

AUDIT REPORT

TELEFÓNICA EMISIONES, S.A.
(Sole Shareholder Company)
Financial Statements and Management Report
for the year ended
December 31, 2009

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See note 14)

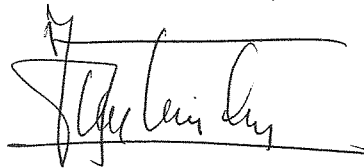
AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Sole Shareholder of
Telefónica Emisiones, S.A. (Sole Shareholder Company)

1. We have audited the financial statements of Telefónica Emisiones, S.A. (Sole Shareholder Company), 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 compliance 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. Our opinion refers only to the financial statements for 2009. On February 21, 2009 we issued our audit report on the 2008 financial statements, in which we expressed an unqualified opinion.
3. As described in Note 10 to the accompanying financial statements, the Company executes a high volume of transactions with its Sole Shareholder, Telefónica, S.A.
4. 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 Emisiones, S.A. (Sole Shareholder Company) at December 31, 2009 and 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, which are consistent with those applied in the previous year.

5. The accompanying 2009 management report contains such explanations as the Directors consider appropriate concerning the situation of Telefónica Emisiones, S.A. (Sole Shareholder Company), the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have verified that the accounting information included in the aforementioned management report agrees with the 2009 financial statements. Our work as auditors is limited to the verification of 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.



José Luis Cores Roldán

February 17, 2010

TELEFONICA EMISIONES, S.A.U.

**Financial Statements
for the year ended
December 31, 2009**

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TELEFONICA EMISIONES, S.A.U.
Balance sheets at December 31
(Thousands of euros)

ASSETS	Notes	2009	2008
NON-CURRENT ASSETS		22,019,248	15,340,759
Investment in Group companies and associates	5, 10.2	22,019,248	15,340,759
Loans to Group companies		22,019,248	15,340,759
CURRENT ASSETS		1,989,591	1,503,851
Trade and other receivables		86	7
Prepayments to suppliers		9	
Trade receivables		76	7
Other receivables		1	
Financial investments in Group companies and associates	5, 10.2	1,986,603	1,502,368
Loans to Group companies		1,986,603	1,502,368
Cash and cash equivalents	10.2	2,902	1,476
Cash and cash equivalents		2,902	1,476
TOTAL ASSETS		24,008,839	16,844,610

EQUITY AND LIABILITIES	Notes	2009	2008
EQUITY		1,507	656
CAPITAL AND RESERVES	6	1,507	656
Capital		62	62
Issued capital		62	62
Reserves		594	589
Legal and statutory reserves		12	12
Other reserves		582	577
Profit/(loss) for the year		851	5
NON-CURRENT LIABILITIES		22,023,797	15,344,390
Borrowings	7	22,023,755	15,344,348
Debentures, bonds and other marketable debt securities		22,023,755	15,344,348
Borrowings from Group companies and associates	7, 10.2	42	42
CURRENT LIABILITIES		1,983,535	1,499,564
Borrowings	7	1,982,074	1,498,711
Debentures, bonds and other marketable debt securities		1,982,074	1,498,711
Borrowings from Group companies and associates	7, 10.2	935	459
Trade and other payables	7	526	394
Other payables		58	12
Other payables to public administrations		468	382
TOTAL EQUITY AND LIABILITIES		24,008,839	16,844,610

TELEFONICA EMISIONES, S.A.U.
Income statements for the years ended December 31
(Thousands of euros)

	Notes	2009	2008
Other operating expenses	9.1	(1,672)	(1,833)
External services		(1,671)	(1,833)
Taxes		(1)	
OPERATING PROFIT		(1,672)	(1,833)
Finance income	9.2	980,665	836,606
In group companies and associates		980,665	836,606
Finance costs	9.3	(977,827)	(834,718)
Borrowings from group companies and associates			(339)
Third-party borrowings		(977,827)	(834,379)
Exchange gains (losses)	9.4	50	(48)
NET FINANCE INCOME		2,888	1,840
PROFIT BEFORE TAX		1,216	7
Income tax	8	(365)	(2)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		851	5
PROFIT FOR THE PERIOD		851	5

TELEFONICA EMISIONES, S.A.U.

Statements of changes in equity for the years ended December 31

(Thousands of euros)

A) Statement of recognized income and expenses for the year ended December 31

	Notes	2009	2008
PROFIT FOR THE PERIOD		851	5
TOTAL RECOGNIZED INCOME AND EXPENSE		851	5

TELEFONICA EMISIONES, S.A.U.

Statements of changes in equity for the years ended December 31 (Thousands of euros)

B) Total statements of changes in equity for the year ended December 31

	Issued capital	Reserves	Profit/(loss) for the year	TOTAL
BALANCE AT DECEMBER 31, 2007	62	73	370	505
Adjustments for conversion to new accounting principles (Note 2.3.2)	-	146	-	146
ADJUSTED BALANCE AT JANUARY 1, 2008	62	219	370	651
Total recognized income and expense	-	-	5	5
Transactions with shareholders and owners				
Other changes in equity	-	370	(370)	-
BALANCE AT DECEMBER 31, 2008	62	589	5	656
Total recognized income and expense	-	-	851	851
Transactions with shareholders and owners				
Other changes in equity	-	5	(5)	-
BALANCE AT DECEMBER 31, 2009	62	594	851	1,507

TELEFONICA EMISIONES, S.A.U.
Statements of cash flows for the years ended December 31
(Thousands of euros)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,216	7
Adjustments to profit	-2,888	-1,840
Finance income	-980,665	-836,606
Finance costs	977,827	833,988
Exchange gains (losses)	-50	48
Change in fair value of financial instruments	0	730
Change in working capital	-167	436
Trade and other receivables	80	80
Trade and other payables	-161	356
Other current liabilities	-86	
Other cash flows from operating activities	1,943	1,706
Interest paid	-762,669	-793,296
Interest received	770,064	801,244
Income tax receipts (payments)	-198	-178
Other payments (receipts)	-5,254	-6,064
CASH FLOWS FROM OPERATING ACTIVITIES	104	309
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	-8,082,742	-1,246,825
Group and associates	-8,082,742	-1,246,825
Proceeds from disposals	1,067,772	300,000
Group and associates	1,067,772	300,000
CASH FLOWS USED IN INVESTING ACTIVITIES	-7,014,970	-946,825
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from and payments of financial liabilities	7,016,274	1,246,875
Issue		
Debentures, bonds and other marketable debt securities	8,084,047	1,246,875
Repayment and redemption of		
Debentures, bonds and other marketable debt securities	-1,014,433	-300,000
Interest-bearing debt	-1	-840
Payable to group companies	-53,339	
CASH FLOWS FROM FINANCING ACTIVITIES	7,016,274	946,035
NET FOREIGN EXCHANGE DIFFERENCE	18	-105
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	1,426	-586
Cash and cash equivalents at January 1	1,476	2,062
Cash and cash equivalents at December 31	2,902	1,476

TELEFONICA EMISIONES, S.A.U.

Notes to the financial statements for the year ended December 31, 2009

1. ACTIVITY

Telefónica Emisiones, S.A.U. (the "Company") a sole shareholder, public limited company domiciled in Spain was incorporated for an unlimited period on November 29, 2004 as "Telefónica Emisiones, S.A.U."

Its registered office is at Calle Gran Vía, 28 – 28013 Madrid.

Telefónica Emisiones, S.A.U. is a wholly-owned subsidiary of Telefónica, S.A.

The corporate purpose of Telefónica Emisiones, S.A.U. is the issuance of preferred shares and/or other financial debt instruments.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the new accounting principles approved by Royal Decree 1514/2007 of November 16 and prevailing mercantile law.

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

2.1 True and fair view

These annual financial statements have been prepared on the basis of the Company's accounts and have been drawn up in accordance with Spanish generally accepted accounting principles, as stated in legislation in force.

These financial statements present a true and fair view of the Company's equity, financial position and results of operations. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets such as cash and cash equivalents.

These financial statements were prepared by the Company's joint and several Directors ("Directors") and it is expected that they will be approved by the sole shareholder without modification.

2.2 Comparison of information

Figures from the 2008 balance sheet, income statement and cash flow statement are disclosed for comparison with the information for the year ended December 31, 2009.

2.3 Critical issues concerning the assessment of uncertainty

No key assumptions exist regarding the future, or other relevant information regarding uncertainty estimation at the reporting date, which represent a considerable risk that the carrying amounts of assets and liabilities may require significant adjustments in the following financial year.

3. APPROPRIATION OF PROFIT

The appropriation of 2009 profit to be submitted by the joint and several Directors for approval by the Company's sole shareholder is as follows:

(Thousands of euros)	2009
Proposed appropriation	
Profit for the year	851
	851
Appropriation to:	
Voluntary reserves	851
	851

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

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

4.1 Financial investments

Recognition and measurement

Loans granted are classified according to their maturities: loans maturing in 12 months or less are classified as current and those maturing in over 12 months as non-current.

Upon initial recognition in the balance sheet, they 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.

Subsequent to initial recognition, these financial investments are measured at amortized cost, using the effective interest rate method.

Cancelation

Financial assets are derecognized when the contractual rights to receive the asset's cash flows expire.

Interest

Interest received is recognized as revenue in the income statement. Interest must be recognized using the effective interest rate method from when the related loan is granted.

Accordingly, when initially recognizing financial investments, explicit interest accrued but not due at that date is recognized separately, and classified by maturity. Explicit interest refers to the contract interest rate applied to the financial instrument.

4.2 Financial liabilities

Recognition and measurement

These include financial liabilities originating from the issuance of debentures; they are classified according to their maturities: amounts maturing in 12 months or less are classified as current and those maturing in over 12 months as non-current.

Upon initial recognition in the balance sheet, they 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 received, adjusted by directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortized cost. Interest accrued is recognized in the income statement using the effective interest rate method.

Cancelation

The Company derecognizes a financial liability when the obligation under the liability is extinguished.

Interest

Interest expense is recognized in the income statement. Interest expense must be recognized using the effective interest rate method from when the related liabilities are issued.

Accordingly, when initially recognizing financial liabilities, explicit interest accrued but not due at that date is recognized separately, and classified by maturity. Explicit interest refers to the contract interest rate applied to the financial instrument.

4.3 Cash and cash equivalents

This heading includes the unrestricted balance held in the Company's account with Group company Telefónica Finanzas, S.A., including local and foreign currency deposits fulfilling all the following requirements:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They are part of the Company's standard cash management strategy.

4.4 Income tax

The Company files consolidated corporate income tax returns with its sole shareholder.

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognized deferred tax assets and liabilities. The corresponding tax expense is recognized in the income statement, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity while tax expense or income incurred in connection with business combinations is recorded with a charge or credit to goodwill.

Deferred income tax is recognized using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the balance sheet, as applicable.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed by prevailing tax legislation.

The Company recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each financial year end, the Company assesses the deferred tax assets recognized and those that have not yet been recognized. Based on this assessment, the Company derecognizes a previously recognized asset if its recovery is no longer probable, or recognizes any deferred tax asset previously unrecognized, provided that it is probable that future taxable profit will be available against which these assets may be utilized.

Deferred income tax assets and liabilities are measured at the tax rate expected to apply at the time of their reversal as required by enacted tax laws and in the manner reasonably expected to recover the deferred tax asset or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities, respectively.

4.5 Revenue and expenses

Income and expenses are recognized on an accrual basis.

4.6 Foreign currency transactions

The Company's functional and presentation currency is the euro. Positive and negative balances and costs denominated in foreign currencies are translated to euros at the exchange rates prevailing at the transaction date, and are adjusted at year end to the exchange rates then in force.

Monetary assets and liabilities denominated in foreign currency are translated at the closing exchange rate prevailing at the balance sheet date. All exchange gains or losses arising from translation as well as those resulting on settlement of balance sheet items are recognized in the income statement in the period in which they occur.

4.7 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company's operating cycle and it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; if they differ from the aforementioned assets, when they expected to mature, to be sold or settled within one year; or they are held for trading or are cash and cash equivalents whose use is not restricted to one year.

4.8 Related party transactions

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

4.9 Measurement criteria under International Financial Reporting Standards (IFRS)

The Company has issued securities listed on an organized market of an EU member state and only publishes individual annual financial statements. Application of IFRS as adopted by the European Union would not result in material differences in equity or in the income statement.

5. FINANCIAL ASSETS

(Thousands of euros)

The composition of "Financial assets" at December 31, 2009 and 2008 is as follows:

(Thousands of euros)	2009	2008
Non-current financial investments		
Loans to Group companies	22,019,248	15,340,759
	22,019,248	15,340,759
Current financial investments		
Loans to Group companies	1,986,407	1,502,368
Receivables from Group companies (consolidated tax regime)	196	
	1,986,603	1,502,368

5.1 Loans to Group companies

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2009, which break down as follows:

Thousands of euros

Loan	Issue date	Maturity	Annual interest rate	Frequency of payment	2009 Non-current assets	2009 Current assets	2008 Non-current assets	2008 Current assets
No. 1	02-02-2006	02-02-2016	4.375 %	Annual	1,732,675	75,439	1,732,675	73,878
No. 2	02-02-2006	02-02-2011	3.750 %	Annual	2,234,205	88,770	2,234,205	85,548
No. 3	02-02-2006	02-02-2018	5.375 %	Annual	839,475	42,506	782,717	39,324
No. 4	02-02-2006	02-02-2026	5.375 %	Annual	560,376	27,791	522,488	25,847
No. 5	07-25-2006	01-25-2010	3-month Euribor + 0.350 %	Quarterly		1,252,456	1,248,750	12,765
No. 6	06-20-2006	06-19-2009	USD 3-month Libor + 0.300 %	Quarterly				718,591
No. 7	06-20-2006	06-20-2011	5.984 %	Half-yearly	691,205	3,333	715,492	2,833
No. 8	06-20-2006	06-20-2016	6.421 %	Half-yearly	862,488	3,226	892,793	2,900
No. 9	06-20-2006	06-20-2036	7.045 %	Half-yearly	1,376,163	4,906	1,424,517	4,329
No. 10	10-17-2006	17-10-2012	4.393 %	Annual	499,000	15,940	499,000	15,753
No. 12	12-28-2006	01-31-2014	5.888 %	Annual	560,804	31,167	522,887	28,815
No. 13	01-31-2007	12-30-2021	6-month Euribor + 0.830 %	Half-yearly	54,939	14	54,940	14
No. 14	01-31-2007	01-31-2018	3-month Euribor + 0.700 %	Quarterly	24,000	59	23,978	229
No. 15	02-07-2007	02-07-2014	4.674 %	Annual	1,495,725	64,474	1,495,725	64,290
No. 16	03-31-2007	03-30-2009	3-month Euribor + 0.13%	Quarterly				350,030
No. 17	06-19-2007	06-19-2014	4.623 %	Annual	97,948	2,500	88,951	207
No. 18	06-19-2007	06-19-2012	4.351 %	Annual	113,074	188	111,121	2,648
No. 19	06-19-2007	06-19-2010	CZK Pribor 3m+0.160 %	Quarterly		93,259	96,257	2,422
No. 20	07-02-2007	02-04-2013	USD 3-month Libor + 0.330 %	Quarterly	588,439	1,279	609,115	3,820
No. 21	07-02-2007	02-04-2013	5.855 %	Half-yearly	519,211	13,124	537,454	13,270
No. 22	07-02-2007	07-03-2017	6.221 %	Half-yearly	483,868	15,726	500,869	16,117
No. 23	06-12-2008	06-12-2013	5.580%	Annual	1,246,825	39,260	1,246,825	38,738
No. 24	02-03-2009	02-03-2014	5.431%	Annual	1,994,500	99,091		
No. 25	04-01-2009	04-01-2016	5.496%	Annual	996,250	41,584		
No. 26	06-02-2009	06-02-2015	3-month Euribor + 1.825 %	Quarterly	399,060	911		
No. 27	06-03-2009	04-01-2016	4.963%	Annual	519,511	14,756		
No. 28	07-06-2009	01-15-2015	4.949%	Half-yearly	864,527	21,153		
No. 29	07-06-2009	07-15-2019	5.877%	Half-yearly	691,240	19,978		
No. 30	11-10-2009	11-11-2019	4.693%	Annual	1,744,225	11,305		
No. 31	12-10-2009	12-09-2022	5.289%	Annual	729,535	2,180		
No. 32	12-23-2009	12-23-2014	3-month Euribor + 0.700 %	Quarterly	99,980	32	15,340,759	1,502,368
					22,019,248	1,986,407		

The fair value of loans extended to Telefónica, S.A. was 25,395,626 thousand euros at December 31, 2009 and 15,922,653 thousand euros at December 31, 2008.

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.

The maturity schedule for non-current assets included in this category at December 31, 2009 and 2008 is as follows:

(Thousands of euros)	2009	2008
Between one and two years	2,925,410	1,345,007
Between two and three years	609,762	2,949,697
Between three and four years	2,354,475	610,121
Between four and five years	4,251,269	2,393,394
Over 5 years	11,878,332	8,042,540
	22,019,248	15,340,759

6. EQUITY – CAPITAL AND RESERVES

6.1 Share capital

Share capital at December 31, 2009 comprised 62,000 shares with a nominal value of 1 euro each.

The Company's sole shareholder is Telefónica, S.A.

Telefónica Emisiones, S.A.U. is a sole shareholder company and this fact, together with the identity of the sole shareholder, is on record at the pertinent mercantile registry.

6.2 Reserves

In accordance with the Spanish Corporation Law, until the balance of the legal reserve is equivalent to at least 20% of share capital, it cannot be distributed to shareholders and can only be used to offset losses if no other reserves are available. This reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase.

7. FINANCIAL LIABILITIES (Thousands of euros)

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

(Thousands of euros)	2009	2008
Non-current financial liabilities	22,023,797	15,344,390
Borrowings – Debentures, bonds and other marketable securities	22,023,755	15,344,348
Borrowings from Group companies and associates	42	42
Current financial liabilities	1,983,535	1,499,564
Borrowings – Debentures, bonds and other marketable securities	1,982,074	1,498,711
Borrowings from Group companies and associates	935	459
Trade and other payables	526	394

7.1. Debentures, bonds and other marketable securities

Non-current and current liabilities include the debentures and bonds issued by the Company in 2006, 2007, 2008 and 2009 in euros, US dollars, Pounds sterling and Czech crowns. The debenture and bond issues are secured by Telefonica, S.A.

Thousands of euros

Issue	Issue date	Maturity	Annual interest rate	Frequency of payment	2009		2008	
					Non-current liabilities	Current liabilities	Non-current liabilities	Current liabilities
EMTN 1	02-02-2006	02-02-2016	4.375 %	Annual	1,732,615	75,436	1,732,615	73,889
EMTN 2	02-02-2006	02-02-2011	3.75 %	Annual	2,235,723	87,578	2,235,722	84,660
EMTN 3	02-02-2006	02-02-2018	5.375 %	Annual	839,435	42,500	782,677	39,328
EMTN 4	02-02-2006	02-02-2026	5.375 %	Annual	560,344	27,785	522,456	25,849
EMTN 5	07-25-2006	01-25-2010	3-month Euribor + 0.35 %	Quarterly		1,252,446	1,248,613	12,765
SHELF D	06-20-2006	06-19-2009	USD 3-month Libor + 0.30 %	Quarterly				718,440
SHELF A	06-20-2006	06-20-2011	5.984 %	Half-yearly	691,355	3,115	715,660	2,569
SHELF B	06-20-2006	06-20-2016	6.421 %	Half-yearly	863,166	2,921	893,517	2,622
SHELF C	06-20-2006	06-20-2036	7.045 %	Half-yearly	1,374,971	3,596	1,423,325	3,572
EMTN 6	10-17-2006	04-17-2012	4.393 %	Annual	498,969	16,739	498,969	16,240
EMTN 8	12-28-2006	01-31-2014	5.888 %	Annual	560,973	31,083	523,041	28,763
EMTN 9	01-31-2007	12-30-2021	6-month Euribor + 0.83 %	Half-yearly	54,932	15	54,932	14
EMTN 10	01-31-2007	01-31-2018	3-month Euribor + 0.70 %	Quarterly	23,974	64	23,974	229
EMTN 11	02-07-2007	02-07-2014	4.674 %	Annual	1,495,804	64,262	1,495,804	63,748
EMTN 12	03-30-2007	03-30-2009	3-month Euribor + 0.13 %	Quarterly				350,028
EMTN 13	06-19-2007	06-19-2014	4.623 %	Annual	97,990	2,485	88,990	185
EMTN 14	06-19-2007	06-19-2012	4.351 %	Annual	113,124	153	111,170	2,632
EMTN 15	06-19-2007	06-19-2010	CZK 3-month Pribor + 0.16 %	Quarterly		93,273	96,298	2,412
SHELF E	07-02-2007	02-04-2013	3-month Libor + 0.33 %	Quarterly	588,717	1,128	609,422	3,572
SHELF F	07-02-2007	02-04-2013	5.855 %	Half-yearly	519,455	12,872	537,696	13,180
SHELF G	07-02-2007	07-03-2017	6.221 %	Half-yearly	484,081	15,351	501,092	15,754
EMTN 16	06-12-2008	06-12-2013	5.580 %	Annual	1,248,384	38,624	1,248,372	38,260
EMTN 17	02-03-2009	02-03-2014	5.431 %	Annual	1,994,420	99,105		
EMTN 18 Tr 1	04-01-2009	04-01-2016	5.496 %	Annual	996,969	41,220		
EMTN 19	06-02-2009	06-02-2015	3-month Euribor + 1.825 %	Quarterly	399,079	909		
EMTN 18 Tr 2	06-03-2009	04-01-2016	5.496 %	Annual	519,549	14,764		
SHELF H	07-06-2009	01-15-2015	4.949 %	Half-yearly	864,457	21,161		
SHELF I	07-06-2009	07-15-2019	5.877 %	Half-yearly	691,345	19,975		
EMTN 20	11-10-2009	11-11-2019	4.693 %	Annual	1,744,312	11,304		
EMTN 21	12-10-2009	12-09-2022	5.289 %	Annual	729,612	2,179		
EMTN 22	12-23-2009	12-23-2014	3-month Euribor + 0.70 %	Quarterly	100,000	31		
					22,023,755	1,982,074	15,344,348	1,498,711

The fair value of the debentures and bonds issued by the Company was 25,380,426 thousand euros at December 31, 2009 and 15,922,591 thousand euros at December 31, 2008.

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.

The maturity schedule for non-current liabilities included in this category at December 31, 2009 and 2008 is as follows:

(Thousands of euros)	2009	2008
Between one and two years	2,927,078	1,344,911
Between two and three years	612,093	2,951,383
Between three and four years	2,356,556	610,140
Between four and five years	4,249,187	2,395,490
Over 5 years	11,878,841	8,042,424
	22,023,755	15,344,348

7.2 Payable to Group companies and associates

The heading primarily includes accounts payable in connection with:

- Short-term balances payable to Group companies: T. Europe, B.V. (544 thousand euros) and Telefónica Gestión Servicios Compartidos (6 thousand euros).
- Current and non-current amounts payable to Telefónica, S.A., as head of the tax group to which the Company belongs.

8. TAXES

In accordance with prevailing legislation, the Company's tax returns cannot be considered definitive until they have been inspected by the tax authorities or the corresponding statute of limitation has passed. The Company is open to inspection for all taxes to which it is liable since it began operating. The reconciliation of profit for the year to taxable income for the year ended December 31, 2009 is as follows:

	Balance in thousands of euros
Profit before tax	1,216
Permanent differences	
Adjusted accounting profit	1,216
Taxable income for the year	1,216
Tax expense	365

Given that the Company booked a profit in 2009, it has recorded a tax expense corresponding to 30% of these profits.

Telefónica, S.A., as the parent company of the tax group to which the Company belongs, has elected to apply the 28th transitional provision of Law 4/2008, dated December 23, 2008 which suppresses the Wealth Tax Levy, generalizes the monthly VAT tax return system and introduces other amendments to tax law.

At December 31, 2009 and 2008, the Company has no unused tax credits on income tax payable in future years.

9. INCOME AND EXPENSES

9.1 External services

<i>Thousands of euros</i>	2009	2008
Independent professional services	27	40
Other services	1,641	1,789
Banking and similar services	4	4
TOTAL	1,672	1,833

Independent professional services primarily include audit related expenses, while other services primarily reflect outsourcing costs.

9.2 Finance income

Financial income from investments in Group companies and associates primarily includes interest earned on loans granted to Telefónica, S.A.

9.3 Finance costs

Finance costs on third-party borrowings includes interest expense on outstanding debentures.

9.4 Exchange gains (losses)

The breakdown of assets and liabilities denominated in foreign currencies at December 31 is as follows:

<i>(Thousands of euros)</i>	US dollars	Pounds sterling	Czech crowns
2009			
Assets			
Loans to Group companies	6,158,891	2,793,835	306,969
Liabilities			
Debentures, bonds and other marketable securities	6,160,096	2,793,912	307,025

2008

Assets

Loans to Group companies	5,442,099	1,922,079	301,607
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Liabilities

Debentures, bonds and other marketable securities	5,440,423	1,922,115	301,688
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The breakdown of transactions executed in foreign currencies is as follows:

(Thousands of euros)	US dollars	Pounds sterling	Czech crowns
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2009

Interest income	322,423	111,295	12,115
Interest expenses	321,673	111,259	12,081

2008

Interest income	299,934	122,691	14,322
Interest expenses	299,299	122,654	14,288

The breakdown of exchange differences recognized in the income statement by type of financial instrument is as follows:

(Thousands of euros)	2009	2008
Loans to companies		
Transactions settled during the financial year	(978)	
Transactions pending settlement at year end	(62,042)	(277,284)
	(63,020)	(277,284)
Trade and other payables		
Transactions settled during the financial year	975	
Transactions pending settlement at year end	62,095	277,236
	63,070	277,236

Exchange gains and losses are generated on the various securities and loans issued in foreign currencies, which are measured at year end at the exchange rates then prevailing.

10. RELATED PARTY DISCLOSURES

10.1 Related parties

Company transactions in 2009 with related parties, including the nature of the relationship, were as follows:

	Nature of the relationship
Telefónica, S.A.	Group parent
Telefónica Finanzas, S.A.U.	Group company
Telefónica GSC España, S.A.U.	Group company
Telefónica Europe, B.V.	Group company

10.2 Balances

The balances with related entities are as follows:

(Thousands of euros)

(Thousands of euros)	Group parent 2009	Other Group companies 2009	Group parent 2008	Other Group companies 2008
Non-current loans (Note 5)	22,019,248		15,340,759	
Current loans (Note 5)	1,986,603		1,502,368	
Cash and cash equivalents		2,902		1,476
No-current accounts payable (Note 7)	42		42	
Current accounts payable (Note 7)	385	550	23	436

10.3 Transactions

Transactions entered into with related parties were as follows:

(Thousands of euros)

(Thousands of euros)	Group parent 2009	Other Group companies 2009	Group parent 2008	Other Group companies 2008
External services (9.1)		(59)	(33)	-
Finance income - interest (Note 9.2)	980,650	15	836,172	434
Finance cost - interest (Note 9.3)				339
Exchange losses (Note 9.4)	(63,020)		(277,284)	

11. OTHER DISCLOSURES

11.1 Audit fees

The fees paid in 2009 and 2008 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica Emisiones, S.A.U.) belongs amounted to 203 thousand euros and 35 thousand euros, respectively, and were solely for audit services.

11.2 Director disclosures

In 2009, the Company's joint and several Directors received no remuneration of any kind. No advances or loans have been granted to Directors, nor does the Company have any pension or life insurance pension obligations to them.

The following information is set forth below in compliance with article 127 ter. 4 of the Spanish Corporation Law, introduced by Law 26/2003 of July 17, which amended Law 24/1988 of July 28, 1988 on the securities market and the revised text of Spanish Corporation Law, to enhance the transparency of private limited companies. We hereby state that in 2009 the Company's Directors (listed below) held positions, discharged duties or owned equity instruments at companies engaging in an activity that is identical, similar or complementary to the activity constituting the corporate purpose of Telefónica Emisiones, S.A.U..

Shareholder	Investee	Activity	% shareholding ¹	Position
Miguel Escrig Meliá	Telefónica, S.A.	Telecommunications	< 0.01%	Director of Capital Markets and Risk Management
Juan José Gómez Miguelañez	Telefónica, S.A.	Telecommunications	< 0.01%	Director of Treasury, Risk & Insurance
	Telefónica Factoring Brasil	Factoring	< 0.01%	Director

¹ < 0.01% is shown if the holding is less than 0.01% of the share capital.

The table below, in accordance with the legislation previously mentioned, gives details of activities carried out, on their own account or on behalf of third parties, by the members of the Company's Board at companies engaging in an activity that is identical, similar or complementary to the corporate purpose of Telefónica Emisiones, S.A.U.

Name	Activity performed	Arrangement under which the activity is performed	Company through which the activity is rendered	Position held or duties discharged
Miguel Escrig Meliá	Financing, Telefónica Group	On behalf of third parties	Telefónica Europe, B.V.	Proprietary director representing Telefónica, S.A.
Miguel Escrig Meliá	Pension fund management	On behalf of third parties	Fonditel Pensiones	Proprietary director representing Telefónica, S.A.
Miguel Escrig Meliá	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones, S.A.U.	Joint and several director
Miguel Escrig Meliá	Holding company	On behalf of third parties	Telco S.p.A	Proprietary director
Juan José Gómez Miguelañez	Telecommunications	On behalf of third parties	Telefónica Finanzas, S.A.U.	Executive Vice Chairman
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Fisatel Mexico	Executive Vice Chairman
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Telfisa Global B.V.	Director
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones, S.A.U.	Joint and several director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring España	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Brasil	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Colombia	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Brasil	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Mexico	Director
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Antares	Director
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Casiopea Re	Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Altair	Chairman
Juan José Gómez Miguelañez	Mutual and pension fund management	On behalf of third parties	Fonditel	Proprietary director
Juan José Gómez Miguelañez	Insurance and reinsurance company	On behalf of third parties	Pléyade Peninsular	Director and Chairman

11.3 Environmental disclosures

At December 31, 2009 and 2008, the Company had not designated significant assets to environmental protection or restoration, nor had it incurred any expenses for this purpose during the year. Likewise, no environmental grants were received during the years ended December 31, 2009 and 2008.

The Company's Directors consider that the environmental risks which might arise in connection with the Company's business activities are adequately covered, and that such liabilities would not be significant.

12. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The debt issued by Telefónica Emisiones, S.A.U. on the capital markets is guaranteed by Telefónica, S.A., and to date it has invested its surplus cash balances in Telefónica Group companies (Telefónica Finanzas, S.A.U.). The Company's financial investments are similarly made in Group companies. For these reasons, the credit risk on outstanding issues is equivalent to a direct investment in Telefónica, S.A. in a similar amount. For the same reasons, the Company's liquidity risk is directly related to Telefónica, S.A.'s liquidity risk.

13. SUBSEQUENT EVENTS

On January 25, 2010, Telefónica Emisiones, S.A.U. repaid at maturity the debt instruments issued on July 25, 2006 under the issuance program (EMTN) registered with the London Stock Exchange for an aggregate amount of 1,250 million euros.

14. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

These financial statements were originally prepared in Spanish. In the event of discrepancy, the Spanish-language version prevails.

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting principles applied by the Company may not conform with generally accepted principles in other countries.

TELEFÓNICA EMISIONES, S.A.U.

Sole shareholder company

2009 MANAGEMENT REPORT

Telefónica Emisiones, S.A.U. is a sole shareholder company, whose share capital comprises 62,000 ordinary shares with a nominal value of 1 euro each. Share capital is fully subscribed and paid in. The sole shareholder is Telefónica, S.A.

The Company has appointed two joint and several directors: (i) Miguel Escrig Meliá and (ii) Juan José Gómez Migueláñez.

In 2009, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2009 income statement include:

- Operating losses of 1,672 thousand euros, down 8.8% on the previous year. The most relevant items are expenses paid to rating agencies and the tax certification agent for the payment of coupons.
- Net finance income of 2,888 thousand euros, from interest earned on loans granted to Telefónica S.A., interest received on positive balances in the account with Telefónica Finanzas S.A.U., and foreign exchange gains recognized in the year.
- The combination of these two figures produced income from ordinary activities of 851 thousand euros.

The main financing transactions undertaken during the year mainly comprise the issuance of debentures in Euros, Pounds sterling and US dollars.

Telefónica Emisiones, S.A.U. has not purchased or carried out any other transactions involving treasury shares, or performed any research and development activities in 2009.

Going forward, the Company is expected to carry on its line of business, raising financing for the Telefónica Group.

The debt issued by Telefónica Emisiones, S.A.U. on the capital markets is guaranteed by Telefónica, S.A., and to date it has invested its surplus cash balances in Telefónica Group companies (Telefónica Finanzas, S.A.U.). The Company's financial investments are similarly made in Group companies. For these reasons, the credit risk on outstanding issues is equivalent to a direct investment in Telefónica, S.A. in a similar amount. For the same reasons, the Company's liquidity risk is directly related to Telefónica, S.A.'s liquidity risk.

Events after the balance sheet date:

No events have occurred after the balance sheet date that should be disclosed in this Management Report.

Report on corporate governance:

The Company is a sole shareholder company and therefore a specific corporate governance report by the Company and the information required by article 16 bis of the Spanish Securities Market Law is not considered necessary. As its sole shareholder is Telefónica, S.A., readers should refer to the Telefónica, S.A. corporate governance report.

Related party transactions:

The Company raises financing for its shareholder Telefónica, S.A., and has asset balances with related companies.