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Financial Highlights

- Telefónica recorded solid results in 2009, meeting all its financial targets for the seventh consecutive year despite the challenging economic and operating environment, reflecting the value of its highly diversified business portfolio.

    - Under the criteria used to establish 2009[1] guidance:

    - Revenues advanced 0.3%, in line with the Company's positive growth forecast;

    - OIBDA increased by 1.1%, within the announced range of 1%-3%;

    - CapEx totalled 7,459 million euros vs. a target of less than 7,500 million euros;

    - Operating Cash Flow (OIBDA–CapEx) increased by 8.4%, in line with the range of 8%-11%.

- The Company's strategy allowed it to strengthen the bases for future growth while sustaining an outstanding operating efficiency. This is reflected in Telefónica's OIBDA margin and its high cash flow generation. As a result, there was acceleration from revenues to operating cash flow in year-on-year organic[2] growth rates.

    - Total accesses increased by 5.1%[3], to around 265 million, with sharp rises in mobile[3] (+7.4%), fixed broadband (+8.2%) and pay TV (+9.8%) accesses. Mobile broadband accesses also registered significant growth, topping 15 million at the end of December (vs. 9 million accesses in 2008).

    - There was a ramp-up in commercial activity across all areas of operation in the fourth quarter, with mobile net adds[3,4] exceeding 6.8 million (around 15.0 million in the full year).

    - Revenues reached 56,731 million euros (+0.2% in organic[2] terms) while OIBDA advanced 0.9% year-on-year in organic[2] terms to 22,603 million euros.

    - The OIBDA margin stood at 39.8%, a 0.3 percentage points year-on-year improvement in organic[2] terms.

    - Operating cash flow (OIBDA-CapEx) totalled 15,346 million euros, representing solid year-on-year growth of 8.0% in organic[2] terms thanks to the 1.4 percentage points improvement in the efficiency ratio[5] versus 2008, to 74.1%.

Note 1: ***Base guidance 2009:*** *2008 adjusted figures for guidance excludes Sogecable capital gain (143 million euros) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (174 million euros), includes 9 months of consolidation of Telemig in T. Latam. 2009 figures for guidance assume 2008 constant FX (average FX in 2008) and exclude the impact of the hyperinflationary accounting in Venezuela. In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.*

Note 2: ***Organic growth rates:*** *Assuming constant exchange rates, excluding the impact of the hyperinflationary accounting in Venezuela, and including the consolidation of Telemig in January-March 2008. OIBDA and OI exclude the impacts of the capital gains from the sale of Airwave and Sogecable, registered in 2008, and the impact of the capital gains from the disposal of Medi Telecom in the fourth quarter of 2009.*

Note 3: ***Accesses growth criteria:*** *Excluding Medi Telecom's customers from the 2008 and 2009 bases, after its disposal in the fourth quarter of 2009.*

Note 4: ***Net adds calculation criteria:*** *For comparison purposes, net customer additions exclude the disconnection of inactive customers in December 2008 and December 2009.*

Note 5: ***Efficiency ratio definition:*** *Last twelve months (OpEx+CapEx-Internal expenses capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program at T. España.*

- Telefónica España consolidated its leadership position, built the foundations for future growth and maintained a substantial cash flow generation against a challenging economic backdrop:

  - Noteworthy is the slowdown in the pace of year-on-year revenue decline for the second consecutive quarter, both at the wireline and wireless businesses. In the fourth quarter this improvement stood at 2.1 percentage points versus the third quarter on comparable[6] basis.

  - The Company remains a sector benchmark for efficiency with an OIBDA margin of 48.0% in 2009 on comparable basis[6].

- Telefónica Latinoamérica delivered a solid operating and financial performance in a region with significant growth potential:

  - The number of accesses managed in the region advanced by 6.5% to close to 169 million, and commercial activity increased sharply in the fourth quarter, which saw the first positive year-on-year growth in net adds in 2009.

  - Particularly noteworthy is the acceleration in year-on-year organic growth[7] from revenues (+5.3%) to operating cash flow (OIBDA-CapEx +29.8%), being Mexico the main contributor to operating cash flow growth in 2009.

- Telefónica Europe's 2009 results reflect the benefits of its increased business diversification and ongoing efficiency improvements:

  - Telefónica Europe strengthened its competitive position in its main markets, outperforming market revenue growth.

  - Revenue growth, excluding the impact of mobile termination rates cuts and foreign exchange rates, improved on a sequential basis, underpinned by the increase in wireless accesses (+6.9% year-on-year); operating cash flow jumped 21.7% year-on-year in organic[8] terms.

- Net income reached 7,776 million euros in 2009 and earnings per share amounted to 1.71 euros, up 2.4% and 4.5% year-on-year in reported terms, respectively.

- The ratio of net debt + commitments to OIBDA stood at 2.1 times in 2009, reflecting the Company's financial strength.

- The Company announces its guidance[9] for 2010, which reflect a strategy focused on capturing the growth in its markets while maintaining high cash flow generation. Telefónica forecasts:

  - Consolidated year-on-year revenue growth in the range of +1%/+4%;

  - Consolidated year-on-year OIBDA growth in the range of +1%/+3%;

  - CapEx in the range of 7,450/7,650 million euros.

- 2009 Bases[9] for financial targets:

  - Consolidated revenues: 56,407 million euros.

  - Consolidated OIBDA: 22,344 million euros.

  - Consolidate CapEx: 7,262 million euros.

- The Company also reiterates its 2010 EPS[10] target of 2.10 euros and its medium-term guidance.

- Telefónica confirms its dividend targets through 2012 (1.15 euros per share in 2009, 1.40 euros per share[11] in 2010 and a minimum of 1.75 euros per share[11] in 2012).

Note 6: ***Comparable basis in T. España:*** *Exclude the following effects: Universal Service Obligation: 183 million euros in revenues and 51 million euros in OIBDA in the third quarter of 2008, 75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009 and 148 million euros in revenues and 47 million euros in OIBDA in the fourth quarter of 2009; bad debt recovery: 25 million euros in OIBDA in the first quarter of 2008; real estate capital gains: 6 million euros in OIBDA in 2009 and 74 million euros in 2008; revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 90 million euros in the second quarter of 2009; sale of application rights: 48 million euros in revenues and OIBDA in the third quarter of 2009; and 220 million euros in OIBDA from capital gains on the disposal of Medi Telecom in the fourth quarter of 2009.*

Note 7: ***Organic growth in T. Latinoamerica:*** *Assuming constant exchange rates, excluding the impact of the hyperinflationary accounting in Venezuela, and including the consolidation of Telemig in January-March 2008.*

Note 8: ***Organic growth in T. Europe:*** *Assuming constant exchange rates and excluding the impacts of the capital gains from the sale of Airwave.*

Note 9: ***Base guidance 2010:*** *2009 adjusted figures for guidance exclude Telyco Morocco results in T. España, Medi Telecom capital gain and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX in 2009) and excludes hyperinflationary accounting in Venezuela in both years. It also includes 10 months of consolidation of Hansenet and Jajah in T. Europe. In terms of guidance calculation, OIBDA excludes capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.*

Note 10: ***Earnings per share criteria:*** *Reported EPS.*

Note 11: ***Dividend's considerations:*** *Targeted under current guidance hypothesis.*

Telefónica Group Selected Financial Data

	January - December		% Chg		
	2009	2008	Reported	Organic	Guidance criteria
Unaudited figures (Euros in millions)					
Revenues	56,731	57,946	(2.1)	0.2	0.3
Telefónica España[1]	19,703	20,838	(5.4)	(5.4)	
Telefónica Latinoamérica	22,983	22,174	3.7	5.3	
Telefónica Europe	13,533	14,308	(5.4)	1.1	
OIBDA [2 3 4]	22,603	22,919	(1.4)	0.9	1.1
Telefónica España[1 4]	9,757	10,285	(5.1)	(7.3)	
Telefónica Latinoamérica	9,143	8,445	8.3	10.1	
Telefónica Europe[2]	3,910	4,180	(6.4)	4.1	
OIBDA margin[2 3 4]	39.8%	39.6%	0.3 p.p.	0.3 p.p.	
Telefónica España[4]	49.5%	49.4%	0.2 p.p.	(1.0 p.p.)	
Telefónica Latinoamérica	39.8%	38.1%	1.7 p.p.	1.7 p.p.	
Telefónica Europe[2]	28.9%	29.2%	(0.3 p.p.)	0.8 p.p.	
Operating Income (OI)[2 3 4]	13,647	13,873	(1.6)	0.7	
Telefónica España[4]	7,617	8,046	(5.3)	(8.1)	
Telefónica Latinoamérica	5,350	4,800	11.5	13.9	
Telefónica Europe[2]	1,015	1,144	(11.3)	14.3	
Net income[2 3 4]	7,776	7,592	2.4		
Basic earnings per share (euros)[2 3 4]	1.71	1.63	4.5		
Free Cash Flow per share (euros)	2.00	1.97	1.5		
OpCF (OIBDA-CapEx)[2 3 4]	15,346	14,519	5.7	8.0	8.4
Telefónica España[1 4]	7,893	8,077	(2.3)	(5.0)	
Telefónica Latinoamérica	5,693	4,410	29.1	29.8	
Telefónica Europe[2]	2,183	2,108	3.5	21.7	

- Reconciliation included in the excel spreadsheets.

1 *In comparable terms revenues of Telefónica España would decline by 5.9%, OIBDA would decrease by 8.0% and OpCF would drop 5.9%. Comparable terms exclude Universal Service: 183 million euros in revenue and 51 million euros in OIBDA in the third quarter of 2008, 75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009, and 148 million euros in revenues and 47 million euros in OIBDA in the fourth quarter of 2009; bad debt recovery: 25 million euros in OIBDA in the first quarter of 2008; real estate capital gains: 6 million euros in OIBDA in January-December 2009 and 74 million euros in OIBDA in the same period in 2008; revision of the estimates for the adjustment to workforce adaptation plans provided for in prior periods, which resulted in lower expenses of 90 million euros in the second quarter of 2009; sale of applications rights: 48 million euros in revenue and OIBDA in the third quarter of 2009 and capital gain from the disposal of Medi Telecom of 220 million in OIBDA in the fourth quarter of 2009.*

2 *2008 includes a positive impact of 174 million euros derived from Airwave disposal. OIBDA and OI include 44 million euros from restructuring costs registered in 2009.*

3 *Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.*

4 *Medi Telecom capital gain amounting 220 million euros is recorded in the fourth quarter of 2009.*

Notes:

- *OIBDA and OI are presented before brand fees and management fees.*
- *OIBDA margin calculated as OIBDA over revenues.*
- *Starting April 2008, Vivo consolidates Telemig.*
- *Organic criteria: Assuming constant exchange rates, excluding the impact of the hyperinflationary accounting in Venezuela, and including the consolidation of Telemig in January-March 2008. OIBDA and OI exclude the impacts of the capital gains from the sale of Airwave and Sogecable, registered in the second quarter of 2008, and the impact of the capital gain from the disposal of Medi Telecom in the fourth quarter of 2009.*
- *Guidance criteria: 2008 adjusted figures for guidance excludes Sogecable capital gain (143 million euros) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (174 million euros), includes 9 months of consolidation of Telemig in T. Latam. 2009 figures for guidance assume 2008 constant FX (average FX in 2008) and exclude the impact of the hyperinflation in Venezuela. In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.*
- *2009 figures impacted by the hyperinflation in Venezuela.*

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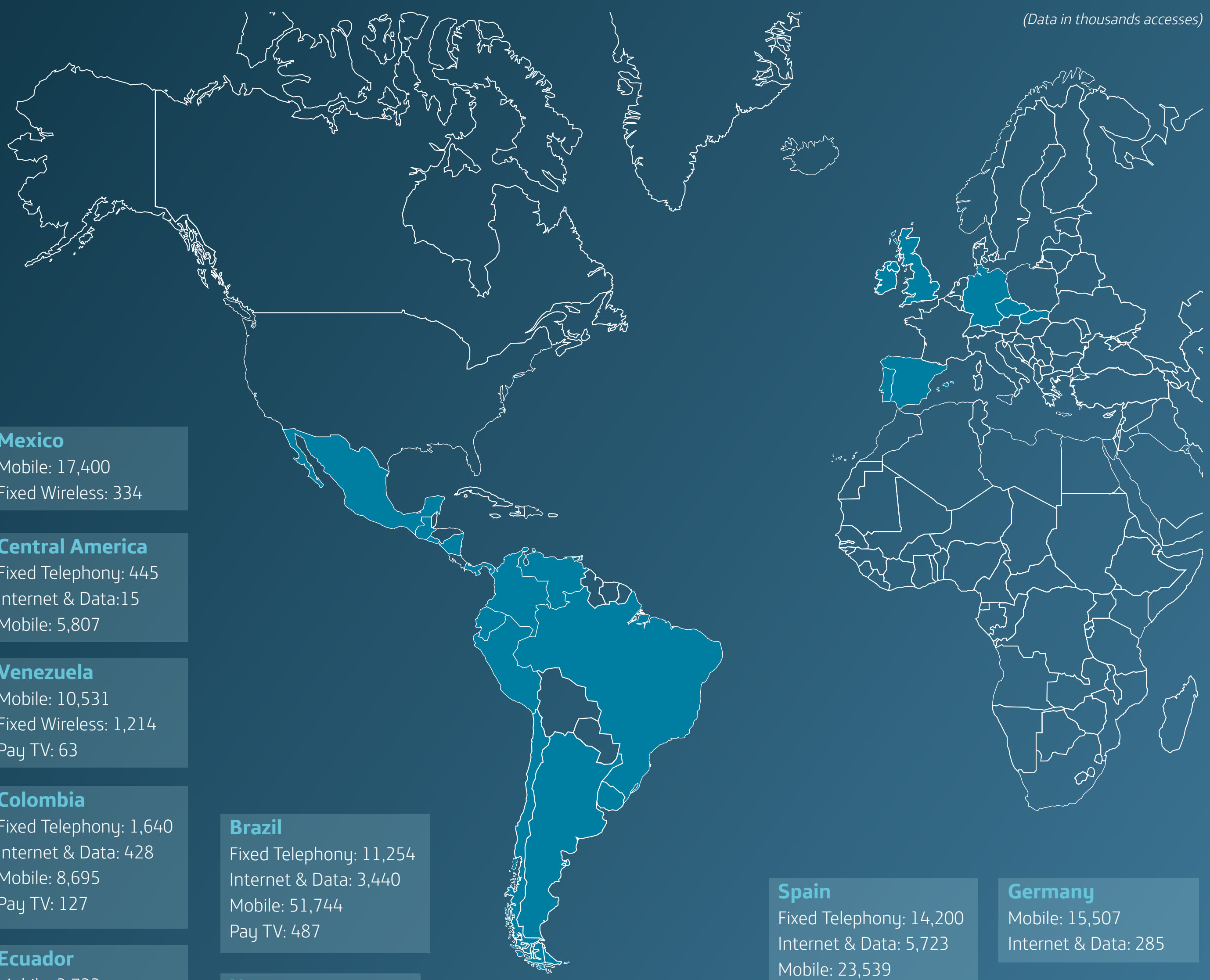
Market Size

(Data in thousands accesses)



Mexico
Mobile: 17,400
Fixed Wireless: 334

Central America
Fixed Telephony: 445
Internet & Data:15
Mobile: 5,807

Venezuela
Mobile: 10,531
Fixed Wireless: 1,214
Pay TV: 63

Colombia
Fixed Telephony: 1,640
Internet & Data: 428
Mobile: 8,695
Pay TV: 127

Ecuador
Mobile: 3,722
Fixed Wireless: 85

Peru
Fixed Telephony: 2,971
Internet & Data: 801
Mobile: 11,458
Pay TV: 686

Brazil
Fixed Telephony: 11,254
Internet & Data: 3,440
Mobile: 51,744
Pay TV: 487

Uruguay
Mobile: 1,615

Chile
Fixed Telephony: 2,028
Internet & Data: 807
Mobile: 7,525
Pay TV: 285

Argentina
Fixed Telephony: 4,608
Internet & Data: 1,351
Mobile: 15,932

Spain
Fixed Telephony: 14,200
Internet & Data: 5,723
Mobile: 23,539
Pay TV: 703

United Kingdowm
Mobile: 21,299
Internet & Data: 592

Ireland
Mobile: 1,714

Germany
Mobile: 15,507
Internet & Data: 285

Slovakia
Mobile: 553

Czech Republic
Fixed Telephony: 1,771
Internet & Data: 849
Mobile: 4,945
Pay TV: 138

Telefónica Group Accesses

	December		
	2009	2008	% Chg
Unaudited figures (thousands)			
Final Clients Accesses	**260,510.2**	**255,671.1**	**1.9**
Fixed telephony accesse[1]	40,606.0	42,930.8	(5.4)
Internet and data accesses	15,082.5	14,654.3	2.9
Narrowband	1,427.5	1,997.2	(28.5)
Broadband[2]	13,492.6	12,472.1	8.2
Other[3]	162.4	185.0	(12.2)
Mobile accesses	202,332.5	195,818.6	3.3
Pay TV	2,489.2	2,267.5	9.8
Wholesale Accesses	**4,095.3**	**3,433.0**	**19.3**
Unbundled loops	2,206.0	1,748.1	26.2
Shared ULL	447.7	602.3	(25.7)
Full ULL	1,758.3	1,145.8	53.5
Wholesale ADSL[4]	463.4	534.7	(13.3)
Other[5]	1,426.0	1,150.1	24.0
Total Accesses	**264,605.5**	**259,104.1**	**2.1**

Notes:

- *As of 31 December 2007, in order to align the criteria for the key performance indicators of the mobile operations of the Group, the series of mobile accesses, and therefore, of total accesses, have been revised, including machine to machine accesses. In addition, the accounting criteria for pre-pay access in the Czech Republic and Slovakia have been modified to align them, changing from 13 months (registered) to three months (active).*
- *December 2008 and 2009 accesses include the disconnection of inactive customers.*

1 *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.*
2 *ADSL, satellite, optical fibre, cable modem and broadband circuits.*
3 *Retail circuits other than broadband.*
4 *Includes Unbundled Lines by T. O2 Germany.*
5 *Circuits for other operators. Includes Wholesale Line Rental (WLR).*

04 / 3 Consolidated Results

Telefónica posted a solid set of results in 2009 meeting all its financial targets for the year, despite the adverse economic environment and the major operational challenges the Company had to face.

These results highlight the strengths of the Company, being key the value of its highly diversified asset portfolio -both geographical and by business-, its competitive leadership in its main markets and its proven execution skills, all in a framework of sound financial position.

The Company's flexibility to adapt to changes in the operating environment is reflected in its performance over a year in which Telefónica adapted its commercial focus to the progressive economic upturn, with a sharp increase in commercial activity across all regions of operations in the second half. This strategy allowed the Company to strengthen the bases for future growth while maintaining a high efficiency. This is reflected in Telefónica's OIBDA margin and its high cash flow generation.

The Company's intense commercial activity resulted in a 5.1% year-on-year increase in **total accesses**[1] to around 265 million. This growth was underpinned by the increase in wireless[1] (+7.4%), fixed broadband (+8.2%) and pay TV (+9.8%) accesses. By region, the growth rates reported by Telefónica Europa (+6.9% year-on-year) and Telefónica Latinoamérica (+6.5% year-on-year) must be highlighted.

By type of access, the Telefónica Group had over 202 million **wireless accesses** at the end of 2009, with net adds of around 15.0 million accesses in comparable terms[1,2]. It is worth highlighting that in the second half of the year net adds tripled the ones for the first six months. This impressive performance was underpinned by the significant improvements in the three areas of operations, whose quarterly net adds progressively rose over the year. In the second half of the year, net adds[2] in Latin America were 3.3 times higher than in January-June 2009, while wireless net adds[2] at Telefónica España and Telefónica Europa in the second half were 4.9 times and 1.9 times higher respectively than in January-June 2009.

The main drivers of wireless net adds to December 2009 were Brazil (6.8 million), Mexico (2.1 million), Germany[2] (1.5 million), Argentina (1.1 million) and UK (1.0 million). The main contributors in the fourth quarter were Brazil (2.9 million), Mexico (0.9 million), Argentina (0.5 million) and Germany[2] (0.6 million).

Mobile broadband accesses also registered significant growth, exceeding 15 million at the end of December 2009 (vs. 9 million accesses recorded in 2008).

Retail internet broadband accesses stood at 13.5 million, a year-on-year increase of 8.2%, driven by the growing adoption of bundled voice, ADSL and Pay-TV service packages. In Spain nearly 88% of retail broadband accesses are bundled as part of some kind of dual or triple play package, whilst in Latin America almost 56% of broadband accesses are bundled as part of Duos or Trios. In 2009 net adds exceeded 1.0 million accesses (0.3 million in the fourth quarter), mostly from Argentina and UK.

Pay TV accesses stood at around 2.5 million at the end of 2009, 9.8% up from a year earlier. It is worth mentioning that the Company already offers Pay-TV services in Spain, the Czech Republic, Peru, Chile, Colombia, Brazil, Venezuela and Argentina.

With regard to financial results, it is worth mentioning that during 2009 and the beginning of 2010 several factors have surfaced with respect to the Venezuelan economy that have led to reconsider the accounting treatment that the Telefónica Group currently applies in the translation of the financial statements of its subsidiaries in Venezuela, and the recoverability of their financial investments in the country. Key among these factors are: the inflation index reached in 2009 and the cumulative inflation index over the last three years, restrictions in the official foreign exchange market, and finally, the devaluation of the Bolívar, by decision of the Government of that country on January 8th, 2010. Consequently, according to International Financial Reporting Standards (IFRS), the Venezuelan economy should be

1 Excluding Medi Telecom's customers from the 2008 and 2009 bases, after its disposal in the fourth quarter of 2009.
2 For comparison purposes, net customer additions exclude the disconnection of inactive customers in December 2008 and December 2009.

considered as hyperinflationary for 2009. As a result, the financial results of Telefónica Group and, therefore, those of Telefónica Latinoamérica and the Atento Group are affected by the above mentioned effects.

With respect to the above mentioned matters, the main impacts on the 2009 consolidated financial statements of the Telefónica Group are the following:

Million euros	
Revenue	267
OIBDA	64
Net Income	(548)
Translation differences	1,224
Net impact in Equity	676

For comparative purposes and in order to facilitate the interpretation of the year-on-year variations versus 2008 results, changes in constant currency of the items affected by the hyperinflation adjustment are reported excluding these impacts.

Therefore, and despite the complex trading environment in 2009, reflected in sharp pressure on revenues in some of our markets, the strong diversification of the Company's business portfolio enabled the Group to achieve **revenues** of 56,731 million euros in 2009 (-2.1% year-on-year in reported terms), up 0.2% year-on-year in organic[3] terms. Particularly noteworthy is the significant increase in revenues at Telefónica Latinoamérica, which contributed 2.7 percentage points to organic[3] growth and, to a lesser extent, at Telefónica Europa, which contributed 0.2 percentage points. Also worth noting is the improved revenue performance from Telefónica España in the second half of the year, with a slowdown in the pace of year-on-year revenue decline in the fourth quarter (for the second consecutive quarter).

The negative impact from foreign exchange rates reduced revenue growth by 2.9 percentage points, excluding the impact from hyperinflationary accounting while changes in the consolidation perimeter added 0.1 percentage points, also excluding the adjustment from hyperinflationary accounting.

By service, broadband connectivity revenues (wireline and mobile) and revenues from applications and services continued to increase their contribution to Group revenues, adding 2.5 percentage points to organic[3] revenue growth in 2009. This offsets the lower contribution of access, voice and equipment resulting from the consumers' usage optimization in the current economic environment.

In absolute terms, Telefónica Latinoamérica contributed 40.5% to total Group revenues (+1.8 percentage points compared to 2008, excluding the impact from hyperinflationary accounting), whilst Telefónica España and Telefónica Europe contributed 34.7% and 23.9% to Group revenue respectively.

Telefónica Group's **operating expenses** in 2009 amounted to 35,489 million euros, down 0.4% from 2008 in organic terms[3] (-2.9% in reported terms), as a result of lower supply expenses.

Supply expenses declined by 6.2% to December in reported terms. Excluding exchange rate effects and the impact from hyperinflationary accounting, supply expenses fell 3.1% year-on-year. This decline is mainly due to lower interconnection costs resulting from the decline in fixed-to-mobile traffic and the fall in mobile termination rates.

Personnel expenses rose 2.7% year-on-year in constant euros and excluding the impact from hyperinflationary accounting to 6,775 million euros (+0.2% in reported terms). The average number of employees in the period was 255,151 (3,376 more than the 2008 average), mainly due to the larger workforce at the Atento Group. Excluding the Atento Group workforce, the average number of employees in the Telefónica Group was virtually stable year-on-year at 125,266.

External service expenses (9,921 million euros) rose 1.0% year-on-year in 2009 excluding the impact from exchange rates and from hyperinflationary accounting. This increase is largely due to higher customer, network and systems management expenses at Telefónica Latinoamérica. External service expenses fell 1.6% in reported terms in 2009.

Gains on sale of fixed assets in 2009 amounted to 248 million euros, mainly from the disposal of Medi Telecom, which generated 220 million euros of capital gains, registered in the fourth quarter of the year. It is worth highlighting that gains on sale of fixed assets in 2008 (292 million euros) were affected mainly by the sale of Sogecable and real estate disposals at Telefónica España and Telefónica O2 Czech Republic.

3 *Assuming constant exchange rates, excluding the impact of the hyperinflationary accounting in Venezuela, and including the consolidation of Telemig in January-March 2008. OIBDA and OI exclude the impacts of the capital gains from the sale of Airwave and Sogecable, registered in 2008, and the impact of the capital gains from the disposal of Medi Telecom in the fourth quarter of 2009.*

The Company's focus on increasing efficiency and exploiting economies of scale was reflected in **operating income before depreciation and amortisation (OIBDA)**, which totalled 22,603 million euros in 2009 (-1.4% in reported terms). In organic[4] terms, OIBDA grew 0.9% year-on-year, underpinned by Telefónica Latinoamérica (+3.8 percentage points) and Telefónica Europa (+0.7 percentage points), which offset Telefónica España's lower contribution (-3.3 percentage points). In organic[4] terms, the Telefónica Group improved its OIBDA margin by 0.3 percentage points to 39.8%, mainly boosted by margin expansion at Telefónica Latinoamérica (+1.7 percentage points) and at Telefónica Europe (+0.8 percentage points).

OIBDA at Telefónica España accounted for 43.2% of total Group OIBDA, compared to 40.5% and 17.3% for Telefónica Latinoamérica and Telefónica Europe, respectively.

Depreciation and amortisation in 2009 totalled 8,956 million euros, up 1.2% year-on-year in organic terms[4] and excluding the adjustment for hyperinflationary accounting, mainly due to higher depreciation and amortisation at Telefónica Latinoamérica (+2.0 percentage points contribution to growth) and Telefónica Europa (+0.7 percentage points contribution to growth). In reported terms, depreciation and amortisation was down 1.0% year-on-year.

Operating income (OI) amounted to 13,647 million euros in 2009, with 0.7% year-on-year growth in organic[4] terms (-1.6% in reported terms).

Profit from associated companies reached 47 million euros to December (-161 million euros in 2008), mainly as a result of increased profits from the Company's stake in Portugal Telecom and reduced losses from its participation in Telco, S.p.A. Results for 2008 include the impact of the impairment charge taken by Telco, S.p.A.'s on the Company's investment in Telecom Italia, amounting to 209 million euros (146 million euros after the related tax effect at Telefónica, S.A.).

Net financial results in 2009 amounted to 3.307 million euros (+18.2% vs. 2008), with the average cost of debt of the Group standing at 7.3%. The impact derived from recent announcements coming from Venezuela amounted to 630 million euros; stripping out this effect, the average cost was 5.92%, with a 4.3% decline in the financial costs vs. the previous year, due to:

- Lower expenses (298 million euros) due to lower interest rates during 2009 mainly in European currencies.

- A decrease of 3.7% in the average debt, which has generated savings of 104 million euros.

- Changes of the actual value of commitments derived mainly from the pre-retirement plans and other positions equally accounted at market value have generated a lower income of 85 million euros. .

- Changes in the foreign exchange gains and losses up to December 2009 with respect to 2008 yielded a higher cost of 197 million euros.

Free cash flow generated by the Telefónica Group in 2009 reached 9,097 million euros. Out of this figure, 959 million euros were assigned to Telefónica's share buyback program, 4,557 million euros to Telefónica S.A. dividend payment and 793 million euros to commitment cancellations derived mainly from the pre-retirements plans. In addition there was a payment of 1,178 million euros due to financial investments and divestments. As a result, net financial debt decreased by 1,610 million euros. On the other hand, net debt increased by an additional 2,429 million euros because of the foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this led to an increase of 818 million euros with respect to the net financial debt at the end of 2008 (42,733 million euros), leaving the final figure in December 2009 at 43,551 million euros.

The leverage ratio, net debt over OIBDA, stood at 1.9 times at December 2009, in line with the reported leverage ratio at September 2009.

During 2009, the **financing activity** of the Telefónica Group, excluding short term Commercial Paper Programmes activity, rose above 14,000 million euros mainly focused on refinancing 2009 maturities and pre-financing part of 2010 debt at Telefónica, S.A. level. It is worth highlighting the 5 years Euro-denominated bond issue for an amount of 2,000 million euros raised in January, 1,000 million euros raised in March through a 7 years bond issue, the re-opening of this last one in June for another 500 million euros, a 6 year private issue of 400 million euros placed in the same month and a US dollar-denominated issue for USD 2,250 million divided in 2 tranches of 5.5 and 10 years maturities launched in June. During the last quarter of the year, Telefónica issued in November a 10 year euro denominated bond for an amount of 1,750 million euros and, in December, Telefónica launched a 5 year private issue for 100 million euros and a 13 year bond for an amount of GBP 650 million. Thanks to these transactions, the Group's cash position exceeds 2010 maturities.

4 *Assuming constant exchange rates, excluding the impact of the hyperinflationary accounting in Venezuela, and including the consolidation of Telemig in January-March 2008. OIBDA and OI exclude the impacts of the capital gains from the sale of Airwave and Sogecable, registered in 2008, and the impact of the capital gains from the disposal of Medi Telecom in the fourth quarter of 2009.*

Additionally, in February a 4,000 million euros extension on a syndicated facility maturing in 2011 was successfully signed, smoothing 2011 maturities and adjusting them to levels more in line with cash flow generation figure. Of this figure, 2,000 million euros were shifted to 2012 and the remaining 2,000 million euros were shifted to 2013.

Telefónica S.A. and its holding companies have continued active during 2009 under its various Commercial Paper Programmes (Domestic and European), for an outstanding balance of approximately 800 million euros.

Regarding Latin America, Telefónica subsidiaries have tapped the capital markets up to December 2009 for an amount above 2,000 million equivalent euros, mainly for refinance 2009 maturities and renewing existing debt.

At the end of December, bonds and debentures represented 63%, on the consolidated financial debt breakdown, while debt with financial institutions weighted 37%.

In 2009 income taxes totalled 2,450 million euros, implying a tax rate of 23.6%. It is worth mentioning that at the end of 2009, the European Commission's conclusion with respect to the legal action against the Kingdom of Spain regarding tax amortization of goodwill generated from certain foreign investments made subsequent to December 21st, 2007 was published. In accordance to the above, this decision has no effect on the Telefónica Group. As the above mentioned legal action has been resolved, the consolidated income statement of the Telefónica Group for 2009 will reflect a lower income tax expense for the tax amortization of goodwill from the acquisition date to year-end, in an amount of 591 million euros.

In addition, the expected impact in future years is estimated to be a lower income tax expense of approximately 140 million euros on an annual basis. It should be noted that, in accordance with the Spanish Tax Income Law goodwill amortization charges are deductible for 20 years.

Losses attributable to minority interests reduced net income to the end of December by 161 million euros (-234 million euros in 2008), mainly due to minority interests in the profits of Telesp, Telefónica O2 Czech Republic and in the losses of Telefónica Telecom. This year-on-year change in performance is explained by the lower profits attributable to minority interests in Telefónica Chile (following the takeover bid for minority interests in 2008) and Telesp, and the increased losses at Telefónica Telecom.

As a result of the above, consolidated net income in 2009 amounted to 7,776 million euros, up 2.4% from 2008 in reported terms, whereas basic earnings per share in 2008 stood at 1.71 euros, with a 4.5% year-on-year growth.

CapEx in 2009 reached 7,257 million euros (-11.1% year-on-year in organic terms[6]), with the investment devoted to growth and transformation being the Company's priority. Therefore, as compared to 2008, 3G coverage increased by 15 percentage points, fixed loops able to support bandwidth above 25 Mbps grew by 6 percentage points, whereas the capacity of the IP network doubled. As a result, operating cash flow (OIBDA-CapEx) stood at 15,346 million euros, up 8.0% year-on-year in organic terms[6]. million euros) and at Telefónica Europa (+21.7% in organic terms[6], 5,693 million euros) and at Telefónica Europa (+21.7% in organic terms[6];2,183 million euros), which offset the lower cash flow generated by Telefónica España in comparable terms[5] (-5.9% to 7,893 million euros). Economies of scale and efficient management of operating expenses and investment enabled an efficiency ratio[7] of 74.1% to be achieved, a year-on-year improvement of 1.4 percentage points.

All in all, 2009 results show acceleration from revenues to operating cash flow in organic growth terms[6], with the latter exceeding revenue growth by 7.8 percentage points, highlighting the Company's success in combining strong commercial activity with high cash flow generation in a complex macroeconomic context.

5 *Comparable basis exclude following effects: Universal Service Obligation: 183 million euros in revenues and 51 million euros in OIBDA in the third quarter of 2008, 75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009 and 148 million euros in revenues and 47 million euros in OIBDA in the fourth quarter of 2009; bad debt recovery: 25 million euros in OIBDA in the first quarter of 2008; real estate capital gains: 6 million euros in OIBDA in 2009 and 74 million euros in 2008; revision of the estimates for the adjustment to workforce provision provided for in prior periods, which has resulted in lower expenses of 90 million euros in the second quarter of 2009; sale of application rights: 48 million euros in revenues and OIBDA in the third quarter of 2009; and 220 million euros in OIBDA from capital gains on the disposal of Medi Telecom in the fourth quarter of 2009.*

6 *Assuming constant exchange rates, excluding the impact of the hyperinflation accounting in Venezuela, and including the consolidation of Telemig in January-March 2008. OIBDA and OI exclude the impacts of the capital gains from the sale of Airwave and Sogecable, registered in 2008, and the impact of the capital gains from the disposal of Medi Telecom in the fourth quarter of 2009.*

7 *Defined as (Operating expenses + CapEx – Own work capitalised) / Revenues for the last twelve months. CapEx excludes the acquisition of spectrum and the Real Estate Efficiency Programme at T. España.*

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4
Financial Data

Telefónica Group
Consolidated income statement

Unaudited figures (Euros in millions)	January - December			October - December		
	2009	2008	% Chg	2009	2008	% Chg
Revenues	56,731	57,946	(2.1)	14,976	14,804	1.2
Internal exp capitalized in fixed assets	720	736	(2.2)	237	207	14.6
Operating expenses	(35,489)	(36,553)	(2.9)	(9,654)	(9,367)	3.1
Supplies	(16,717)	(17,818)	(6.2)	(4,560)	(4,607)	(1.0)
Personnel expenses	(6,775)	(6,762)	0.2	(1,770)	(1,697)	4.4
Subcontracts	(9,921)	(10,079)	(1.6)	(2,734)	(2,607)	4.9
Bad Debt Provisions	(874)	(748)	16.8	(210)	(186)	13.0
Taxes	(1,203)	(1,147)	4.9	(380)	(271)	40.3
Other net operating income (expense)	435	510	(14.7)	221	196	12.8
Gain (loss) on sale of fixed assets	248	292	(15.1)	230	56	n.m.
Impairment of goodwill and other assets	(42)	(12)	n.m.	(32)	(3)	n.m.
Operating income before D&A (OIBDA)	22,603	22,919	(1.4)	5,978	5.893	1.4
OIBDA margin	39.8%	39.6%	0.3 p.p.	39.9%	39.8%	0.1 p.p.
Depreciation and amortization	(8,956)	(9,046)	(1.0)	(2,293)	(2,243)	2.2
Operating income (OI)	13,647	13,873	(1.6)	3,685	3,650	0.9
Profit from associated companies	47	(161)	c.s.	0	(180)	c.s.
Net financial income (expense)	(3,307)	(2,797)	18.2	(1,034)	(698)	48.0
Income before taxes	10,387	10,915	(4.8)	2,651	2,771	(4.3)
Income taxes	(2,450)	(3,089)	(20.7)	(161)	(715)	(77.5)
Income from continuing operations	7,937	7,826	1.4	2,490	2,057	21.1
Income (Loss) from discontinued ops.	(0)	0	c.s.	(0)	0	c.s.
Minority interest	(161)	(234)	(31.1)	(50)	(60)	(17.0)
Net income	7,776	7,592	2.4	2,440	1,996	22.2
Weighted average number of ordinary shares outstanding during the period (millions)	4,553	4,646	(2.0)	4,554	4,593	(0.8)
Basic earnings per share (euros)	1.71	1.63	4.5	0.54	0.43	23.3

Notes:

- *Starting April 2008, Vivo consolidates Telemig.*
- *For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 "Earnings per share". Thereby, there are not been taken into account as outstanding shares the weighted average number of shares held as treasury stock during the period.*
- *2008 includes a positive impact of 174 million euros from Airwave disposal.*
- *Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008. Medi Telecom capital gain amounting 220 million euros is recorded in the fourth quarter of 2009.*
- *2009 figures impacted by the hyperinflation in Venezuela.*

Telefónica Group
Results by regional business units

	Revenues			OIBDA			Margin OIBDA		
	January - December			January - December			January - December		
	2009	2008	% Chg	2009	2008	% Chg	2009	2008	% Chg
Unaudited figures (Euros in millions)									
Telefónica España[1 2]	19,703	20,838	(5.4)	9,757	10,285	(5.1)	49.5%	49.4%	0.2 p.p.
Telefónica Latinoamérica[3]	22,983	22,174	3.7	9,143	8,445	8.3	39.8%	38.1%	1.7 p.p.
Telefónica Europe[4]	13,533	14,308	(5.4)	3,910	4,180	(6.4)	28.9%	29.2%	(0.3 p.p.)
Other companies and eliminations	512	625	(18.1)	(207)	9	c.s	n.m.	n.m.	n.m.
Total Group [2 3 4 5]	56,731	57,946	(2.1)	22,603	22,919	(1.4)	39.8%	39.6%	0.3 p.p.

	Operating Income			CapEx			OPCF (OIBDA-CapEx)		
	January - December			January - December			January - December		
	2009	2008	% Chg	2009	2008	% Chg	2009	2008	% Chg
Unaudited figures (Euros in millions)									
Telefónica España[1 2]	7,617	8,046	(5.3)	1,863	2,208	(15.6)	7,893	8,077	(2.3)
Telefónica Latinoamérica[3]	5,350	4,800	11.5	3,450	4,035	(14.5)	5,693	4,410	29.1
Telefónica Europe[4]	1,015	1,144	(11.3)	1,728	2,072	(16.6)	2,183	2,108	3.5
Other companies and eliminations	(335)	(117)	n.m.	216	85	153.6	(423)	(76)	n.m.
Total Group[2 3 4 5]	13,647	13,873	(1.6)	7,257	8,401	(13.6)	15,346	14,519	5.7

Notes:
- *OIBDA and OI are presented bebore brand fees and management fees.*
- *OIBDA margin calculated as OIBDA over revenues.*
- *2009 figures impacted by the hyperinflation in Venezuela*

1 *In comparable terms revenues of Telefónica España would decline by 5.9%, OIBDA would decrease by 8.0% and OpCF would drop 5.9%. Comparable terms exclude Universal Service: 183 million euros in revenue and 51 million euros in OIBDA in the third quarter of 2008, 75 million euros in revenues and 22 million euros in OIBDA in the first quarter of 2009, and 148 million euros in revenues and 47 million euros in OIBDA in the fourth quarter of 2009; bad debt recovery: 25 million euros in OIBDA in the first quarter of 2008; real estate capital gains: 6 million euros in OIBDA in January-December 2009 and 74 million euros in OIBDA in the same period in 2008; revision of the estimates for the adjustment to workforce adaptation plans provided for in prior periods, which resulted in lower expenses of 90 million euros in the second quarter of 2009; sale of applications rights: 48 million euros in revenue and OIBDA in the third quarter of 2009 and capital gain from the disposal of Medi Telecom of 220 million in OIBDA in the fourth quarter of 2009.*

2 *Medi Telecom capital gain amounting 220 million euros is recorded in the fourth quarter of 2009.*

3 *Starting April 2008, Vivo consolidates Telemig.*

4 *2008 includes a positive impact of 174 million euros derived from Airwave disposal. OIBDA and OI include 44 million euros from restructuring costs registered in 2009.*

5 *Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.*

Telefónica Group
Consolidated statement of financial position

Unaudited figures (Euros in millions)	December 2009	December 2008	% Chg
Non-current assets	84,311	81,923	2.9
Intangible assets	15,846	15,921	(0.5)
Goodwill	19,566	18,323	6.8
Property, plant and equipment and Investment property	32,003	30,546	4.8
Non-current financial assets and investments in associates	10,925	10,153	7.6
Deferred tax assets	5,971	6,980	(14.5)
Current assets	23,830	17,973	32.6
Inventories	934	1,188	(21.4)
Trade and other receivables	10,622	9,315	14.0
Current tax receivable	1,246	970	28.5
Current financial asset	1,906	2,216	(14.0)
Cash and cash equivalents	9,113	4,277	113.1
Non-current assets classified as held for sale	9	7	33.3
Total Assets = Total Equity and Liabilities	108,141	99,896	8.3
Equity	24,274	19,562	24.1
Equity attributable to equity holders of the parent	21,734	17,231	26.1
Minority interest	2,540	2,331	9.0
Non-current liabilities	56,931	55,202	3.1
Long-term financial debt	47,607	45,088	5.6
Deferred tax liabilities	3,082	3,576	(13.8)
Long-term provisions	4,993	5,421	(7.9)
Other long-term liabilities	1,249	1,117	11.8
Current liabilities	26,936	25,132	7.2
Short-term financial debt	9,184	8,100	13.4
Trade and other payables	7,365	8,120	(9.3)
Current tax payable	2,766	2,275	21.6
Short-term provisions and other liabilities	7,621	6,637	14.8
Financial Data			
Net financial Debt[1]	43,551	42,733	1,9

Note:
- *2009 figures impacted by the hyperinflation in Venezuela.*

1 *Net Financial Debt = Long term financial debt + Other long term liabilities + Short term financial debt - Short term financial investments - Cash and cash equivalents - Long term financial assets and other non-current assets.*

Telefónica Group
Free cash flow and change in debt

		January - December		
Unaudited figures (Euros in millions)		2009	2008	% Chg
I	Cash flow from operations	21,178	20,571	3.0
II	Net interest payment [1]	(2,070)	(2,781)	
III	Payment for income tax	(2,942)	(1,413)	
A=I+II+III	Net cash provided by operating activities	16,165	16,377	(1.3)
B	Payment for investment in fixed and intangible assets	(7,592)	(7,861)	
C=A+B	Net free cash flow after CapEx	8,573	8,516	0.7
D	Net Cash received from sale of Real Estate	241	248	
E	Pagos netos por inversión financiera	(1,419)	(1,575)	
F	Net payment for operations with minority shareholders and treasury stoc[2]	(5,785)	(6,681)	
G=C+D+E+F	Free cash flow after dividends	1,610	508	n.m.
H	Effects of exchange rate changes on net financial debt	1,226	(2,142)	
I	Effects on net financial debt of changes in consolid. and others	1,203	99	
J	Net financial debt at beginning of period	42,733	45,284	
K=J-G+H+I	Net financial debt at end of period	43,551	42,733	1.9

Note:
2009 figures impacted by the hyperinflation in Venezuela.
1 Including cash received from dividends paid by subsidiaries that are not under the full consolidation method.
2 Dividends paid by Telefónica S.A., operations with treasury stock and operations with minority shareholders from subsidiaries that are under full consolidation method.

Reconciliations of cash flow and OIBDA minus CapEx

Unaudited figures (Euros in millions)	January - December 2009	2008	% Chg
OIBDA	22,603	22,919	(1.4)
- CapEx accrued during the period	(7,257)	(8,401)	
- Payments related to cancellation of commitments	(793)	(920)	
- Net interest payment	(2,070)	(2,781)	
- Payment for tax	(2,942)	(1,413)	
- Results from the sale of fixed assets	(248)	(292)	
- Investment In working capital and other deferred income and expenses	(719)	(597)	
= Net Free Cash Flow after CapEx	8,573	8,516	0.7
+ Net Cash received from sale of Real Estate	241	248	
- Net payment for financial investment	(1,419)	(1,575)	
- Net payment for operations wirh minority shareholders and treasury stock	(5,785)	(6,681)	
= Free Cash Flow after dividends	1,610	508	n.m.

Unaudited figures (Euros in millions)	January - December 2009	2008	% Chg
Net Free Cash Flow after CapEx	8,573	8,516	0.7
+ Payments related to cancellation of commitments	793	920	
- Operations with minority shareholders	(269)	(291)	
= Free Cash Flow	9,097	9,145	(0.5)
Weighted average number of ordinary shares outstanding during the period (millions)	4,553	4,646	
= Free Cash Flow per share (euros)	2.00	1.97	1.5

Note:
The concept "Free Cash Flow" reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility.
The differences with the caption "Net Free Cash Flow after CapEx" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions and guarantees) and after operations with minority shareholders, due to cash recirculation within the Group.
Note: 2009 figures impacted by the hyperinflation in Venezuela.

Net financial debt and commitments

Unaudited figures (Euros in millions)		December 2009
	Long-term debt[1]	48,122
	Short term debt including current maturities	9,184
	Cash and cash equivalents	(9,113)
	Short and Long-term financial investments [2]	(4,642)
A	**Net Financial Debt**	**43,551**
	Guarantees to IPSE 2000	71
B	**Commitments related to guarantees**	**71**
	Gross commitments related to workforce reduction[3]	4,257
	Value of associated Long-term assets[4]	(827)
	Taxes receivable[5]	(1,169)
C	**Net commitments related to workforce reduction**	**2,260**
A + B + C	**Total Debt + Commitments**	**45,883**
	Net Financial Debt / OIBDA[6]	**1.9x**
	Total Debt + Commitments/ OIBDA[6]	**2.1x**

Note:
2009 figures impacted by the hyperinflation in Venezuela.

1 *Includes "long-term financial debt" and 515 million euros of "other long-term debt".*
2 *Current financial assets and 2,736 million euros recorded under the caption of "Non-current financial assets and investments in associates".*
3 *Mainly in Spain. This amount is detailed in the captions "Long-term provisions" and "Short-term provisions and other liabilities" of the Statement of Financial Position, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies"".*
4 *Amount included in the caption "Non-current financial assets and investments in associates" of the Statement of Financial Position. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.*
5 *Net present value of tax benefits arising from the future payments related to workforce reduction commitments.*
6 *Calculated based on December 2009 OIBDA excluding results on the sale of fixed assets.*

Debt structure by currency

	December 2009				
Unaudited figures	EUR	LATAM	GBP	CZK	USD
Currency mix	69%	12%	8%	6%	4%

Credit ratings

	Long-Term	Short-Term	Perspective	Last review
Moody's	Baa1	P-2	Positive	17/2/09
JCR	A	-	Stable	17/12/08
S&P	A-	A-2	Stable	2/12/08
Fitch/IBCA	A-	F-2	Stable	25/11/08