3,059**	**4,253**
Equity instruments		544	383
Loans to third parties		59	25
Derivatives	16	2,358	3,458
Other financial assets		98	387
Deferred tax assets	**17**	**1,097**	**1,805**
CURRENT ASSETS		**9,549**	**11,673**
Trade and other receivables	**10**	**844**	**546**
Current investments in group companies and associates	**8**	**3,199**	**9,512**
Loans to companies		3,141	9,383
Derivatives	9	29	101
Other financial assets		29	28
Current financial investments	**9**	**522**	**1,002**
Loans to companies		5	46
Derivatives	16	517	956
Current deferred expenses		**13**	**8**
Cash and cash equivalents		**4,971**	**605**
Cash and cash equivalents		4,971	605
TOTAL ASSETS		**85,138**	**88,441**

The accompanying Notes 1 to 22 and Appendix I are an integral part of these balance sheets.

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TELEFÓNICA, S.A.

BALANCE SHEET AT DECEMBER 31
(Millions of euros)

EQUITY AND LIABILITIES	**Notes**	**2009**	**2008**
EQUITY		**28,290**	**27,326**
CAPITAL AND RESERVES		**28,617**	**27,477**
Share capital	**11**	**4,564**	**4,705**
Share premium	**11**	**460**	**460**
Reserves	**11**	**20,145**	**24,087**
Legal		984	984
Other reserves		19,161	23,103
Treasury shares and own equity instruments	**11**	**(527)**	**(2,179)**
Profit for the year	**3**	**6,252**	**2,700**
Interim dividend	**3**	**(2,277)**	**(2,296)**
UNREALIZED GAINS (LOSSES) RESERVE	**11**	**(327)**	**(151)**
Available-for-sale financial assets		**(91)**	**(229)**
Hedging instruments		**(236)**	**78**
NON-CURRENT LIABILITIES		**40,642**	**41,317**
Non-current provisions		**42**	**42**
Other provision		42	42
Non-current borrowings	**12**	**8,579**	**9,761**
Bonds and other marketable debt securities	13	192	288
Bank borrowings	14	6,833	7,225
Derivatives	16	1,488	2,241
Other debts		66	7
Non-current borrowings from group companies and associates	**15**	**31,984**	**30,955**
Deferred tax liabilities	**17**	**37**	**559**
CURRENT LIABILITIES		**16,206**	**19,798**
Current provisions		**4**	**5**
Current borrowings	**12**	**2,121**	**3,059**
Bonds and other marketable debt securities	13	335	1,567
Bank borrowings	14	481	788
Derivatives	16	1,305	704
Current borrowings from group companies and associates	**15**	**13,829**	**16,568**
Trade and other payables	**12**	**244**	**164**
Current deferred income		**8**	**2**

TOTAL EQUITY AND LIABILITIES	**85,138**	**88,441**

The accompanying Notes 1 to 22 and Appendix I are an integral part of these balance sheets.

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TELEFÓNICA, S.A.
INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Notes	2009	2008
Revenue from operations	**18.1**	**6,863**	**8,367**
Rendering of services to group companies and associates		433	357
Rendering of services to non-group companies		5	6
Dividends from group companies and associates		5,763	7,135
Interest income on loans to group companies and associates		662	869
Impairment and gains (losses) on disposal of financial instruments	**18.9**	**1,080**	**(4,219)**
Impairment losses and other losses	8.2	1,087	(4,182)
Gains (losses) on disposal and other gains and losses		(7)	(37)
Other operating income	**18.2**	**145**	**109**
Non-core and other current operating revenues group companies and associates		88	93
Non-core and other current operating revenues non-group companies		57	16
Personnel expenses	**18.3**	**(169)**	**(167)**
Wages, salaries, and others		(140)	(150)
Social security costs		(29)	(17)
Other operating expenses		**(375)**	**(384)**
External services group companies and associates	18.5	(74)	(78)
External services non-group companies	18.5	(290)	(290)
Taxes other than income tax		(11)	(16)
Depreciation and amortization	**5, 6 and 7**	**(68)**	**(72)**
OPERATING PROFIT		**7,476**	**3,634**
Finance revenue	**18.6**	**104**	**223**
From equity investments of third parties		16	41
From marketable securities and other financial instruments:		**88**	**182**
Of group companies and associates			22
Of third parties		88	160
Finance costs	**18.7**	**(1,888)**	**(3,027)**
Borrowings from group companies and associates		(1,717)	(2,652)
Third-party borrowings		(171)	(342)
Provision discount adjustment			(33)
Change in fair value of financial instruments		**(11)**	**5**
Trading portfolio and other securities		23	(6)
Gain (loss) on available-for-sale financial assets recognized in the period	11.2	(34)	11
Exchange gains (losses)	**18.8**	**(75)**	**(57)**
NET FINANCIAL EXPENSE		**(1,870)**	**(2,856)**

PROFIT BEFORE TAX	**20**	**5,606**	**778**
Income tax	**17.2**	**646**	**1,922**
PROFIT FOR THE YEAR		**6,252**	**2,700**

The accompanying Notes 1 to 22 and Appendix I are an integral part of these income statements.

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TELEFÓNICA, S.A.
STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31
A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(Millions of euros)	**Notes**	**2009**	**2008**
Profit for the period		**6,252**	**2,700**
Total income and expense recognized directly in equity	**11.2**	**(146)**	**(405)**
From measurement of financial instruments:		164	(390)
Available-for-sale financial assets		164	(390)
From cash flow hedges		(371)	(189)
Income tax		61	174
Total amounts transferred to income statement	**11.2**	**(30)**	**27**
From measurement of financial instruments:		34	(11)
Available-for-sale financial assets		34	(11)
From cash flow hedges		(76)	50
Income tax		12	(12)
TOTAL RECOGNIZED INCOME AND EXPENSE		**6,076**	**2,322**

The accompanying Notes 1 to 22 and Appendix I are an integral part of these statements of changes in equity.

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TELEFÓNICA, S.A.
B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Share capital	Share premium	Reserves	Treasury shares and own equity investments	Retained earnings	Profit for the year	Interim dividend	Net unrealized gains (losses) reserve	TOTAL
Balance in financial statements at December 31, 2007	**4,773**	**521**	**7,991**		**6,620**		**(1,652)**		**18,253**
Impact of first-time application of the new accounting principles		1,075	12,962	(1,074)				227	**13,190**
Balance at January 1, 2008	**4,773**	**1,596**	**20,953**	**(1,074)**	**6,620**		**(1,652)**	**227**	**31,443**
Total recognized income and expense						2,700		(378)	**2,322**
Transactions with shareholders and owners	(68)	(1,136)	(1,875)	(1,105)			(2,296)		**(6,480)**
Capital decreases	(68)	(1,136)		1,204					
Dividends paid			(1,869)				(2,296)		**(4,165)**
Transactions with treasury shares or own equity instruments (net)			(6)	(2,309)					**(2,315)**
Appropriation of prior year profit (loss)			4,968		(6,620)		1,652		
Other changes in equity			41						**41**
Balance at December 31, 2008	**4,705**	**460**	**24,087**	**(2,179)**		**2,700**	**(2,296)**	**(151)**	**27,326**
Total recognized income and expense						6,252		(176)	**6,076**
Transactions with shareholders and owners	(141)		(4,346)	1,652			(2,277)		**(5,112)**
Capital decreases	(141)		(2,167)	2,308					
Dividends paid			(2,280)				(2,277)		**(4,557)**
Transactions with treasury shares or own equity instruments (net)			101	(656)					**(555)**
Appropriation of prior year profit (loss)			404			(2,700)	2,296		

Balance at December 31, 2009	**4,564**	**460**	**20,145**	**(527)**	**6,252**	**(2,277)**	**(327)**	**28,290**

The accompanying Notes 1 to 22 and Appendix I are an integral part of these statements of changes in equity.

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TELEFÓNICA, S.A.
CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Notes	2009	2008
A) CASH FLOWS FROM OPERATING ACTIVITIES		**8,437**	**8,068**
Profit before tax		5,606	778
Adjustments to profit:		(5,567)	(857)
Depreciation and amortization	5, 6, and 7	68	72
Gains on disposal of consolidated companies	8.1		(3)
Impairment of investments in group companies and associates	8.2	(1,087)	4,182
Impairment of investments in non-group companies		7	1
Losses on disposal of financial assets, securities portfolio			39
Dividends from group companies and associates	18.1	(5,763)	(7,135)
Interest income on loans to group companies and associates	18.1	(662)	(869)
Net financial expense	18.6 and 18.7	1,870	2,856
Change in working capital:		16	(301)
Trade and other receivables		86	(250)
Other current assets		(51)	(16)
Trade and other payables		47	(96)
Other current liabilities		1	(4)
Other non-current assets and liabilities		(67)	65
Other cash flows from operating activities:	20	8,382	8,448
Net interest paid		(974)	(2,644)
Dividends received		7,784	8,248
Income tax receipts (payments)		1,572	2,844
B) CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**804**	**(762)**
Payments on investments	20	(1,403)	(2,983)
Proceeds from disposals	20	2,207	2,221
C) CASH FLOWS USED IN FINANCING ACTIVITIES		**(4,790)**	**(8,935)**
Proceeds from/(payments on) equity instruments	11.a	(311)	(2,224)
Proceeds from/(payments on) financial liabilities	20	78	(2,546)
Dividends paid	11.d	(4,557)	(4,165)
D) NET FOREIGN EXCHANGE DIFFERENCE		**(85)**	**321**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,366**	**(1,308)**

Cash and cash equivalents at January 1	605	1,913
Cash and cash equivalents at December 31	4,971	605

Notes 1 to 22 and Appendix I are an integral part of these cash flow statements.

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TELEFÓNICA, S.A.
NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. (Telefónica or the Company) is a public limited company incorporated on April 19, 1924 for an indefinite period, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company s registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica s basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that operates mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

(2) BASIS OF PRESENTATION

a) True and fair view

The accompanying financial statements have been prepared from Telefónica, S.A. s accounting records by the Company s directors in accordance with the accounting principles and standards contained in the Code of Commerce, developed in the Spanish GAAP in force at the date of these financial statements, to give a true and fair view of the Company s equity, financial position, results of operations and of the cash flows obtained and applied in 2009.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company s functional currency.

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b) Comparison of information

In accordance with the final first provision of the Law 16/2007, dated July 4, on the adaptation of commercial legislation on accounting for international harmonization based on EU regulations, Spanish GAAP has been altered considerably. The new principles were approved by Royal Decree 1514/2007 of November 16. Telefónica is required to apply the new accounting principles in the preparation and presentation of its separate financial reporting for the year beginning January 1, 2008. Therefore, the financial statements for the years ended December 31, 2009 and 2008 (these 2008 financial statements have been approved at the General Shareholders Meeting of June 23, 2009) have been prepared in accordance with the new recognition and measurement policies. The Company considered January 1, 2008 as the transition date.

As a result of the publication on September 30, 2009, of the Institute of Accounting and Audit of Accounts (Instituto de Contabilidad y Auditoria de Cuentas, ICAC) Official Bulletin 79, which included consultation number 2 on the classification of revenue and expense of a holding company individual accounts and the determination of revenue, the presentation in the income statement of dividends and income on loans to investees has been modified, reclassifying Dividends from group companies and associates and Interest income on loans to group companies and associates to Revenue from operations in 2009. In addition, Impairment and gains (losses) on disposal of financial instruments and gains on the disposal of investments have been reclassified and presented under Operating profit in the Company s income statement.

Similarly, in accordance with the provisions of the Spanish GAAP, specifically recognition and measurement rules 22 and 5 regarding the preparation of annual financial statements, the 2008 figures for the items described in the preceding paragraphs have been reclassified in order to maintain the comparability of the information presented in the income statement.

In addition, the cash flow statements for the years ended December 31, 2009 and 2008 have been presented on the basis of the above criteria.

Tax amortization of goodwill

In December 2007, the European Commission opened an investigation involving the Kingdom of Spain with respect to the potential consideration as stated aid of the tax deduction for the tax basis amortization of goodwill generated on certain foreign investments under the provisions of article 12.5 of the revised Spanish corporate income tax law (TRLIS). This investigation led to widespread uncertainties regarding the scope of the European Commission s decision on the future for, among others, the Telefónica Group.

In the case of the Telefónica S.A., as a result of this uncertainty the Company deemed it necessary to recognize a liability in the financial statements until the investigation was concluded.

In December 2009, the text of the European Commission s decision regarding the investigation was released, which deems the deduction as state aid. Investments made prior to December 21, 2007, (as is the case for the Telefónica Group s investments in O2 Group companies, the operators acquired from BellSouth, Colombia Telecomunicaciones, ESP and Telefónica O2 Czech Republic, a.s.) are not affected by this decision. As a result this decision and considering the corporate structure of these investments, income tax expense in the Telefónica, S.A. s income statement for the year ended December 31, 2009 is 584 million euros lower due to the reversal of this liability.

c) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

The key assumptions concerning the future and other key sources of estimation of uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

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

Provisions for impairment of investments in group companies, joint ventures and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount.

Recoverable amount of investments in group companies, joint ventures and associates is measured as described in Note 4 e.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company s ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

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

(3) PROPOSED APPROPIATION OF PROFIT

Telefónica, S.A. obtained 6,252 million euros of profit in 2009. Accordingly, the Company s Board of Directors will submit the following proposed appropiation of 2009 profit for approval at the Shareholders Meeting:

	Millions of euros
Proposed appropiation:	
Profit for the year	6,252
Distribution to:	
Interim dividend (paid in May 2009)	2,277
Goodwill reserve	2
Voluntary reserves	3,973

At its meeting of April 29, 2009, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2009 profit of a fixed gross 0.5 euros for each of the Company s outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2009, and the total amount paid was 2,277 million euros (see Note 11.1 d).

The following table shows the provisional statement issued by the Directors to substantiate that the Company had sufficient liquidity at that time to distribute this dividend.

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

To ensure its liquidity requirements are met throughout the following year, the Company effectively manages its liquidity risks (see Note 16).

(4) RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2009 annual financial statements are the following:

a) Intangible assets

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

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable.

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

Intangible assets include mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over their useful lives, generally estimated at three years.
2. Intellectual property, which is recorded at the amounts paid to acquire ownership of or rights to use patents and trademarks and amortized on a straight-line basis over the useful life of the patent or trademark for a period of 3 to 10 years.
3. The goodwill arising from the merger of Telefónica, S.A. and Terra Networks, S.A. carried out in 2005. This is included under Other intangible assets at the carrying amount at January 1, 2008, of 33 million euros, calculated in accordance with the former accounting principles, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 4 c).

b) Property, plant and equipment and investment property

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

Cost includes external and any internal costs comprising warehouse materials used, direct labor costs incurred in installation work and the allocable portion of the indirect costs required for the related investment. Cost includes, where appropriate, the estimate of decommissioning, retirement and site reconditioning costs when the Company is under obligation to incur such costs due to the use of the asset.

Costs incurred for expansion, remodeling or improvements which increase the productivity, capacity, or prolong the useful life of the asset are capitalized when the capitalization requirements are met.

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Interest and other borrowing costs incurred and directly attributable to the acquisition or construction of assets that require preparation of more than one year for their intended use or sale are capitalized.

Upkeep and maintenance expenses are expensed as incurred.

The Company assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount, whenever there are indications that the assets carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment provision is not maintained if the factors giving rise to the impairment disappear (see Note 4 c).

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	**Years**
Buildings	40
Plant and machinery	3-25
Other plant or equipment, furniture and fixtures	10
Other items of property, plant and equipment	4-10

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

Investment property is measured using the same criteria described for land and buildings in the property, plant and equipment caption. Buildings included in investment property are depreciated on a straight-line basis over 40 years.

c) Impairment of non-current assets

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

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The Company bases the calculation of impairment on the business plans of the various cash-generating units to which the assets are allocated. These business plans generally cover five years. For longer periods, an expected constant or decreasing growth rate is applied to the projections based on these plans from the fifth year.

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

d) Leases

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

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

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

e) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Company classifies its financial assets into the following categories for initial recognition purposes: financial assets held for trading, other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, investments in Group companies, joint ventures and associates, and available-for-sale financial assets. Where appropriate, the Company re-evaluates the designation at each financial year end.

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Financial assets held for trading, i.e., investments made with the aim of realizing short-term profits as a result of price changes, are included in *Financial assets held for trading* and presented under current or non-current assets depending on their maturity. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Investments in group companies, joint ventures and associates are classified into a category of the same name and are shown at cost less any impairment loss. Group companies are those over which the Company controls, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest-rate movements and which have not been included in the preceding categories are classified as *available-for-sale*. These investments are recorded under Non-current assets, unless it is probable and feasible that they will be sold within 12 months. Financial assets in this category are measured at fair value. Gains or losses arising from changes in fair value are recognized in equity until the asset is derecognized or impaired, at which time the cumulative gain or loss previously reported in equity is taken to the income statement. Dividends from available-for-sale equity investments are recognized in the income statement once the Company has the right to receive the dividend. Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the quoted market price at the closing date.
2. Unlisted securities: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by reference to arm s length market transactions. When fair value cannot be reliably determined, these investments are carried at cost.

Loans and receivables includes trade or non-trade financial assets, that are neither derivatives nor equity instruments, with fixed or determinable payments and that are not quoted in an active market and not included in any of the preceding classifications. Upon initial recognition, these assets are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. Following initial recognitions, these financial assets are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are settled or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A provision for impairment is recorded when there is objective evidence of customer collection risk. The amount of the provision is calculated as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, current trade receivables are not discounted.

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The Group assess at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (or fair value when it can be measured reliably). If in a subsequent period the impairment loss decreases as a result of a subsequent event, the loss is reversed up to the asset s amortized cost had no impairment loss been recognized upon reversal. Such a reversal is recognized in the income statement of that year.

For equity instruments included in available-for-sale financial assets, the Company assesses individually for each security whether there is any objective evidence that an asset is impaired as a result of one or more events indicating that the carrying amount of the security will not be recovered. If there is objective evidence that an available-for-sale financial instrument is impaired, the cumulative loss recognized in equity measured as the difference between the acquisition cost (net of any principal payments and amortization made) and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from equity and recognized in the income statement. If in a subsequent period the fair value of the financial asset increases because of a subsequent event, the impairment loss is reversed through the income statement if the asset is a debt instrument. For equity instruments, the loss is not reversed in the income statement for the period, but rather in equity, as the instrument is measured at its new fair value, with any changes taken to equity.

Recoverable amount for estimating impairment of investments in group companies, joint ventures and associates is the higher of the investment s net fair value less costs to sell and the present value of the future cash flows derived from the investment. These cash flows can be calculated by estimating the cash flows to be received from dividends or from the disposal or derecognition of the investment, or the Company s share of the cash flows expected to be generated by the investment (from operations, or the investment s disposal or derecognition).

Financial assets are only fully or partially derecognized when:

1. The rights to receive cash flows from the asset have expired;
2. The Company has assumed an obligation to pay the cash flows received from the asset to a third party; or
3. The Company has transferred its rights to receive cash flows from the asset to a third party and transferred substantially all the risks and rewards of the asset.

Cash and cash equivalents

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

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

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Issues and interest-bearing debt

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

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with another on substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in their respective carrying amounts is taken to the income statement.

Derivative financial instruments and hedge accounting

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

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

The Company designates certain derivatives as:

1. Fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or
2. Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
3. Hedges of a net investment in a foreign operation.

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

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

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

An instrument designed to hedge foreign currency exposure from a net investment in a foreign operation is accounted for in a way similar to fair value hedges for the foreign currency component. For these purposes, the net investment in the foreign operation comprises not only the share in the equity of the foreign investment, but also the monetary item receivable or payable, the settlement of which is not expected or likely to take place in the foreseeable future, excluding trade items.

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

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

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

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

f) Treasury shares

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

g) Foreign currency transactions

Monetary items denominated in foreign currencies are translated to euros at the exchange rates prevailing on the related transaction date, and are retranslated at the year end to the exchange rates then prevailing.

All realized or unrealized exchange gains or losses are taken to the income statement for the year, with the exception of non-monetary items measured at fair value, provided that they are recognized directly in equity (such as investments in equity instruments classified as available-for-sale financial assets). In these cases, any exchange differences included in gains or losses recognized in equity derived from changes in the value of the non-monetary items measured at fair value are also recognized directly in equity.

h) Provisions

Pensions and other employee obligations

The Company has a defined-contribution pension plan for employees. The obligations are limited to the regular payment of the contributions, which are taken to the income statement as incurred.

Other provisions

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

i) Share-based payments

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

j) Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and accounting amounts of investments in group companies and associates.

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

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

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

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

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

Deferred income tax relating to items directly recognized in equity is recognized in equity.

k) Revenue and expenses

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

The income obtained by the Company in dividends received from group companies and associates, and from the interest accrued on loans and credits given to them are included in revenue.

l) Related party transactions

Related party transactions are accounted for in accordance with the criteria described above.

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m) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 19 a). Where financial guarantees provided have a counterguarantee on the Company s balance sheet, the value of the counterguarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result. Guarantees provided for which there is no item on the Company s balance sheet acting as a counterguarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

i) the amount in accordance with rules on provisions and contingencies, and

ii) the amount initially recognized less, when applicable, any amounts take to the income statement corresponding to accrued income.

n) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group s consolidated financial statements for 2009 are as follows:

Item	***Millions of euros***
Total assets	108,141
Equity:	
Attributable to equity holders of the parent	21,734
Attributable to minority interests	2,540
Revenue from operations	56,731
Profit for the year:	
Attributable to equity holders of the parent	7,776
Attributable to minority interests	161

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(5) INTANGIBLE ASSETS

The movements in the items composing intangible assets and the related accumulated amortization in 2009 and 2008 are as follows:

(Millions of euros) 2009	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INTANGIBLE ASSETS, GROSS	**325**	**73**	**(60)**	**8**	**346**
Patents, licenses, trademarks, and others	29	50	(17)		62
Software	196	10	(43)	8	171
Other intangible assets	100	13			113
ACCUMULATED AMORTIZATION	**(244)**	**(25)**	**52**		**(217)**
Patents, licenses, trademarks, and others	(25)	(2)	10		(17)
Software	(181)	(13)	42		(152)
Other intangible assets	(38)	(10)			(48)
Net carrying amount	**81**	**48**	**(8)**	**8**	**129**

(Millions of euros) 2008	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INTANGIBLE ASSETS, GROSS	**317**	**7**	**(15)**	**16**	**325**
Patents, licenses, trademarks, and others	28			1	29
Software	188	7	(14)	15	196
Other intangible assets	101		(1)		100
ACCUMULATED AMORTIZATION	**(220)**	**(28)**	**4**		**(244)**
Patents, licenses, trademarks, and others	(24)	(1)			(25)

Software	(168)	(17)	4		(181)
Other intangible assets	(28)	(10)			(38)
Net carrying amount	**97**	**(21)**	**(11)**	**16**	**81**

Additions to patents, licenses, trademarks and others relate, among others, to Telefónica, S.A. s acquisition of rights to operate and sell the Altamira platform from Telefónica Móviles España, S.A.U., amounting to 48 million euros.
Proceeds from disposals of intangible assets in 2009 and 2008 were not material for the Company s income statement.
At December 31, 2009 and 2008, there were no commitments to acquire intangible assets.
At December 31, 2009 and 2008, the Company had 152 and 186 million euros, respectively, of fully amortized intangible assets. In 2009, fully amortized and provisioned intangible assets worth 52 million euros were written off.

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(6) PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2009 and 2008 are as follows:

(Millions of euros) *2009*	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
PROPERTY, PLANT AND EQUIPMENT, GROSS	**562**	**52**	**(15)**	**(8)**	**591**
Land and buildings	239	4			243
Property, Plant and Equipment	304	1	(12)	1	294
Property, plant and equipment under construction and prepayments	19	47	(3)	(9)	54
ACCUMULATED DEPRECIATION	**(158)**	**(35)**	**13**		**(180)**
Buildings	(61)	(4)			(65)
Plant and other PP&E items	(97)	(31)	13		(115)
Net carrying amount	**404**	**17**	**(2)**	**(8)**	**411**

(Millions of euros) *2008*	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
PROPERTY, PLANT AND EQUIPMENT, GROSS	**549**	**33**	**(4)**	**(16)**	**562**
Land and buildings	236	3			239
Property, Plant and Equipment	291	14	(4)	3	304
Property, plant and equipment under construction and prepayments	22	16		(19)	19
ACCUMULATED DEPRECIATION	**(127)**	**(34)**	**3**		**(158)**
Buildings	(59)	(3)	1		(61)
Plant and other PP&E items	(68)	(31)	2		(97)

Net carrying amount	**422**	**(1)**	**(1)**	**(16)**	**404**

Firm commitments to acquire property, plant and equipment at December 31, 2009 and 2008 amounted to 2 and 7 million euros, respectively.

In 2009 and 2008, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2009 and 2008, the Company had 17 and 24 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

At the end of 2009 and 2008, this includes the net carrying amount of assets (mainly plant and property) related to the new central offices in the Las Tablas business park, called Distrito C, of 158 and 182 million euros, respectively. Also included is the net carrying amount of the land and buildings occupied by Telefónica, S.A. at the central offices of District C of 95 and 98 million euros, respectively.

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(7) INVESTMENT PROPERTIES

The movements in the items composing investment properties in 2009 and 2008 and the related accumulated depreciation are as follows:

(Millions of euros) *2009*	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INVESTMENT PROPERTIES, GROSS	**361**				**361**
Land	65				65
Buildings	296				296
ACCUMULATED DEPRECIATION	**(25)**	**(8)**			**(33)**
Buildings	(25)	(8)			(33)
Net carrying amount	**336**	**(8)**			**328**

(Millions of euros) *2008*	Balance at January 1	Additions and allowances	Disposals	Transfers	Balance at December 31
INVESTMENT PROPERTIES, GROSS	**358**	**3**			**361**
Land	65				65
Buildings	293	3			296
ACCUMULATED DEPRECIATION	**(15)**	**(10)**			**(25)**
Buildings	(15)	(10)			(25)
Net carrying amount	**343**	**(7)**			**336**

The Company has buildings with a total area of 341,470 m^2 leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 91.51% of the buildings it has earmarked for lease. In 2008, it had a total of 322,422 m^2 leased, equivalent to an occupancy rate of 98.3% of the buildings earmarked for lease.

Investment properties mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at the central offices of District C in Madrid.

Total income from leased buildings in 2009 (see Note 18.1) amounted to 40 million euros (41 million euros in 2008).

Future minimum rentals receivable under non-cancellable leases are as follows:

	2009	2008
	Future	Future

(Millions of euros)	minimum payments	Present value	minimum payments	Present value
Up to one year	43	42	38	37
Between one and five years	54	48	74	66
Total	**97**	**90**	**112**	**103**

The main contract in which Telefónica, S.A. acts as lessee is described in Note 18.5.

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(8) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

8.1 The movements in the items composing investments in Group companies, joint ventures and associates are as follows:

(Millions of euros) *2009*	**Balance at January 1**	**Additions**	**Disposals**	**Transfers**	**Exchange gains (losses)**	**Dividends**	**Hedges of a net investment**	**Balance at December 31**	**Fair value**
Non-current:									
-Equity instruments (Net) (1):	63,795	25	960	1,422		(92)	432	66,542	66,656
Equity instruments (Cost)	70,882	25	(127)	1,415		(92)	432	72,535	
Impairment losses	(7,087)		1,087	7				(5,993)	
- Loans to group companies and associates	6,070	36	(59)	(2,042)	(5)			4,000	4,000
-Other financial assets	24	16		(17)				23	23
Total non-current investments in group companies and associates	**69,889**	**77**	**901**	**(637)**	**(5)**	**(92)**	**432**	**70,565**	**70,679**
Current:									
- Loans to group companies and associates	9,383	2,823	(9,714)	661	(12)			3,141	3,141
-Derivatives	101	3	(75)					29	29
-Other financial assets	28	12	(28)	17				29	29
Total current investments in group companies and associates	**9,512**	**2,838**	**(9,817)**	**678**	**(12)**			**3,199**	**3,199**

(1) Fair value at 12/31/09 of group companies and associates quoted in an active market (Telefónica de Perú, S.A.A., Telefónica Móviles Perú

and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year, and for the rest of the shareholdings at carrying amount.

(Millions of euros) *2008*	**Balance at January 1**	**Additions**	**Disposals**	**Transfers**	**Exchange gains (losses)**	**Dividends**	**Hedges of a net investment**	**Balance at December 31**	**Fair value**
Non-current:									
-Equity instruments (Net) (1):	69,394	(3,801)	(95)			(194)	(1,509)	63,795	63,871
Equity instruments (Cost)	72,299	381	(95)			(194)	(1,509)	70,882	
Impairment losses	(2,905)	(4,182)						(7,087)	
- Loans to group companies and associates	10,289	264	(174)	(4,218)	(91)			6,070	6,070
-Other financial assets		24						24	24
Total non-current investment in group companies and associates	**79,683**	**(3,513)**	**(269)**	**(4,218)**	**(91)**	**(194)**	**(1,509)**	**69,889**	**69,965**
Current:									
- Loans to group companies and associates	8,183	5,723	(8,659)	4,218	(82)			9,383	9,383
-Derivatives	55	96	(50)					101	101
-Other financial assets		28						28	28
Total current investments in group companies and associates	**8,238**	**5,847**	**(8,709)**	**4,218**	**(82)**			**9,512**	**9,512**

(1)

Fair value at 12/31/08 of Group companies and associates quoted in an active market (Telefónica de Perú, S.A.A., Telefónica Móviles Perú and Telefónica O2 Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year, and for the rest of the shareholdings at carrying amount.

Dividends received by Telefónica, S.A. in 2009 related to profits generated by subsidiaries prior to the acquisition date are considered repayments of contributions, and therefore are deducted from the equity instruments related to the investments. These amounts come from Telefónica O2 Czech Republic, a.s. (79 and 178 million euros in 2009 and 2008, respectively) and Lycos Europe Holding Corp (13 and 16 million euros in 2009 and 2008, respectively).

On June 11, 2009, the Company agreed the capitalization of loans granted to Telefónica Móviles México, S.A. de C.V. for a total amount, including principal and interest accrued, of 26,000 million Mexican pesos (1,381 million euros). This transaction is included in Transfers (see Note 8.5).

On June 5 and November 2, 2009, Telefónica, S.A. contributed to its subsidiary Latin American Cellular Holding, S.A. receivables in favor of Telcel, C.A. amounting to 58 million strong Venezuelan bolivars (19 million euros) and 49 million strong bolivars (15 million euros) for this company to subsequently make payments on the loan granted to it by Telcel, C.A. These transactions are included in Transfers.

In addition to the two capitalizations described above, the remainder of the amounts included under Loans to group companies and associates in Transfers in the table of movements in investments relate mainly to short-term movements required to meet the repayment schedules of the loans.

The impact in 2009 of hedges of net investments in foreign operations for its investments amounted to a gain of 432 million euros (loss of 1,509 million euros in 2008).

In 2009 and 2008, Telefónica, S.A. bought and sold the following investments:

a) Acquisitions of investments and capital increases:

	Millions of euros	
Companies	***2009***	***2008***
Subsidiaries:		
Telefónica O2 Europe, Ltd.		224
Telefónica Móviles Colombia, S.A.		155
Telefónica de Argentina, S.A.	23	
Others	2	
Total subsidiaries	**25**	**379**
Associates:		
Others		2
Total associates:		**2**

2009

In December 2009, following approval by the *Comisión Nacional de Valores de la República Argentina* (CNV), the Argentine securities regulatory, Telefónica, S.A. acquired shares representing 1.8% of the share capital of Telefónica de Argentina, S.A. held by minority shareholders. The total investment amounted to 23 million euros. Following this acquisition, the Telefónica Group holds 100% of the share capital of Telefónica de Argentina, S.A.

2008

In 2008, Telefónica, S.A. agreed to increase Telefónica O2 Europe, Ltd. s capital by 224 million euros to raise financing for Telefónica Deutschland GmbH, a subsidiary of Telefónica O2 Europe, Ltd.

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On January 17, 2008, Telefónica Móviles Colombia, S.A. issued an offer of subscription for the portion of its unsubscribed capital (499,000,000 new shares with par value of 1 peso). The new shares were fully subscribed by Telefónica, S.A. for a total of 155 million euros. As a result, Telefónica, S.A. s stake in this company increased to 49.4%.

b) Disposals of investments and capital decreases:

	Millions of euros	
Companies	***2009***	***2008***
Subsidiaries:		
Brasilcel, N.V.	74	
Telefónica Internacional Wholesale Services América, S.A.	24	58
Ateseco Comunicación, S.A.	27	
Others	2	2
Total subsidiaries	**127**	**60**
Associates:		
Portugal Telecom, S.G.P.S., S.A.		34
Adquira Spain, S.A.		1
Total associates		**35**

2009

On November 16, 2009, approval was given at the General Shareholders Meeting of Brasilcel, N.V. to return contributions to shareholders in accordance with their percentage interest, for a total amount of 123 million US dollars, of which 61.5 million dollars (41 million euros) corresponded to Telefónica, S.A.

On December 22, 2009, approval was given at the General Shareholders Meeting of Brasilcel, N.V. to return contributions to shareholders in accordance with their percentage interest, for a total amount of 93 million US dollars, of which 46.5 million dollars (33 million euros) corresponded to Telefónica, S.A.

On December 1, 2009, approval was given at the General Meeting of Shareholders of Telefónica Internacional Wholesale Services, S.A. to reduce capital by 35.7 million US dollars (24 million euros), with the full amount going to Telefónica, S.A. As a result, the Company s stake decreased from 78.22% to 76.85%.

In December 2009, approval was given at the General Shareholders Meeting of Ateseco Comunicación, S.A. to return the share premium to Telefónica, S.A. of 27 million euros.

2008

On October 1, 2008, approval was given at the General Meeting of Shareholders of Telefónica Internacional Wholesale Services América, S.A. for a partial reduction of capital by 36 million dollars.

On October 1, 2008, approval was given in the General Meeting of Shareholders of Telefónica Internacional Wholesale Services, S.A. for a partial reduction of capital by 75 million dollars. As a result, Telefónica, S.A. s stake in this company decreased from 80.56% to 78.22%.

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Pursuant to the requirements of Portugal Telecom, S.G.P.S. s Bylaws regarding maximum shareholdings, on December 18, 2008, Telefónica, S.A. reduced its stake in the company by 0.476% to 8.51%. This transaction led to a gain of 1.8 million euros, recognized in the income statement.

On May 6, 2008 Telefónica, S.A. transferred its stake in Telefónica Compras Electrónicas, S.L. to Telefónica Gestión de Servicios Compartidos, S.A., recognizing a gain of 2 million euros. On the same date, Telefónica, S.A. transferred its stake in Adquira Spain, S.A. to Telefónica Compras Electrónicas, S.L., recognizing a gain of 0.5 million euros.

8.2 Assessment of impairment of investments in Group companies, joint ventures and associates

2009

At December 31, 2009, the Company re-estimated the future cash flows derived from its investments in group companies and associates. The estimate is made based on the discounted cash flows to be received from each subsidiary in its functional currency and translated to euros at the official closing rate of each currency at December 31, 2009.

As a result of these re-estimations, the Company recognized a reversal of write-downs amounting to 1,457 million euros (1,087 million euros after the effect of net investment hedges). This amount mainly arises from the reversal recognized by Telefónica Europe, plc, for 1,311 million euros (941 million euros excluding the impact of the net investment hedge) from the favorable movement in the pound sterling s closing exchange rate, with a 7.25% appreciation in 2009.

This amount also includes the entire reversal of the write-down recognized in 2008 for the stake in Portugal Telecom, S.G.P.S., of 178 million euros. The share price of this company on the Lisbon stock exchange rose 40% in 2009.

2008

On January 1, 2008, in accordance with the first-time application of the new accounting principles, Telefónica, S.A. revised the recoverable amount of its investments in group companies and associates, estimating the future cash flows derived from them. These revisions uncovered unrealized gains in the equity of these companies. Accordingly, at the transition date the investment portfolio provisions, net of the related tax effect, were reversed for an amount of 13,162 million euros.

This amount was reversed with a balancing entry in the reserve for the first-time application in accordance with the rules for transition to the new accounting principles. This reserve is recorded as Other reserves in the Company s equity (see Note 11.1 c).

At December 31, 2008, Telefónica, S.A. re-estimated the future cash flows derived from its investments in group companies and associates. The re-estimation uncovered the need to write down the values of the shareholdings in Telefónica Europe, plc. Telco, S.p.A. and Portugal Telecom, S.G.P.S.(see Note 18.9).

The write-down to the stake in Telefónica Europe, plc was due to the 23% depreciation of the pound sterling, although this was in part offset by Telefónica, S.A. s hedges of its net investment in foreign operations.

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The write-down to the stake in Telco, S.p.A. entailed the write-down made by Telco, S.p.A. of its 10.36% ownership of the voting shares of Telecom Italia, S.p.A. (7.15% of the dividend rights). This impact was calculated taking into account the estimated synergies to be obtained, mainly in its European operations through the alliances reached with Telecom Italia, S.p.A.

8.3 The detail of subsidiaries and associates is shown in Appendix I.

8.4 Transactions protected for tax purposes.

Transactions carried out in 2009 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VII of Title VII of Legislative Royal Decree 4/2004 of March 5 approving the Revised Spanish Corporate Income Tax Law, are detailed in the following paragraphs.

Only one transaction of this type involving subsidiaries belonging to the Tax Group headed by Telefónica, S.A. took place in 2009.

On November 23, 2009, the public deed for the merger and takeover by Telefónica Cable Menorca, S.A.U. by Telefónica Cable, S.A.U. was granted. As a result of this merger, the bidder, Telefónica Cable, S.A.U. acquired all the rights and obligations of the target.

2008

On October 28, 2008, the deed for the merger and takeover of Viajar.com Viajes, S.L. and Terra Business Travel, S.A. by Red Universal de Marketing y Bookings Online, S.A. (RUMBO) was registered. As a result of this merger, the bidder, Red Universal Marketing y Bookings Online, S.A. (RUMBO), acquired all the rights and obligations of the targets.

8.5 The breakdown and maturity of loans to group companies and associates in 2009 and 2008 are follows:

2009 **Company *(millions of euros)***	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and subsequent years**	**Final balance, current and non-current**
Telefónica de España, S.A.U.	1,142			1,395			2,537
Telefónica Móviles España, S.A.U.	407						407
Telefónica Móviles México, S.A. de C.V.	250	1,244					1,494
Telefónica de Contenidos, S.A.U.	9			1,142		79	1,230
Telefónica Internacional, S.A.U.	1,110						1,110
Telefónica Móviles Argentina, S.A.	81			22		29	132
Inversiones Telefónica Móviles Holding, Ltd.	50						50
Others	92	18		3		68	181
Total	**3,141**	**1,262**		**2,562**		**176**	**7,141**

2008 **Company (millions of euros)**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 and subsequent years**	**Final balance, current and non-current**
Telefónica de España, S.A.U.	3,731				2,093		5,824
Telefónica Móviles España, S.A.U.	4,142						4,142
Telefónica Móviles México, S.A. de C.V.	794		2,092				2,886
Telefónica de Contenidos, S.A.U.	6				1,142	79	1,227

Telefónica Internacional, S.A.U.	493						493
Telefónica Móviles Argentina, S.A.	113				28	241	382
Inversiones Telefónica Móviles Holding, Ltd.		284					284
Others	104	13	40	3	52	3	215
Total	**9,383**	**297**	**2,132**	**3**	**3,315**	**323**	**15,453**

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The main loans granted to Group companies are described below:

Financing granted to Telefónica de España, S.A.U. consists mainly of a loan dated January 4, 1999 resulting from the company s spin-off from Telefónica on January 1, 1999, that bears interest at 6.80% and had an outstanding balance of 2,093 million euros at December 31, 2009, of which 1,395 million euros are long term and 698 million euros are short term. The short-term amount includes accrued interest payable of 14 million euros.

Financial year 2006 featured the takeover and merger of Terra Networks España, S.A.U. by Telefónica de España, S.A.U., both wholly owned direct subsidiaries of Telefónica, S.A. As a result, Terra Networks España, S.A.U. was dissolved without liquidation, and Telefónica de España, S.A.U. assumed the 397 million euros participating loan granted by Telefónica, S.A. to Terra Networks España, S.A.U. This loan matured on November 15, 2009.

In 2008, Telefónica de España, S.A.U. resolved to pay an interim dividend against profit for the year totaling 1,800 million euros. This amount was recognized under Current assets Loans to group companies and associates and was collected in 2009. The movement is shown in Disposals in the table of movements.

Financing granted to Telefónica Móviles España, S.A.U. in 2008 comprised a participating loan dated October 1, 2002, for 3,101 million euros, paying annual fixed interest plus a floating interest rate based on the performance of the company. The loan matured on December 22, 2009 and was offset with a debt granted by Telefónica Móviles España, S.A.U. to Telefónica, S.A. (see Note 15.1).

On December 1, 2008, Telefónica, S.A. decided to modify the currency in which it should repay the principle, accrued interest payable and any other item related to the loans granted to Telefónica Móviles México, S.A. de C.V. The exchange rate applied in the conversion of former euro-denominated loans into dollars was published by the Bank of Mexico on November 28, 2008. The conditions regarding interest and maturity of the loans were not altered.

On June 11, 2009, Telefónica, S.A. agreed to capitalize 10,340 million Mexican pesos of the principal of these loans and 15,660 million Mexican pesos of accrued interest receivable (equivalent to 1,381 million euros). On that date, 10,000 million Mexican pesos were capitalized, with the remainder pending capitalization until December 11, 2009. The capitalization was recognized with a transfer in the movement of financial assets (see Note 8.1).

After the capitalization, the total amount drawn (loan principle) at December 31, 2009 was 27,912 million Mexican pesos, equivalent to 1,494 million euros (38,252 million Mexican pesos in 2008).

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Financing granted to Telefónica de Contenidos, S.A.U. mainly comprises a 1,142 million euros participating loan, fully drawn down at December 31, 2009 and 2008, which bears interest based on Telefónica de Contenidos, S.A.U. s business performance. In addition, Telefónica, S.A. granted a new participating loan of 79 million euros maturing in 2015 to provide Telefónica de Contenidos, S.A.U. with funding to cover the financial charges linked to the participating loan mentioned above.

A loan was granted to Telefónica Internacional, S.A.U. on April 15, 2008 for 1,000 million euros, of which 794 million euros had been drawn down at December 31, 2009 (408 million euros in 2008). The loan matures on April 14, 2009, subject to a one-year renewal commitment, and accrues interest at the 3M Euribor rate. The short-term amount includes accrued interest receivable of 3 million euros.

Financing granted to Telefónica Móviles Argentina, S.A. comprises a number of dollar-denominated loans, maturing between 2010 and 2015 and bearing a fixed interest rate.

Financing granted to Inversiones Telefónica Móviles Holding, Ltd. was arranged on November 4, 2008 as a result of the loan assigned by Telefónica Internacional Chile, S.A. to Telefónica, S.A. for 284 million euros. At December 31, 2009, an amount of 50 million euros had been drawn down. This loan falls due in 2010 and bears interest linked to the 3M Euribor rate.

Disposals of current assets loans to group companies and associates includes the cancellation of balances receivable from subsidiaries belonging to Telefónica, S.A. s Tax Group on debts with them of 1,859 million euros (3,434 million euros in 2008).

The Company has also extended 1,166 million euros of loans in 2009 in connection with the taxation of Telefónica, S.A. as the head of the Tax Group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17), mainly 407 million euros to Telefónica Móviles España, S.A.U. (1,039 million euros in 2008), 430 million euros to Telefónica de España, S.A.U. (795 million euros in 2008) and 313 million euros to Telefónica Internacional, S.A.U., all falling due in the short term.

Loans to Group companies includes accrued interest receivable at December 31, 2009 amounting to 21 million euros (922 million euros in 2008). The decrease in accrued interest receivable relates mainly to the capitalization of interest on loans of Telefónica Móviles México, S.A. de C.V. described above.

8.6 Other financial assets with group companies and associates

This includes rights to collect amounts from other group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees maturing in 2010, 2011 and 2012 (see Note 18.3).

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(9) FINANCIAL INVESTMENTS

9.1. The breakdown of Financial investments at December 31, 2009 and 2008 is as follows:

2009	ASSETS AT FAIR VALUE				Measurement hierarchy		ASSETS AT AMORTIZED COST					
(Millions of euros)	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: Quoted prices	Level 2: Estimates based on other directly observable market inputs	Loans and receivables	Other financial assets	Subtotal Assets at amortized cost	Subtotal Liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial investments	**544**	**839**	**1,519**	**2,902**	**544**	**2,358**	**59**	**98**	**157**	**157**	**3,059**	**3,059**
Equity instruments	544			544	544						544	544
Derivatives (Note 16)		839	1,519	2,358		2,358					2,358	2,358
Loans to third parties and other financial assets							59	98	157	157	157	157
Current financial investments		**476**	**41**	**517**		**517**	**5**		**5**	**5**	**522**	**522**
Loans to third parties							5		5	5	5	5
Derivatives (Note 16)		476	41	517		517					517	517
Total financial investments	**544**	**1,315**	**1,560**	**3,419**	**544**	**2,875**	**64**	**98**	**162**	**162**	**3,581**	**3,581**

ASSETS AT FAIR VALUE

Measurement hierarchy

Level 2: Estimates based on

ASSETS AT AMORTIZED COST

Available-

Subtotal

2008 *(Millions of euros)*	for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: Quoted prices	other directly observable market inputs	Loans and receivables	Other financial assets	Assets at amortized cost	Subtotal Liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial investments	**383**	**1,185**	**2,273**	**3,841**	**383**	**3,458**	**25**	**387**	**412**	**413**	**4,253**	**4,254**
Equity instruments	383			383	383						383	383
Derivatives (Note 16)		1,185	2,273	3,458		3,458					3,458	3,458
Loans to third parties and other financial assets							25	387	412	413	412	413
Current financial investments		**675**	**281**	**956**		**956**	**46**		**46**	**96**	**1,002**	**1,052**
Loans to third parties							46		46	96	46	96
Derivatives (Note 16)		675	281	956		956					956	956
Total financial investments	**383**	**1,860**	**2,554**	**4,797**	**383**	**4,414**	**71**	**387**	**458**	**509**	**5,255**	**5,306**

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

The calculation of the fair values of the Company s financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company s bonds and credit derivatives.

9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivate financial instruments at December 31, 2009 and 2008 (see Note 16).

9.3 Available-for-sale financial assets

This category mainly includes the fair value of investments in listed companies (equity instruments). The movement of items composing this category at December 31, 2009 and 2008 are as follows:

	2009			
(Millions of euros)	**Balance at January 1**	**Additions (disposals)**	**Fair value adjustments**	**Balance at December 31**
Banco Bilbao Vizcaya Argentaria, S.A.	314	3	151	468
Amper, S.A.	8		3	11
Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, SGPS, S.A.	55		10	65
Other equity investments	6	(6)		
Total	**383**	**(3)**	**164**	**544**

	2008			
(Millions of euros)	**Balance at January 1**	**Additions (disposals)**	**Fair value adjustments**	**Balance at December 31**
Banco Bilbao Vizcaya Argentaria, S.A.	607		(293)	314
Sogecable, S.A.	45	(46)	1	
Amper, S.A.	19		(11)	8
Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, SGPS, S.A.	142		(87)	55
Other equity investments	6			6
Total	**819**	**(46)**	**(390)**	**383**

In June 2009, Telefónica, S.A. took a 34 million euros write-down on the value of its shareholding in Zon Multimedia Serviços de Telecomunicaçoes e Multimedia, S.G.P.S., S.A. as a result of the steady decline in its market price. This write-down was recognized in Gain (loss) on available-for-sale financial assets recognized in the period (see Note 18.10).

This heading in 2008 included the gain on the disposal of the Company s stake in Sogecable, S.A. after acceptance of the takeover bid launched by Promotora de Informaciones, S.A. (PRISA) for Sogecable, S.A. on May 9, 2008.

Among these is the investment held by Telefónica, S.A. in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 representing 0.98% of its share capital at year-end 2009. The amount included under Additions for the stake in BBVA relates to the recognition of the dividend in kind approved at that company s General Shareholders Meeting held on March 13, 2009, whereby one new share was granted to each 62 existing shares held by shareholders.

At year-end 2009, the Company assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any additional impairment losses.

In 2009 and 2008, changes recognized in the equity of Telefónica, S.A. to the fair value of available-for-sale assets, net of the tax effect, amounted to gains of 115 million euros and losses of 273 million euros, respectively (see Note 11.2).

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2009 and 2008 is as follows:

(Millions of euros)	**2009**	**2008**
Other non-current financial assets		
Loans to third parties	59	25
Prepayments	1	1
Guarantees given	97	386
Other current financial assets:		
Loans to third parties	5	46
Total	**162**	**458**

9.4.1 Loans to third parties

2009

Non-current loans to third parties includes the cost of options arranged at December 31, 2009 to cover shared-based payment schemes involving Telefónica, S.A. shares (phases III and IV, respectively) for 59 million euros (see Note 18.3).

2008

Loans to third parties, both non-current and current, includes the cost of options arranged at December 31, 2008 to cover shared-based payment schemes involving Telefónica, S.A. shares (phases I and III, respectively) for 71 million euros (see Note 18.3). The hedges arranged in 2006 for 46 million euros were recognized as current, as the first phase of the share option plan ended in June 2009.

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9.4.2 Guarantees given

Guarantees given under non-current assets mainly comprise deposits made to cover the guarantees provided for Ipse 2000 S.p.A., which totaled 86 million and 375 million euros at December 31, 2009 and 2008, respectively. The decrease in this deposit is due to the payments made in 2009 for a total of 291 million euros to the Italian government corresponding to the quotas of the UMTS license for 2006 to 2009. At December 31, 2009, the quota corresponding to 2010 is pending.

All future payments related to this guarantee have counterguarantees by other Telefónica Group companies and therefore do not pose a risk for Telefónica, S.A. (see Note 19 c).

(10) TRADE AND OTHER RECEIVABLES

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

(Millions of euros)	**2009**	**2008**
Trade receivables	65	14
Trade receivables from Group companies and associates	639	474
Other receivables	7	19
Receivables from employees		1
Current income tax assets (Note 17)	133	38
Total	**844**	**546**

Trade receivables from Group companies and associates mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see Note 7).

Trade receivables and Trade receivables from group companies and associates include balances in foreign currency equivalent to 94 million euros (78 million euros in 2008). In December 2009, there were receivables in dollars equivalent to 66 million euros and Czech crown equivalent to 28 million euros. In December 2008, there were receivables in dollars equivalent to 68 million euros and Brazilian reais equivalent to 9 million euros.

These balances gave rise to exchange gains in the income statement of approximately 1 million euros in 2009 and 2008.

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(11) EQUITY

11.1 Capital and reserves

a) Share capital

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

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

In addition, at the May 10, 2007 Shareholders Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the Group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. As at December 31, 2009, the Board of Directors had exercised these powers, approving three programs to issue corporate promissory notes for 2008, 2009 and 2010.

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

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

At December 31, 2009 and 2008, Telefónica, S.A. held the following treasury shares:

		Euros per share		Market	
	No. of shares	Acquisition price	Trading price	Value (1)	%
Treasury shares at 12/31/09	6,329,530	16.81	19.52	124	0.13868%

(1) Millions of euros

		Euros per share		Market	
	No. of shares	Acquisition price	Trading price	Value (1)	%
Treasury shares at 12/31/08	125,561,011	16.68	15.85	1,990	2.66867%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2009 and 2008 is as follows:

	No. of shares
Treasury shares at 12/31/07	**64,471,368**
Acquisitions	129,658,402
Disposals	(68,759)
Share cancellation	(68,500,000)
Treasury shares at 12/31/08	**125,561,011**
Acquisitions	65,809,222
Disposals	(40,730,735)
Delivery PSP Phase I (Note 18.3)	(3,309,968)
Share cancellation	(141,000,000)
Treasury shares at 12/31/09	**6,329,530**

The amount paid to acquire own equity instruments in 2009 and 2008 was 1,005 million and 2,225 million euros, respectively.

On October 16, 2009, Telefónica, S.A. sold 40.7 million treasury shares to Telefónica Internacional, S.A.U. under an agreement entered into between the Telefónica Group and China Unicom Hong Kong Limited. On October 21, 2009, this agreement was executed with the mutual share exchange between Telefónica Internacional, S.A.U. and China

Unicom amounting to 1,000 million dollars. The treasury shares were sold to Telefónica Internacional, S.A.U. at a price of 766 million euros.

Treasury shares sold in 2009 and 2008 amounted to 766 million and 1 million euros, respectively.

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At December 31, 2009, Telefónica, S.A. held firm call options on 150 million treasury shares. At December 31, 2008, Telefónica, S.A. held firm put options on 6 million treasury shares.

b) Legal reserve

According to the revised text of Spanish Corporation Law, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2009 this reserve has been duly set aside.

c) Other reserves

Other reserves includes:

The Revaluation reserve which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2009, an amount of 15 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to Other reserves. In 2008, an amount of 19 million euros was reclassified in this connection. The balance of this reserve at December 31, 2009 and 2008 was 157 million and 172 million euros, respectively.

Reserve for cancelled share capital: In accordance with Article 167.3 of the Spanish Corporate Law and to render null and void the right of opposition provided for in Article 166 of the same Law, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. In 2009, a reserve for cancelled share capital amounting to 141 million euros was recorded, the same amount as the capital reduction made in the year. The cumulative amount of the reserve for cancelled share capital at December 31, 2009 was 498 million euros. In 2008, a reserve for cancelled share capital amounting to 68 million euros was recorded, the same amount as the capital reduction made that year. The cumulative amount of the reserve for cancelled share capital at December 31, 2008 was 357 million euros.

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Pursuant to the provisions of Royal Decree 1514/2007 approving the new accounting principles in Spain, after the distribution of 2008 profits the Company set aside a non-distributable reserve for the amount of goodwill of 1.7 million euros. The proposed appropriation of 2009 profit (see Note 3) includes an additional allocation of the same amount to this restricted reserve.

In addition to the restricted reserves explained above, Other reserves includes unrestricted reserves from gains obtained by the Company in prior years.

Other reserves also includes the reserve for the impacts of adjustments made on the first-time application of the new accounting principles approved by Royal Decree 1514/2007. The financial statements for 2008 were the first such statements prepared in accordance with this Royal Decree. The impacts of adjustments on first-time application were recognized in equity, pursuant to the second transitional provision of the aforementioned Royal Decree, as indicated in the 2008 financial statements.

d) Dividends

Dividends paid in 2009

At its meeting of April 29, 2009, Telefónica, S.A. s Board of Directors resolved to pay an interim dividend against 2009 profit of a fixed gross 0.50 euros for each of the Company s outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2009 (see Note 3). The total amount paid was 2,277 million euros.

In addition, at its meeting held on June 23, 2009, the Company s Board of Directors resolved to pay a dividend charged to unrestricted reserves for a fixed gross amount of 0.5 euros per outstanding share carrying dividend rights, up to a maximum total amount of 2,352 million euros. This dividend was paid in full on November 11, 2009, for a total amount of 2,280 million euros.

Dividends paid in 2008

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

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

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11.2 Unrealized gains (losses) reserve

The movements in the items composing Unrealized gains (losses) reserve in 2009 and 2008 are as follows:

(Millions of euros) *2009*	**Balance at January 1**	**Valuation at market value**	**Tax effect of additions**	**Amounts transferred to income statement**	**Tax effect of transfers**	**Balance at December 31**
Available-for-sale financial assets (Note 9.3)	(229)	164	(49)	34	(11)	(91)
Cash flow hedges (Note 16)	78	(371)	110	(76)	23	(236)
Total	**(151)**	**(207)**	**61**	**(42)**	**12**	**(327)**

(Millions of euros) *2008*	**Balance at January 1**	**Valuation at market value**	**Tax effect of additions**	**Amounts transferred to income statement**	**Tax effect of transfers**	**Balance at December 31**
Available-for-sale financial assets (Note 9.3)	51	(390)	117	(11)	4	(229)
Cash flow hedges (Note 16)	176	(189)	57	50	(16)	78
Total	**227**	**(579)**	**174**	**39**	**(12)**	**(151)**

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(12) FINANCIAL LIABILITIES

The breakdown of Financial liabilities at December 31, 2009 and 2008 is as follows:

	LIABILITIES AT FAIR VALUE			Measurement hierarchy			LIABILITIES AT AMORTIZED COST			
2009 *(Millions of euros)*	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: Quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Subtotal Liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	**460**	**1,028**	**1,488**		**1,488**		**39,075**	**40,948**	**40,563**	**42,436**
Payable to group companies and associates							31,984	33,891	31,984	33,891
Bank borrowings							6,833	6,812	6,833	6,812
Bonds and other marketable debt securities							192	179	192	179
Derivatives (Note 16)	460	1,028	1,488		1,488				1,488	1,488
Other financial liabilities							66	66	66	66
Current financial liabilities	**266**	**1,039**	**1,305**		**1,305**		**14,889**	**14,876**	**16,194**	**16,181**
Payable to group companies and associates							13,829	13,816	13,829	13,816
Bank borrowings							481	482	481	482
Bonds and other marketable debt securities							335	334	335	334
Derivatives (Note 16)	266	1,039	1,305		1,305				1,305	1,305
Other financial liabilities							244	244	244	244
Total financial liabilities	**726**	**2,067**	**2,793**		**2,793**		**53,964**	**55,824**	**56,757**	**58,617**

LIABILITIES AT FAIR VALUE

				Measurement hierarchy			LIABILITIES AT AMORTIZED COST			
2008 *(Millions of euros)*	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: Quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Subtotal Liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	**443**	**1,798**	**2,241**		**2,241**		**38,475**	**35,818**	**40,716**	**38,059**
Payable to group companies and associates							30,955	28,250	30,955	28,250
Bank borrowings							7,225	7,273	7,225	7,273
Bonds and other marketable debt securities							288	288	288	288
Derivatives (Note 16)	443	1,798	2,241		2,241				2,241	2,241
Other financial liabilities							7	7	7	7
Current financial liabilities	**564**	**140**	**704**		**704**		**19,087**	**19,090**	**19,791**	**19,794**
Payable to group companies and associates							16,568	16,559	16,568	16,559
Bank borrowings							788	788	788	788
Bonds and other marketable debt securities							1,567	1,579	1,567	1,579
Derivatives (Note 16)	564	140	704		704				704	704
Other financial liabilities							164	164	164	164
Total financial liabilities	**1,007**	**1,938**	**2,945**		**2,945**		**57,562**	**54,908**	**60,507**	**57,853**

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

The calculation of the fair values of the Company s financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company s bonds and credit derivatives.

(13) BONDS AND OTHER MARKETABLE DEBT SECURITIES

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2009 and 2008 are as follows:

(Millions of euros) *2009*	Non-convertible debentures and bonds	Other marketable debt securities	Total
Balance at January 1	**997**	**858**	**1,855**
Depreciation and amortization	(800)	(504)	(1,304)
Revaluation and other movements	(38)	14	(24)
Balance at December 31	**159**	**368**	**527**
Detail of maturities:			
Non-current	138	54	192
Current	21	314	335

(Millions of euros) *2008*	Non-convertible debentures and bonds	Other marketable debt securities	Total
Balance at January 1	**1,505**	**1,371**	**2,876**
Depreciation and amortization	(421)	(519)	(940)
Revaluation and other movements	(87)	6	(81)
Balance at December 31	**997**	**858**	**1,855**
Detail of maturities:			
Non-current	173	115	288
Current	824	743	1,567

Maturities of the nominal amounts of debenture and bond issues at December 31, 2009 and 2008 are as follows:

			Maturity						
2009 Name	**Interest rate**	**% interest rate**	**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**TOTAL**

DEBENTURES AND BONDS:					
FEBRUARY 1990 SERIES C	FIXED	12.60	4		4
FEBRUARY 1990 SERIES F	ZERO COUPON (**)	12.82	15		15
JULY 99	ZERO COUPON (**)	6.39		57	57
MARCH 00	FLOATING	5.2761(*)		50	50
Total issues			**19**	**107**	**126**

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2008 Name	Interest rate	% interest rate	Maturity 2009	2010	2011	2012	2013	Subsequent years	TOTAL
DEBENTURES AND BONDS:									
FEBRUARY 1990 SERIES C	FIXED	12.6		4					4
FEBRUARY 1990 SERIES F	ZERO COUPON (**)	12.58		14					14
APRIL 99	FIXED	4.5	500						500
JUNE 99	FLOATING	6.04	300						300
JULY 99	ZERO COUPON(**)	6.37						54	54
MARCH 00	FLOATING	5.09(*)						50	50
Total issues			**800**	**18**				**104**	**922**

(*) *The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.*

(**) *Issues of zero-coupon debentures and bonds are shown in the table above at amortized cost.*

13.2 The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2009 and 2008 is as follows:

2009 Issue	Redemption date	Redemption rate	Amortized cost	Redemption value
DEBENTURES AND BONDS:				
FEBRUARY 1990 SERIES F	02/26/2010	1,069.470%	15	15
JULY 99	07/21/2029	637.639%	57	191
Total			**72**	**206**

2008	Redemption	Redemption	Amortized	Redemption

Issue	date	rate	cost	value
DEBENTURES AND BONDS:				
FEBRUARY 1990 SERIES F	02/26/2010	1,069.470%	14	15
JULY 99	07/21/2029	637.639%	54	191
Total			**68**	**206**

The remaining debentures and bonds have been measured at amortized cost at the year end.

13.3 At December 31, 2009, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

Amount (millions of euros)	Placement system	Nominal amount of the promissory note	Terms of the promissory note	Placement
2,000	Auctions	1,000 euros	3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Tailored and brokered by participating entities	100,000 euros	Between 7 and 750 days	Specific transactions

At December 31, 2009 the outstanding balance on this promissory note program was 254 million euros (741 million euros in 2008).

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With respect to the transaction with La Estrella, S.A. de Seguros consisting of the issuance of bearer promissory notes, on February 15, 2001 Telefónica, S.A. issued 74 bearer promissory notes with a face value of 126 million euros and final maturity in February 2011. The nominal amounts outstanding at year-end 2009 and 2008 were 68 million and 74 million euros, respectively, equivalent to outstanding balances of 59 million and 54 million euros, respectively on the balance sheet.

In 2006, the Company acquired shares in O2, plc, payment for which was deferred through the arrangement of a 207 million pounds sterling (308 million euro) Loan Notes program. This program, enacted under UK law, gives the seller of the shares rights to a security that pays semi-annual interest and the option to collect the principal on demand at the interest payment dates (June 30 and December 31) until December 31, 2010, when the program ends. The outstanding balance of the program at December 31, 2009 amounted to 49 million pounds sterling (55 million euros). The outstanding balance of the program at December 31, 2008 amounted to 60 million pounds sterling (63 million euros).

13.4 The average interest rate in 2009 on debentures and bonds outstanding during the year was 5.47% (5.14% in 2008) and the average interest rate on corporate promissory notes was 1.318% (4.62% in 2008).

(14) INTEREST-BEARING DEBT AND DERIVATIVES

14.1 The balances at December 31, 2009 and 2008 are as follows:

	December 31, 2009		
Item *(millions of euros)*	**Current**	**Non-current**	**Total**
Loans and borrowings	453	6,833	7,286
Foreign-currency loans and borrowings	28		28
Derivative financial liabilities (Note 16)	1,305	1,488	2,793
Total	**1,786**	**8,321**	**10,107**

	December 31, 2008		
Item *(millions of euros)*	**Current**	**Non-current**	**Total**
Loans and borrowings	535	7,128	7,663
Foreign-currency loans and borrowings	253	97	350
Derivative financial liabilities (Note 16)	704	2,241	2,945
Total	**1,492**	**9,466**	**10,958**

14.2 The nominal values of the main interest-bearing debts at December 31, 2009 and 2008 are as follows:

			December 31, 2009			
Description	**Value date**	**Maturity date**	**Currency**	**Limit at 12/31/09**	**Balance (million, currency)**	**Balance (million euros)**
ECAS structured facility	11/26/04	11/15/10	USD	377	40	28
6bn syndicated loan	06/28/05	06/28/13	EUR	6,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700

			December 31, 2008			
		Maturity		**Limit at**	**Balance (million,**	**Balance (million**

Description	Value date	date	Currency	12/31/08	currency)	euros)
ECAS structured facility	11/26/04	11/15/10	USD	377	115	83
3bn syndicated loan	07/06/04	07/06/09	USD	3,000	302	217
6bn syndicated loan	06/28/05	06/28/11	EUR	6,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700

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14.3 Maturities of balances at December 31, 2009 and 2008 are as follows:

	December 31, 2009 Maturity						
Item *(millions of euros)*	**2010**	**2011**	**2012**	**2013**	**2014**	**Subsequent years**	**Balance December 31**
Loans and borrowings	453	780	2,677	2,000		1,376	7,286
Foreign-currency loans and borrowings	28						28
Derivative financial liabilities (Note 16)	1,305	210	94	56	60	1,068	2,793
Total	**1,786**	**990**	**2,771**	**2,056**	**60**	**2,444**	**10,107**

	December 31, 2008 Maturity						
Item *(millions of euros)*	**2009**	**2010**	**2011**	**2012**	**2013**	**Subsequent years**	**Balance December 31**
Loans and borrowings	535		5,135	601		1,392	7,663
Foreign-currency loans and borrowings	253	65				32	350
Derivative financial liabilities (Note 16)	704	1,209	121	40	52	819	2,945
Total	**1,492**	**1,274**	**5,256**	**641**	**52**	**2,243**	**10,958**

14.4 On April 21, 2006, Telefónica S.A. arranged a 700 million euro syndicated loan, denominated in euros and bearing interest linked to the Euribor rate. In 2009, there were no movements in this loan, which will be repaid in two equal installments, in April 2015 and 2017, respectively.

On June 28, 2005 Telefónica, S.A. arranged a syndicated loan with 40 national and international financial institutions for 6,000 million euros, maturing on June 28, 2011. The loan is denominated in euros and can be drawn either in this currency or in US dollars, sterling, yen, Swiss francs or any other currency subject to prior agreement by the banking institutions. On February 13, 2009, an amendment was signed to extend the term of 4,000 million euros of the 6,000 million euros drawn down, by one year for 2,000 million euros and by two years for the other 2,000 million euros. At December 31, 2009, this loan was fully drawn down.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. formalized a credit facility, secured by the export credit agencies of Finland (Finnvera) and Sweden (EKN), bearing fixed interest of 3.26%, with a limit of 377 million euros and final maturity on November 15, 2010. This financing will cover up to 85% of the purchases of network equipment to be made by Telefónica Móviles Group companies from Ericsson and Nokia. In 2009, a total of 75 million dollars was repaid, leaving an outstanding balance at December 31, 2009 of 40 million dollars, equivalent to 28 million euros. The balance at December 31, 2008 was 115 million dollars, equivalent to 83 million euros.

On July 6, 2004, Telefónica, S.A. arranged a 3,000 million euro syndicated multicurrency loan with several Spanish and foreign banks. This loan was cancelled at its maturity on July 6, 2009.

14.5 Average interest on loans and borrowings

The average interest rate in 2009 on loans and borrowings denominated in euros was 1.448% and on foreign-currency loans and receivables it was 1.626%.

The average interest rate in 2008 on loans and borrowings denominated in euros was 4.68% and on foreign-currency loans and receivables it was 3.56%.

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14.6 Unused credit facilities

The balances of Loans and borrowings relate only to amounts drawn down.

At December 31, 2009 and 2008, Telefónica had undrawn credit facilities amounting to 5,322 million and 4,762 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2009 and 2008 is not subject to compliance with any financial covenants.

(15) PAYABLES TO GROUP COMPANIES AND ASSOCIATES

15.1 The breakdown at December 31, 2009 and 2008 is as follows:

December 31, 2009			
(Millions of euros)	**Non-current**	**Current**	**Total**
Loans	31,643	13,637	45,280
Trade payables to group companies and associates	37	82	119
Derivatives (Note 16)	16	17	33
Payable to subsidiaries due to taxation on a consolidated basis	288	93	381
Total	**31,984**	**13,829**	**45,813**

December 31, 2008			
(Millions of euros)	**Non-current**	**Current**	**Total**
Loans	30,576	16,118	46,694
Trade payables to group companies and associates	14	66	80
Derivatives (Note 16)	44	65	109
Payable to subsidiaries due to taxation on a consolidated basis	321	319	640
Total	**30,955**	**16,568**	**47,523**

The maturity of these loans at year-end 2009 and 2008 is as follows:

December 31, 2009

Company ***(millions of euros)***	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and subsequent years**	**Final balance, current and non-current**
Telefónica Emisiones, S,A,U,	1,986	2,942	632	2,463	4,244	12,265	24,532
Telefónica Europe, B,V,	2,519		4,540	2,245		1,463	10,767
Telefónica Móviles España, S,A,U,	301						301
Telefónica Finanzas, S,A,U,	8,066	300				549	8,915
Others	765						765
Total	**13,637**	**3,242**	**5,172**	**4,708**	**4,244**	**14,277**	**45,280**

December 31, 2008

	2014 and	**Final balance,**

Company ***(millions of euros)***	**2009**	**2010**	**2011**	**2012**	**2013**	**subsequent years**	**current and non-current**
Telefónica Emisiones, S.A.U.	1,503	1,338	2,939	622	2,548	8,821	17,771
Telefónica Europe, B.V.	2,274	1,796		4,382	2,380	1,499	12,331
Telefónica Móviles España, S.A.U.		1,402	2,000				3,402
Telefónica Finanzas, S.A.U.	11,822		300			549	12,671
Others	519						519
Total	**16,118**	**4,536**	**5,239**	**5,004**	**4,928**	**10,869**	**46,694**

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Europe, B.V. at December 31, 2009 was 10,767 million euros (12,331 million euros in 2008). This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate was 4.11% in 2009 and 5.78% in 2008.

This financing mainly derives from the syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling at October 31, 2005 to fund the acquisition of O2, Plc., which at December 14, 2006 was reduced to 7,000 million pounds sterling, while the maturity was extended from 2008 to 2013. The outstanding balance on this loan at December 31, 2009 and 2008 was 3,091 million and 4,203 million euros, respectively.

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2009 was 24,532 million euros (17,771 million euros in 2008). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2009 was 4.98% (5% in 2008). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on their effective rate. Telefónica Emisiones, S.A.U. raised financing in 2009 mainly by tapping the European and US capital markets, issuing the following bonds:

(Millions of euros) **Debentures and bonds**	**Currency**	**% Interest rate**	**Nominal maturities** **2014**	**2015 and subsequent years**	**Total**
T. EMISIONES FEBRUARY 2014	EUR	5.4310%	2,000		**2,000**
T. EMISIONES APRIL 2016	EUR	5.4960%		1,000	**1,000**
T. EMISIONES JUNE 2015	EUR	1 x EURIBOR3M + 1.825%		400	**400**
T. EMISIONES APRIL 2016	EUR	5.4960%		500	**500**
T. EMISIONES JANUARY 2015	USD	4.9490%		868	**868**
T. EMISIONES JULY 2019	USD	5.8770%		694	**694**
T. EMISIONES NOVEMBER 2019	EUR	4.6930%		1,750	**1,750**
T. EMISIONES DECEMBER 2022	GBP	5.2890%		732	**732**
T. EMISIONES DECEMBER 2014	EUR	1 x EURIBOR3M + 0.70%	100		**100**

Meanwhile, at December 31, 2009, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A.U., in charge of the integrated cash management of the companies comprising the Telefónica Group, amounting to 8,915 million euros (12,671 million euros in 2008) in a series of loans earning market interest rates.

At December 31, 2008, there was a loan with Telefónica Móviles España, S.A.U. for 3,402 million euros Telefónica Móviles España, S.A.U. also had a participating loan for 3,101 million euros (see Note 8.5) maturing on December 22, 2009. On that date, authorization was given to offset the amounts, leaving a balance of 301 million euros in favor of Telefónica Móviles España, S.A.U. due December 21, 2010. Accordingly, it appears under current liabilities in the balance sheet.

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes restatements to amortized cost at December 31, 2009 resulting from fair value interest rate and exchange rate hedges.

Loans to Group companies under current assets includes accrued interest receivable at December 31, 2009 amounting to 774 million euros (638 million euros in 2008).

15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis was 381 million and 640 million euros at December 31, 2009 and 2008, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax losses) to the Group headed by Telefónica, S.A. (see Note 17). The current- or non-current classification is based on the Company s projection of maturities.

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The main amounts are those relating to Telefónica Internacional, S.A.U. (203 million euros), Telefónica Móviles España, S.A.U. (113 million euros), Telefónica de Contenidos, S.A.U. (17 million euros) and Telefónica Data Corp, S.A.U. (22 million euros).

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

a) Derivative financial instruments

In 2009 the Company continued to use derivatives both to limit interest and exchange rate risks on otherwise unhedged positions and to adapt its debt structure to market conditions.

At December 31, 2009, the total outstanding balance of derivative transactions was 96,132 million euros (95,891 million euros at December 31, 2008), of which 73,785 million euros related to interest rate risk and 22,347 million euros to foreign currency risk. In 2008 70,999 million euros related to interest rate risk and 24,892 million euros to foreign currency risk.

It should be noted that at December 31, 2009, Telefónica, S.A. had arranged transactions with financial institutions to hedge interest and exchange rate risks for other Telefónica Group companies amounting to 35 million euros and 847 million euros, respectively. At December 31, 2008 similar arrangements amounted to 101 million euros for interest rate risk and 1,225 million euros for exchange rate risk. These external transactions are matched by parallel intragroup arrangements, with identical terms and maturities, and therefore involve no risk for Telefónica, S.A.

External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

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The breakdown of Telefónica, S.A. s derivatives at December 31, 2009, their notional amounts at year-end and the expected maturity schedule is as follows:

		2009			
Type of risk	**Value in**	**Telefónica receives**		**Telefónica pays**	
Millions of euros	**euros**	**Amount**	**Currency**	**Amount**	**Currency**
Euro interest rate swaps	**52,565**				
Fixed to fixed	35	35	EUR	35	EUR
Fixed to floating	20,723	20,723	EUR	20,723	EUR
Floating to fixed	31,765	31,765	EUR	31,765	EUR
Floating to floating	42	42	EUR	42	EUR
Foreign currency interest rate swaps	**13,974**				
Fixed to floating	*10,588*				
GBP/GBP	1,295	1,150	GBP	1,150	GBP
JPY/JPY	113	15,000	JPY	15,000	JPY
USD/USD	9,180	13,225	USD	13,225	USD
Floating to fixed	*3,386*				
CZK/CZK	430	11,375	CZK	11,375	CZK
GBP/GBP	1,065	945	GBP	945	GBP
MXN/MXN	1	9	MXN	9	MXN
USD/USD	1,890	2,722	USD	2,722	USD
Exchange rate swaps	**12,958**				
Fixed to fixed	*2,948*				
EUR/BRL	115	107	EUR	288	BRL
EUR/CLP	120	112	EUR	87,800	CLP
EUR/CZK	333	352	EUR	8,818	CZK
USD/EUR	2,380	2,207	USD	2,380	EUR
Fixed to floating	*319*				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
Floating to fixed	*271*				
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	182	320	USD	994	ARS
USD/MXN	1	1	USD	12	MXN
Floating to floating	*9,420*				
EUR/CZK	622	550	EUR	16,455	CZK
EUR/GBP	1,937	2,537	EUR	1,720	GBP
GBP/EUR	1,014	775	GBP	1,014	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,667	7,450	USD	5,667	EUR
USD/MXN	2	3	USD	30	MXN
Forwards	**6,955**				

ARS/USD	32	231	ARS	45	USD
EUR/CZK	1,143	1,184	EUR	30,257	CZK
EUR/GBP	394	389	EUR	350	GBP
EUR/MXN	10	10	EUR	180	MXN
EUR/USD	1,723	1,678	EUR	2,482	USD
GBP/EUR	2,342	2,117	GBP	2,342	EUR
GBP/USD	95	92	GBP	137	USD
USD/BRL	159	226	USD	400	BRL
USD/EUR	667	979	USD	667	EUR
USD/GBP	150	218	USD	133	GBP
USD/MXN	240	343	USD	4,519	MXN
Spots	**394**				
EUR/GBP	394	388	EUR	350	GBP
Subtotal	**86,846**				

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(Millions of euros)		**Notional**	
Notional amounts of structured products with options	**Value in euros**	**value**	**Currency**
Interest rate options Caps & Floors	**7,246**		
External counterparties			
USD	206	297	USD
EUR	5,576	5,576	EUR
GBP	1,464	1,300	GBP
Currency options	**2,040**		
External counterparties			
USD/EUR	2,040	2,939	USD
Subtotal	**9,286**		
TOTAL	**96,132**		

The breakdown by average maturity is as follows:

(Millions of euros) **Hedged underlying item**	**Notional**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**
With underlying instrument					
Promissory notes	**887**	**500**	**107**	**280**	
Loans	**20,586**	**7,877**	**8,782**	**419**	**3,508**
In national currency	17,603	6,510	7,299	400	3,394
In foreign currencies	2,983	1,367	1,483	19	114
Debentures and bonds MtM	**53,650**	**14,821**	**10,728**	**5,488**	**22,613**
In national currency	21,586	7,557	5,192	3,741	5,096
In foreign currencies	32,064	7,264	5,536	1,747	17,517
Without underlying (*)	**21,009**	**10,008**	**2,173**	**4,463**	**4,365**
Swaps	11,666	2,751	1,963	4,306	2,646
Currency options	2,040		183	138	1,719
Forwards	7,303	7,257	27	19	
Total	**96,132**	**33,206**	**21,790**	**10,650**	**30,486**

* Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for

restructuring
plans.

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		2008			
Type of risk	**Value in**	**Telefónica receives**		**Telefónica pays**	
Millions of euros	**euros**	**Amount**	**Currency**	**Amount**	**Currency**
Euro interest rate swaps	**48,099**				
Fixed to floating	17,389	17,389	EUR	17,389	EUR
Floating to fixed	29,148	29,148	EUR	29,148	EUR
Floating to floating	1,562	1,562	EUR	1,562	EUR
Foreign currency interest rate swaps	**11,896**				
Fixed to floating	**8,408**				
GBP/GBP	525	500	GBP	500	GBP
JPY/JPY	119	15,000	JPY	15,000	JPY
USD/USD	7,764	10,805	USD	10,805	USD
Floating to fixed	**3,488**				
CZK/CZK	977	26,305	CZK	26,305	CZK
GBP/GBP	1,255	1,195	GBP	1,195	GBP
MXN/MXN	1	28	MXN	28	MXN
USD/USD	1,255	1,746	USD	1,746	USD
Exchange rate swaps	**15,173**				
Fixed to fixed	**2,684**				
EUR/CLP	135	159	EUR	119,057	CLP
EUR/CZK	109	122	EUR	2,936	CZK
USD/EUR	2,440	2,282	USD	2,440	EUR
Floating to fixed	**657**				
EUR/BRL	89	115	EUR	288	BRL
EUR/MAD	88	90	EUR	1,000	MAD
USD/ARS	478	743	USD	2,296	ARS
USD/MXN	2	3	USD	35	MXN
Fixed to floating	**319**				
JPY/EUR	95	15,000	JPY	95	EUR
USD/EUR	224	200	USD	224	EUR
Floating to floating	**11,513**				
EUR/CLP	43	51	EUR	37,911	CLP
EUR/CZK	1,165	1,050	EUR	31,385	CZK
EUR/GBP	2,882	4,080	EUR	2,745	GBP
GBP/EUR	2,029	1,550	GBP	2,029	EUR
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	5,211	6,700	USD	5,211	EUR
USD/MXN	5	8	USD	91	MXN
Forwards	**7,397**				
ARS/USD	102	694	ARS	143	USD

EUR/CLP	119	122	EUR	105,000	CLP
EUR/CZK	1,470	1,589	EUR	39,592	CZK
EUR/GBP	437	477	EUR	417	GBP
EUR/MXN	28	28	EUR	535	MXN
EUR/USD	2,215	2,265	EUR	3,083	USD
GBP/EUR	1,860	1,585	GBP	1,860	EUR
GBP/USD	74	53	GBP	103	USD
MXN/USD	48	858	MXN	66	USD
USD/BRL	119	157	USD	388	BRL
USD/EUR	594	794	USD	594	EUR
USD/GBP	37	53	USD	36	GBP
USD/MXN	294	418	USD	5,543	MXN
Spots	**11**				
EUR/GBP	8	8	EUR	7	GBP
USD/GBP	3	5	USD	3	GBP