TELEFONICA S A
Form 6-K
February 25, 2011

Table of Contents

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 February, 2011
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 þ No 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)(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

Telefónica, S.A.
TABLE OF CONTENTS

Table of Contents

TELEFONICA GROUP
Financial Highlights

In 2010, Telefónica Group delivered solid results, reflected in the strong top line growth (+7.1% year-on-year) and the high cash flow generation.

The increased commercial activity during the year drove the total number of accesses to over 287 million at the year end (+7.2% year-on-year in organic terms):

Total gross additions increased by 13.3% year-on-year, while the churn rate remained stable.

The focus on expanding the customer base and increasing the value of customers led to a solid advance in mobile broadband accesses (+63.9% year-on-year), which now account for 10.1% of the Group s mobile accesses, and retail fixed broadband accesses (+10.9% in organic terms).

The positive trend in the contract segment (+15.9% year-on-year in organic terms) boosted growth in mobile accesses (+8.9% year-on-year in organic terms). 53% of net additions in 2010 were in the contract segment, which already accounts for 31% of total mobile accesses.

Consolidated revenue for 2010 stood at 60,737 million euros (+7.1% year-on-year), leveraging the high diversification of the Group:

Fourth quarter revenues were up 9.9% year-on-year, driven by the growing contribution from Latin America as a result of the strong performance of operations and the higher exposure to Brazil.

Telefónica Latinoamérica and Telefónica Europe reported solid revenue growth, accounting together for 68% of consolidated revenue for 2010.

Mobile data revenue rose sharply, to close to 9,300 million euros, posting a 19.3% year-on-year increase in organic terms.

Revenues were up 2.4% in organic terms, pushed by Telefónica Latinoamérica and Telefónica Europe, which contributed with 2.7 percentage points and 1.0 percentage points, respectively, to revenue growth, offsetting the lower contribution from Telefónica España (-1.6 percentage points).

Operating income before depreciation and amortization (OIBDA) stood at 25,777 million euros in 2010, posting a 14.0% year-on-year growth. Operating efficiency levels remain a sector benchmark:

OIBDA was affected by the positive contribution from the revaluation of the previously-held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter). On the other hand, the Group recognised non-recurrent restructuring expenses of 1,262 million euros in 2010 (1,060 million euros in the fourth quarter), mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation s social activities. Excluding both impacts, consolidated OIBDA margin would reach 38.3% in 2010.

In organic terms, which exclude the non-recurrent items mentioned above, OIBDA was up 0.8% year-on-year in 2010. The OIBDA margin remained virtually stable compared to 2009, despite the higher commercial activity registered during the year.

Net income amounted to 10,167 million euros, up 30.8% on 2009, positively affected by the net impact of non-recurrent items totalling 2,164 million euros (revaluation of the stake in Vivo, restructuring expenses and reassessment of the tax assets in Colombia).

Telefónica Group s operating cash flow (OIBDA-CapEx) amounted to 14,933 million euros in 2010 (-2.7% year-on-year in reported terms):

In organic terms which exclude spectrum acquisitions, operating cash flow dropped 1.7%, despite growth in Telefónica Latinoamérica (+6.9% year-on-year organic) and Telefónica Europe (+16.6% year-on-year in comparable terms).

Table of Contents

TELEFÓNICA GROUP

Financial Highlights

Telefónica has met its guidance for eight years in a row. Under the criteria applied for 2010 guidance:

Revenues were up 3.8%, in the high end of the range announced (1.0% 4.0%).

OIBDA increased by 1.4%, within the forecast range of 1.0% 3.0%.

CapEx, excluding spectrum, totalled 7,646 million euros, in line with the target of 7,450-7,650 million euros.

EPS stood at 2.25 euros, above the target of 2.10 euros.

The Group maintains its financial strenght, with a ratio of net debt + commitments to OIBDA of 2.5 times at year end.

The Company announces its guidance for 2011, which reflect a strategy focused on capturing the growth in its markets while maintaining a high level of profitability. Telefónica forecasts:

Revenue growth up to 2%

An OIBDA margin in the upper 30s, with a limited erosion year-on-year

CapEx of approximately 9 billion euros

2010 Bases for Telefónica s 2011 financial targets:

Consolidated revenues: 63,144 million euros

OIBDA margin 38.0%

Consolidated CapEx: 8,541 million euros

The solid cash flow generation perspectives for 2011 allow the Company to propose the distribution of a dividend of 1.6 euros per share. This represents a 14.3% increase compared to the 2010 dividend. The proposal confirms Telefónica s commitment to prioritize shareholder remuneration in the use of cash and to gradually increase dividends per share. The Company reiterates its target of distributing a minimum dividend of 1.75 per share in 2012.

Organic growth: In financial terms, it assumes constant exchange rates as of 2009 (average fx), excludes changes in the perimeter of consolidation (HanseNet since mid February 2010, Jajah in January-December 2010, Telyco Marruecos in January-December 2009, and Manx Telecom in July-December 2009) and includes 100% of Vivo since October in 2009 and 2010 and Tuenti in August-December 09. OIBDA and OI figures do not include the impact of capital gains (Manx Telecom in Q2 2010, Medi Telecom in Q4 2009 and the revaluation of our pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom in Q3 2010), non-recurrent restructuring expenses, mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation s social activities, recorded in the second half of the year. CapEx excludes the spectrum acquisition in Germany in Q2 2010 and in Mexico in H2 2010. Figures exclude hyperinflationary accounting in Venezuela in both years. In terms of accesses, HanseNet, Medi Telecom (following its disposal in the fourth quarter of 2009), and Manx Telecom as of July 2010 are excluded. At the same time, organic net additions exclude accesses disconnections made in the second quarter of 2010.

Comparable growth in T. Europe: In financial terms, Organic growth: (financial figures in million euros) in financial terms, assumes constant exchange rates (average of January-December 2009) and excludes HanseNet and JaJah contributions, included in Telefónica Europe s consolidation perimeter from mid-February 2010 and January 1st, 2010, respectively. Manx Telecom results in the July-December of 2009 are excluded. OIBDA also excludes capital gain from the sale of Manx Telecom in the second quarter of 2010 and non recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year of 2010 and CapEx excludes the acquisition of spectrum in

Germany in May, 2010. In addition, the following non-recurrent effects are excluded: restructuring expenses, ii) Universal Service Obligation in the Czech Republic, iii) real estate gains in the Czech Republic, and iv) the proceeds from the settlement agreement with T-Mobile in the Czech Republic in 2009.

In access terms, comparisons exclude HanseNet and Manx Telecom. Net additions also exclude the disconnection of inactive mobile contract customers in the Czech Republic in the second quarter of 2010.

Guidance criteria 2010: 2009 adjusted figures for guidance exclude Telyco Marruecos 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 includes 100% of Vivo since October, both 2009 and 2010, and it also includes the consolidation of HanseNet and Jajah in T. Europe. In terms of guidance calculation, OIBDA excludes non-recurrent restructuring expenses, mainly derived from personnel reorganization and firm commitments relating to the Telefónica Foundation s social activities. OIBDA also excludes the capital gain from the revaluation of our pre-existing stake in Vivo. Group CapEx includes 50% of Vivo in the fourth quarter 2009 and excludes Real Estate Efficiency Program of T. España and spectrum licenses.

Guidance criteria 2011: 2010 adjusted figures for guidance include full consolidation of Vivo, Hansenet and Tuenti in the whole year (12 months) and excludes Manx Telecom s results in January-June 2010. 2010 adjusted OIBDA excludes the capital gain from the revaluation of Telefónica s pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom, non-recurrent restructuring expenses registered in the second half of 2010, and the capital gain derived from the disposal of Manx Telecom.

2011 guidance assumes constant exchange rates as of 2010 (average FX in 2010) and excludes hyperinflationary accounting in Venezuela in both years. At the OIBDA level guidance for 2011 excludes write-offs (impairments of subsidiaries), capital gains/losses from companies disposals and significant exceptionals mainly related with restructuring costs. Results from the operation in Costa Rica are excluded from guidance calculation. Group CapEx excludes Real Estate Efficiency Program of T. España, the Real State commitments associated to the new Telefónica premises in Barcelona and spectrum licenses

Table of Contents

TELEFÓNICA GROUP
Financial Highlights
TELEFÓNICA GROUP
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - December		% Chg		
	2010	2009	Reported	Organic	Guidance Criteria
Revenues	60,737	56,731	7.1	2.4	3.8
Telefónica España	18,711	19,703	(5.0)	(4.8)	
Telefónica Latinoamérica	26,041	22,983	13.3	6.7	
Telefónica Europe	15,255	13,533	12.7	4.4	
OIBDA	25,777	22,603	14.0	0.8	1.4
Telefónica España	8,520	9,757	(12.7)	(8.5)	
Telefónica Latinoamérica	13,782	9,143	50.7	9.1	
Telefónica Europe	4,014	3,910	2.6	3.8	
OIBDA margin	42.4%	39.8%	2.6p.p.	(0.6p.p.)	
Telefónica España	45.5%	49.5%	(4.0p.p.)	(1.9p.p.)	
Telefónica Latinoamérica	52.9%	39.8%	13.1p.p.	0.9p.p.	
Telefónica Europe	26.3%	28.9%	(2.6p.p.)	(0.2p.p.)	
Operating Income (OI)	16,474	13,647	20.7	4.5	
Telefónica España	6,511	7,617	(14.5)	(9.2)	
Telefónica Latinoamérica	9,721	5,350	81.7	21.2	
Telefónica Europe	923	1,015	(9.1)	15.1	
Net income	10,167	7,776	30.8		
Basic earnings per share (euros)	2.25	1.71	31.6		
OpCF (OIBDA-CapEx)	14,933	15,346	(2.7)	(1.7)	
Telefónica España	6,499	7,893	(17.7)	(12.6)	
Telefónica Latinoamérica	8,247	5,693	44.9	6.9	
Telefónica Europe	942	2,183	(56.8)	14.6	

Reconciliation included in the excel spreadsheets.

Notes:

OIBDA and OI are presented before brand fees and management fees.

OIBDA margin calculated as OIBDA over revenues.

2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Organic criteria*: Figures in million euros. In financial terms, it assumes constant exchange rates as of 2009 (average fx), excludes changes in the perimeter of consolidation (HanseNet since mid February 2010, Jajah in January-December 2010, Telyco Marruecos in January-December 2009, and Manx Telecom in July-December 2009) and includes 100% of Vivo since October in 2009 and 2010 and Tuenti in August-December 09. OIBDA and OI figures do not include the impact of capital gains (61 from Manx Telecom in Q2 2010, 220 from Medi Telecom in Q4 2009 and 3,797 from the revaluation of the pre-existing stake in VIVO at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom in Q3 2010), non-recurrent restructuring expenses (1,262), mainly related to personnel reorganization (658) and firm commitments relating to the Telefónica Foundation s social activities (400) in the second half of the year. Figures exclude hyperinflationary accounting in Venezuela in both years. CapEx excludes the spectrum acquisition in Germany in Q2 2010 and in Mexico in the second half of 2010.*

Guidance criteria*: Figures in million euros. 2009 adjusted figures for guidance exclude Telyco Marruecos results in T. España, Medi Telecom capital gain (220 in the fourth quarter of 2009) and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX) and excludes hyperinflationary accounting in Venezuela in both years. It includes 100% of Vivo since October, both 2009 and 2010, and it also includes the consolidation of HanseNet and Jajah in T. Europe. In terms of guidance calculation, OIBDA excludes non-recurrent restructuring expenses (1,262), mainly related to personnel reorganisation (658) and firm commitments relating to the Telefónica Foundation s social activities (400) in the second half of the year. OIBDA also excludes the capital gain from the revaluation of the pre-existing stake in VIVO. Group CapEx includes 50% of Vivo in the fourth quarter 2009 and excludes Real Estate Efficiency Program of T. España and spectrum licenses.*

Table of Contents

Quarterly results
January December 2010

TABLE OF CONTENTS

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited.

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

Table of Contents

TELEFÓNICA GROUP
Market Size

(Data in thousands accesses)

January December 2010 Results **Telefónica 2**

Table of Contents

TELEFONICA GROUP
Market Size
TELEFÓNICA GROUP
ACCESSES
Unaudited figures (thousands)

	December		
	2010	2009	% Chg
Final Clients Accesses	282,994.9	260,510.2	8.6
Fixed telephony accesses (1)	41,355.7	40,606.0	1.8
Internet and data accesses	18,611.4	15,082.5	23.4
Narrowband	1,314.1	1,427.5	(7.9)
Broadband (2)	17,129.6	13,492.6	27.0
Other (3)	167.8	162.4	3.3
Mobile accesses	220,240.5	202,332.5	8.9
Prepay	151,273.9	142,806.6	5.9
Contract	68,966.6	59,525.9	15.9
Pay TV	2,787.4	2,489.2	12.0
Wholesale Accesses	4,637.4	4,095.3	13.2
Unbundled loops	2,529.2	2,206.0	14.7
Shared ULL	264.0	447.7	(41.0)
Full ULL	2,265.3	1,758.3	28.8
Wholesale ADSL (4)	687.4	463.4	48.4
Other (5)	1,420.7	1,426.0	(0.4)
Total Accesses	287,632.3	264,605.5	8.7

Notes:

Year-on year changes are affected by the disconnection of inactive customers in December 2009 and in the second quarter of 2010, as well as the inclusion of the customers of HanseNet since March 2010 and the exclusion of the customers of Manx since July 1st, 2010.

(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 ULL rented by T. O2 Germany.*

(5) *Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.*

Table of Contents

TELEFÓNICA GROUP

Consolidated Results

The structure of the Telefónica Group by business unit Telefónica España, Telefónica Latinoamérica and Telefónica Europe, in line with the current integrated, regional management model, means that the legal structure of the companies is not relevant for the presentation of Group financial information.

Therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a regional basis, revenue and expense resulting from intra-group invoicing for use of the brand and management contracts have been excluded from the operating results for each Group region. At the same time, the impacts derived from projects managed at a centralized level are included at a regional level. In any case, these effects do not have an impact on consolidated results.

In line with this reorganisation, Telefónica has included in Telefónica España, Telefónica Latinoamérica and Telefónica Europe all the information related to the fixed, mobile, cable, Internet and pay tv businesses, in accordance with its geographic allocation. The Other companies heading includes the Atento Business and other holding companies and eliminations in the consolidation process.

Also, in the context of the organisation and integrated management of the fixed and wireless businesses in Spain, and with the objective of facilitating understanding and monitoring of the financial performance of the Company s operations in this market and avoiding distortions which, without affecting the consolidated results of Telefónica España, may result in an erroneous interpretation of the individual performance of each of the businesses especially at the level of operating expenses and investment -, from the first quarter of 2010 the Company has decided to publish the selected consolidated financial data corresponding to Telefónica España, providing breakdown by business only at a revenue level. The Company has continued to report all the operating metrics previously reported.

Telefónica obtained solid results in 2010, meeting the guidance committed with the market for eight years in a row, thanks to the Company s high-class diversification, both in terms of geographies and businesses.

The strong growth posted by Telefónica Latinoamérica and Telefónica Europe drove Telefónica s solid performance, offsetting the lower contribution of the business in Spain. It is noteworthy the growing contribution of the Latin America business to the Group s results, supported by the positive performance in operations and the greater exposure to Brazil, following the acquisition of Portugal Telecom s stake in Vivo last September.

It should be noticed that Vivo is fully consolidated in the Group since October 2010 (prior to that date, the results of Vivo were proportionally consolidated), affecting therefore to year-on-year comparisons in reported terms as from the fourth quarter of the year.

The Company s focus on growing its customer base and increasing the value of customers led to a solid advance in the number of accesses, especially in the broadband businesses (both wireline and mobile). In addition, it is noteworthy the higher proportion of the contract segment in the mobile business, thanks to active migration policies and to the rapid adoption of smartphones. Bundled offers in the wireline business showed also steady growth, reflecting the commercial priorities set for the year.

The intense commercial activity recorded throughout the year by the Group s businesses across markets pushed total accesses up by 7.2% year-on-year in organic terms (+8.7% in reported terms), to 287.6 million. By region, of particular note are the expansion of the customer base at Telefónica Latinoamérica (+9.0% year-on-year) and Telefónica Europe (+6.2% year-on-year organic; +14.3% reported).

Table of Contents

TELEFÓNICA GROUP
Consolidated Results

The increased commercial drive resulted in a year-on-year growth in gross additions of 13.3%. At the same time, customer loyalty programmes and the commitment to improving quality kept the **churn** rate stable year-on-year at 2.3% in 2010. As a result, the Company registered 19.2 million organic **net additions** during the year (1.5 times the net additions recorded in 2009), adding 5.7 million new accesses in the fourth quarter (+36.0% compared to the third quarter; +13.1% year-on-year).

By access type:

Mobile accesses at the Telefónica Group stood at 220.2 million at the end of 2010, a year-on-year growth of 8.9% (both in organic and reported terms). Organic net additions reached 18.2 million in 2010 (1.3 times those recorded in 2009). Fourth-quarter net additions amounted to 5.4 million. Brazil posted the greatest growth in customer base, with 8.5 million net additions in 2010 (2.6 million in the fourth quarter).

The focus on high-value customers has been reflected in a significant increase in contract net additions compared to 2009: 53% of organic net additions corresponded to this segment, compared to 38% in 2009. This has left a total of 69.0 million contract customers (+15.9% year-on-year in organic terms), which represents over 31% of the Group s total mobile accesses (+3 percentage points year-on-year organic).

The strong adoption of mobile broadband services, together with the launch of new and more segmented price schemes has allowed the Group to increase its number of **mobile broadband accesses** to more than 22.2 million by the end of 2010 (+63.9% year-on-year). This represents a penetration over the total mobile access base of 10.1%, 3.4 percentage points higher than at December 2009. All these accesses have a data rate attached and therefore are active users of the service.

Retail fixed broadband accesses reached a total of 17.1 million (+27.0% year-on-year in reported terms, +10.9% organic). Net additions picked up in the fourth quarter to reach 422 thousand accesses. In 2010, net additions stood at 3.6 million accesses (1.5 million in organic terms). Brazil was once again the driver of the Group s growth in this type of access, with Telesp registering 681 thousand net additions, a record-high figure in the Company s history.

Bundled voice, broadband, and television services remain key to Group strategy and especially to churn control. In Spain, 89% of retail fixed broadband accesses are bundled as part of either a dual or triple play offer, while in Latin America the figure stands at 86%.

The number of **pay-TV accesses** stood at 2.8 million in 2010, an 8.9% increase in organic terms on December 2009 (+12.0% reported).

Fixed telephony accesses totalled 41.4 million, down 2.7% year-on-year in organic terms, although the rate of decrease was slower in the fourth quarter than in previous periods. In reported terms, the number of accesses rose 1.8%.

The increased customer base and the growing contribution from the mobile data business drove growth in **revenues**, which totalled 60,737 million euros in 2010, up 7.1% year-on-year (+9.9% in the fourth quarter). Foreign exchange rates added 2.2 percentage points despite the sharp devaluation in the Venezuelan bolivar, while changes in the consolidated perimeter accounted for 2.5 percentage points of the growth for the year.

The Group s high-class diversification is a key factor behind the strong revenue trends. In 2010, Telefónica Latinoamérica and Telefónica Europe accounted for 68% of consolidated revenues, whereas Telefónica España s contribution stood below 31%.

This diversification is also behind the positive performance of revenues in organic terms, which grew 2.4% year-on-year in 2010. This figure is roughly in line with the growth rate recorded in the first nine months of the year.

It is worth to mention that cuts in mobile termination rates dragged 1.0 percentage point to organic revenue growth. By region, it is noteworthy the sustained momentum in the year-on-year revenue growth at Telefónica Latinoamérica and Telefónica Europe. These regions account for 2.7 percentage points and 1.0 percentage points of the organic growth in consolidated revenues respectively, and offset the lower contribution from Telefónica España (-1.6 percentage points).

Table of Contents

TELEFÓNICA GROUP

Consolidated Results

Consolidated operating expenses amounted to 40,375 million euros in 2010, a 13.8% year-on-year growth in reported terms. These expenses were negatively affected by non-recurrent restructuring expenses recorded in the second half of 2010 (1,262 million euros). These costs were mainly related to personnel reorganization (658 million euros) and firm commitments relating to the Telefónica Foundation s social activities (400 million euros; of this total, 280 million euros are recorded in Telefónica S.A. and the rest is registered in Telefónica Latinoamérica). In organic terms, expenses were up 3.7% year-on-year in 2010, although the rate of growth slowed in the last quarter. Breakdown by component:

Supply costs amounted to 17,606 million euros in 2010, decreasing 0.1% year-on-year in organic terms (+5.3% reported), as lower mobile interconnection costs at Telefónica España offset the increased handset costs in the three regions.

Personnel expenses amounted to 8,409 million euros in 2010, up 9.3% year-on-year in organic terms (+24.1% reported). This figure was affected by personnel reorganisation costs recorded in the second half of the year.

The average number of employees in 2010 was 269,047 (13,896 employees more than at December 2009), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica Group s average workforce rose 2% year-on-year to 128,012.

Subcontract expenses amounted to 12,228 million euros in 2010, up 7.9% on 2009 in organic terms (+23.3% reported). This performance is largely due to the higher commercial efforts in the three regions and increased network management expenses at Telefónica Latinoamérica. Subcontract expenses also include firm commitments relating to social activities of the Telefónica Foundation.

In addition, it is important to highlight the value of the scale of the Group, reflected in the positive contribution to results from global projects launched in 2010. Indeed, the centralisation of certain Group processes had a positive effect on 2010 results, impacting revenues by 242 million euros and OIBDA by 200 million euros.

Gain on sales of fixed assets totalled 4,150 million in 2010, primarily explained by the positive impact of the revaluation of the previously held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter).

Operating income before depreciation and amortization (OIBDA) for 2010 stood at 25,777 million euros, a year-on-year growth of 14.0%, strongly affected by the gain on sales of fixed assets abovementioned recorded in the third quarter of the year, and despite the negative impact of non-recurrent restructuring expenses (1,262 million euros) also mentioned previously. Foreign exchange rates contributed with 1.2 percentage points to this growth, while changes in the consolidated perimeter represented 1.6 percentage points. The OIBDA margin stood at 42.4% for 2010 (+2.6 percentage points year-on-year). Stripping out the above mentioned impacts, the OIBDA margin would reach 38.3% in 2010.

In organic terms, which exclude the aforementioned non-recurrent restructuring expenses, OIBDA rose 0.8% year-on-year, an improved performance compared to the first nine months of 2010. The OIBDA margin was virtually stable compared to the prior year (-0.6 percentage points), despite the higher commercial activity in 2010.

TELEFÓNICA GROUP

Consolidated Results

By region and excluding the positive impact of the revaluation of the previously held stake in Vivo already mentioned, Telefónica Latinoamérica increased its contribution to the Group s OIBDA up by 5.0 percentage points year-on-year, to exceed 45% of the Group figure. Consequently, together with the higher contribution from Telefónica Europe, in 2010 over 60% of consolidated OIBDA was generated outside Telefónica España.

Depreciation and amortization amounted to 9,303 million euros in 2010, up 3.9% in reported terms (-2.8% organic). In the fourth quarter, this caption included amortization associated to the purchase price allocation of Vivo (84 million euros).

As a result, **operating income (OI)** totalled 16,474 million euros in 2010, up 20.7% year-on-year in reported terms. In organic terms and excluding the non-recurrent expenses mentioned above, OI rose 4.5% year-on-year.

Profits from associates amounted to 76 million euros in 2010, up 59.8% year-on-year. This increase is mainly due to the improved results contributed by the associate Telco, S.p.A.

Net Financial Results up to December 2010 amounted to 2,649 million euros (-19.9% year-on-year). Year-on year performance of Venezuela s impact yielded a lower expense of 521 million euros. Stripping out this effect year-on-year performance is explained mainly by:

- Changes in the foreign exchange gains and losses up to December 2010 with respect to the same period last year yielded a lower expense of 172 million euros.

- Interest rate drops during the year, changes of the actual value of commitments derived mainly from the pre-retirement plans and other financial operations have yielded a lower expense of 410 million euros. On the other hand, changes in the Group s debt volume have yielded a higher expense of 254 million euros. Both effects have yielded a lower expense of 156 million euros.

- The 191 million euro expense corresponding to the transfer of the interest in BBVA at fair value from equity to financial results. This interest continues to be recognized as an available-for-sale financial asset.

Interest related net financial expenses up to December 2010 (excluding the 191 million expense mentioned before) amounted to 2,458 million euros, a cost of 4.9% over total average net debt of 49,999 million euros.

Free cash flow generated by the Telefónica Group up to the end of December 2010 amounted to 8,466 million euros, of which 5,872 million euros were assigned to Telefónica S.A. dividend payment, 883 million euros were devoted to the acquisition of Telefónica treasury shares and 834 million euros to commitment cancellations derived mainly from the pre-retirements plans. In addition, there was a net payment of 6,577 million euros due to financial investments and divestments in the period mainly explained by the purchase of the 50% stake in Brasilcel owned by Portugal Telecom and to a lesser extent the HanseNet purchase. As a result, net financial debt increased by 5,700 million euros. In addition, net debt increased by an additional 6,343 million euros of which 2,366 million euros are due to foreign exchange impact, and 3,977 million euros are due to changes in the consolidation perimeter and other effects on financial accounts. All this has led to an increase of 12,042 million euros with respect to the net financial debt at the end of 2009 (43,551 million euros), leaving the final figure in December 2010 at 55,593 million euros.

The leverage ratio, net debt over OIBDA (including accumulated 100% of Vivo s OIBDA to December 2010, excluding results on the sale of fixed assets and adjusted by firm commitments relating to the Telefónica Foundation s social activities), stands at 2.4 times at December 2010.

During 2010, the **financing activity** of Telefonica Group, excluding short term Commercial Paper Programmes activity, rose to 15,800 million equivalent euros, with the main objective of partly financing in advance 2011 debt at Telefónica, S.A. level and finance the acquisition of 50% of Brasilcel. On July 28, 2010, Telefónica, S.A. entered into a syndicated facility agreement with several domestic and international financial entities in an aggregate amount of up to 8,000 million euros. This Facility Agreement is divided into two tranches: the first, a three-year term loan facility, in an aggregate amount of up to 5,000 million euros and a second, a five-year revolving credit facility, in an aggregate amount of up to 3,000 million euros.

Table of Contents

TELEFÓNICA GROUP

Consolidated Results

It is also worth highlighting the financing activity of the company during 2010 in the bond markets:

- Two bond issuances in the euro market, a 5 year bond issue for an amount of 1,400 million raised in March and a 7 year 1,000 million raised in September

- In the US, Telefonica has issued an American dollar denominated bond for an amount of 3,500 million dollars raised in April, distributed in three tranches: 3 year 1,200 million dollars, 5 year 900 million dollars and a 10 year tranche of 1,400 million dollars

- A 19 year bond issuance for an amount of 400 million Sterling Pounds in October

It is to mention the loan facility for telecom equipment purchases for an amount of nearly 500 million dollars with the guaranty of the Swedish Export Credit Agency (EKN) signed in February.

Telefonica S.A. and its holding companies have continued active during 2010 under its various Commercial Paper Programmes (Domestic and European), for an outstanding balance of 1,654 million euros at December.

Regarding Latin America, Telefonica ´s subsidiaries have tapped the capital markets up to December for an amount above 1,900 million equivalent euros, mainly for refinancing 2010 maturities. To highlight the Mexican peso bond issuance launched in July in two tranches, a 10 year 2,000 million and a 4 year 4,000 million bond issue, as well the Telefónica Moviles Chile issuance for an amount of 300 million dollars maturing in 5 years.

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

Corporate income taxes for 2010 stood at 3,829 million euros, impacted by the reassessment of the tax assets in Colombia, amounting to 864 million euros and recorded in the fourth quarter of 2010. It is worth to mention that in the third quarter of 2010, this caption also included 321 million euros of fiscal effects relating to the revaluation of the Company s previously-held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom. On the positive side, income tax expense for 2010 has decreased in the amount of 138 million euros due to tax credits generated in México and Terra Brazil, which are based on the expected taxable income to be generated by the companies.

Profit attributable to minority interests increased the net income figure by 95 million euros in 2010, reversing the trend observed both until September 2010 (-153 million euros) and compared to 2009 (-161 million euros), primarily due to minority interests in the losses Telefónica Telecom, which increased after the aforementioned reassessment. This more than offset the share of minority interests in the profits of Vivo, Telesp and Telefónica O2 Czech Republic.

The result of all the above was **consolidated net income** of 10,167 million euros for 2010, 30.8% higher year-on-year. The main drivers behind this performance were:

- the positive net impact from the revaluation of the previously held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,476 million euros);

- non-recurrent restructuring expenses registered in the second half of 2010 (862 million euros, net of taxes and minority interests);

- the write-down of tax credits in Colombia (450 million euros, net of minority interests).

As a result, **basic earnings per share** stood at 2.25 euros (+31.6% year-on-year).

Table of Contents

TELEFÓNICA GROUP
Consolidated Results

CapEx, excluding spectrum acquisitions, reached 8,228 million euros, up 13.6% on 2009 figure (+5.9% in organic terms). The Company continues to focus its investments on growth and transformation projects (77% of total investment, excluding spectrum acquisitions), fostering the development of broadband services (both fixed and mobile).

Taking into account the spectrum acquisitions in Germany in May and the acquisition of additional spectrum and licenses in Mexico, CapEx for 2010 amounted to 10,844 million euros.

As a result, **operating cash flow (OIBDA-CapEx)** totalled 14,933 million euros in 2010 (-2.7% year-on-year). In organic growth terms and stripping out spectrum acquisitions, operating cash flow dropped 1.7% year-on-year.

Definitions

Organic growth: In financial terms, it assumes constant exchange rates as of 2009 (average fx), excludes changes in the perimeter of consolidation (HanseNet since mid February 2010, Jajah in January-December 2010, Telyco Marruecos in January-December 2009, and Manx Telecom in July-December 2009) and includes 100% of Vivo since October in 2009 and 2010 and Tuenti in August-December 09. OIBDA and OI figures do not include the impact of capital gains (Manx Telecom in Q2 2010, Medi Telecom in Q4 2009 and the revaluation of our pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom in Q3 2010), non-recurrent restructuring expenses, mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation s social activities, recorded in the second half of the year. CapEx excludes the spectrum acquisition in Germany in Q2 2010 and in Mexico in H2 2010. Figures exclude hyperinflationary accounting in Venezuela in both years. In terms of accesses, HanseNet, Medi Telecom (following its disposal in the fourth quarter of 2009), and Manx Telecom as of July 2010 are excluded. At the same time, organic net additions exclude accesses disconnections made in the second quarter of 2010.

Average total Net Debt: Average balance at December 2010 of the items shown in the Net financial debt and commitments table.

Table of Contents

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2010	2009	% Chg	2010	2009	% Chg
Revenues	60,737	56,731	7.1	16,457	14,976	9.9
Internal exp capitalized in fixed assets	737	720	2.3	218	237	(8.1)
Operating expenses	(40,375)	(35,489)	13.8	(11,740)	(9,654)	21.6
Supplies	(17,606)	(16,717)	5.3	(4,910)	(4,560)	7.7
Personnel expenses	(8,409)	(6,775)	24.1	(2,444)	(1,770)	38.0
Subcontracts	(12,228)	(9,921)	23.3	(3,771)	(2,734)	37.9
Bad Debt Provisions	(853)	(874)	(2.3)	(249)	(210)	19.0
Taxes	(1,279)	(1,203)	6.3	(367)	(380)	(3.6)
Other net operating income (expense)	494	435	13.5	276	221	24.6
Gain (loss) on sale of fixed assets	4,150	248	n.m.	206	230	n.m.
Impairment of goodwill and other assets	35	(42)	c.s.	(6)	(32)	c.s.
Operating income before D&A (OIBDA)	25,777	22,603	14.0	5,410	5,978	(9.5)
OIBDA margin	*42.4%*	*39.8%*	*2.6p.p.*	*32.9%*	*39.9%*	*(7.0p.p.)*
Depreciation and amortization	(9,303)	(8,956)	3.9	(2,559)	(2,293)	11.6
Operating income (OI)	16,474	13,647	20.7	2,851	3,685	(22.6)
Profit from associated companies	76	47	59.8	8	0	n.m.
Net financial income (expense)	(2,649)	(3,307)	(19.9)	(675)	(1,034)	(34.7)
Income before taxes	13,901	10,387	33.8	2,183	2,651	(17.7)
Income taxes	(3,829)	(2,450)	56.2	(1,099)	(161)	n.m.
Income from continuing operations	10,072	7,937	26.9	1,084	2,490	(56.5)
Income (Loss) from discontinued ops.						
Non-controlling interests	95	(161)	c.s.	248	(50)	c.s.
Net income	10,167	7,776	30.8	1,333	2,440	(45.4)
Weighted average number of ordinary shares outstanding during the period (millions)	4,522	4,553	(0.7)	4,512	4,554	(0.9)
Basic earnings per share (euros)	2.25	1.71	31.6	0.30	0.54	(44.9)

Notes:

HanseNet and Jajah have been included in T. Europe s consolidation perimeter since mid February 2010 and since January 2010 respectively, and the perimeter of consolidation of T. España excludes Telyco Morocco since January, 2010 and includes Tuenti since August of 2010. The perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010.

For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IAS 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.

Figures in million euros. OIBDA, OIBDA margin and Operating Income are affected by the positive impact from the revaluation of the pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 in the third quarter of 2010). Additionally, OIBDA includes a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010, 220 from the sale of Medi Telecom in the fourth quarter of 2009, and is impacted by 1,262 of non-recurrent restructuring expenses in the second half of the year, mainly related to personnel reorganization (658) and firm commitments relating to the Telefónica Foundation s social activities (400).

2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Table of Contents

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
RESULTS BY REGIONAL BUSINESS UNITS
Unaudited figures (Euros in millions)

	REVENUES January - December			OIBDA January - December			OIBDA MARGIN January - December		
	2010	2009	% Chg	2010	2009	% Chg	2010	2009	Chg
Telefónica España (1)(2)	18,711	19,703	(5.0)	8,520	9,757	(12.7)	45.5%	49.5%	(4.0p.p.)
Telefónica Latinoamérica (1)(2)	26,041	22,983	13.3	13,782	9,143	50.7	52.9%	39.8%	13.1p.p.
Telefónica Europe (1)(2)	15,255	13,533	12.7	4,014	3,910	2.6	26.3%	28.9%	(2.6p.p.)
Other companies and eliminations	730	512	42.7	(539)	(207)	160.3	n.m.	n.m.	n.m.
Total Group (1)(2)	60,737	56,731	7.1	25,777	22,603	14.0	42.4%	39.8%	2.6p.p.

	OPERATING INCOME January - December			CAPEX January - December			OpCF (OIBDA-CAPEX) January - December		
	2010	2009	% Chg	2010	2009	% Chg	2010	2009	% Chg
Telefónica España (1)(2)	6,511	7,617	(14.5)	2,021	1,863	8.4	6,499	7,893	(17.7)
Telefónica Latinoamérica (2)(3)	9,721	5,350	81.7	5,535	3,450	60.5	8,247	5,693	44.9
Telefónica Europe (1)(4)	923	1,015	(9.1)	3,072	1,728	77.8	942	2,183	(56.8)
Other companies and eliminations	(681)	(335)	103.0	216	216	0.0	(755)	(423)	78.5
Total Group (1)(2)(3)(4)	16,474	13,647	20.7	10,844	7,257	49.4	14,933	15,346	(2.7)

(1) Since January 2010, the perimeter of consolidation of T. España excludes Telyco Marruecos and includes Tuenti since August of 2010. The perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010. HanseNet and Jajah have been included in T. Europe s consolidation perimeter since mid February 2010 and January 2010, respectively.

(2) Figures in million euros. OIBDA, OIBDA margin, Operating Income and OpCF are affected by the positive impact from the revaluation of the pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 in the third quarter of 2010). Additionally, OIBDA includes a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010, 220 from the sale of Medi Telecom in the fourth quarter of 2009, and is impacted by 1,262 of non-recurrent restructuring expenses in the second half of the year, mainly related to personnel reorganization (658) and firm commitments relating to the Telefónica Foundation s social activities (400).

(3) CapEx includes 1,237 million euros from the acquisition of sprectrum in Mexico in 2010.

(4) CapEx includes 1,379 million euros from the acquisition of sprectrum in Germany in the second quarter of 2010.

Notes:

OIBDA and OI are presented bebore brand fees and management fees.

OIBDA margin calculated as OIBDA over revenues.

2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Table of Contents

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Unaudited figures (Euros in millions)

	December 2010	December 2009	% Chg
Non-current assets	108,721	84,311	29.0
Intangible assets	25,026	15,846	57.9
Goodwill	29,582	19,566	51.2
Property, plant and equipment and Investment properties	35,802	32,003	11.9
Non-current financial assets and investments in associates	12,618	10,925	15.5
Deferred tax assets	5,693	5,971	(4.7)
Current assets	21,054	23,830	(11.7)
Inventories	1,028	934	10.1
Trade and other receivables	12,426	10,622	17.0
Current tax receivable	1,331	1,246	6.8
Current financial assets	1,574	1,906	(17.4)
Cash and cash equivalents	4,220	9,113	(53.7)
Non-current assets classified as held for sale	475	9	n.m.
Total Assets = Total Equity and Liabilities	129,775	108,141	20.0
Equity	31,684	24,274	30.5
Equity attributable to equity holders of the parent	24,452	21,734	12.5
Non-controlling interests	7,232	2,540	n.m.
Non-current liabilities	64,599	56,931	13.5
Non-current financial debt	51,356	47,607	7.9
Deferred tax liabilities	6,074	3,082	97.1
Non-current provisions	4,865	4,993	(2.6)
Other non-current liabilities	2,304	1,249	84.5
Current liabilities	33,492	26,936	24.3
Current financial debt	9,744	9,184	6.1
Trade and other payables	9,314	7,365	26.5
Current tax payables	2,822	2,766	2.0
Current provisions and other liabilities	11,612	7,621	52.4

Financial Data

Net financial Debt (1)	55,593	43,551	27.7

(1) Figures in million euros. Includes: Long term financial debt + other long term liabilities (1,718) + Short term financial debt + short-term provisions and other liabilities (1,977) non-current financial assets and investments in associates (3,408) temporary financial investment included in current financial assets cash and cash equivalents.

Note: 2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Table of Contents

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
FREE CASH FLOW AND CHANGE IN DEBT
Unaudited figures (Euros in millions)

		January - December		
		2010	2009	% Chg
I	Cash flow from operations	21,313	21,178	0.6
II	Net interest payment (1)	(2,018)	(2,070)	
III	Payment for income tax	(2,616)	(2,942)	
A=I+II+III	Net cash provided by operating activities	16,679	16,165	3.2
B	Payment for investment in fixed and intangible assets (2)	(8,670)	(7,592)	
C=A+B	Net free cash flow after CapEx	8,010	8,573	(6.6)
D	Net Cash received from sale of Real Estate	41	241	
E	Net payment for financial investment	(6,618)	(1,419)	
F	Net payment for operations with minority shareholders and treasury stock (3)	(7,132)	(5,785)	
G=C+D+E+F	Free cash flow after dividends	(5,700)	1,610	c.s.
H	Effects of exchange rate changes on net financial debt	2,366	1,226	
I	Effects on net financial debt of changes in consolid. and others	3,977	1,203	
J	Net financial debt at beginning of period	43,551	42,733	
K=J-G+H+I	Net financial debt at end of period	55,593	43,551	27.7

(1) Including cash received from dividends paid by subsidiaries that are not fully consolidated.

(2) Includes 1,379 million euros from the acquisition of spectrum in Germany in the second quarter of 2010 and 276 million euros from the acquisition of spectrum in Mexico.

(3) Dividends paid by Telefónica S.A., operations with treasury stock and operations with minority shareholders from subsidiaries that are fully consolidated.

Note: 2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX
Unaudited figures (Euros in millions)

	January - December		
	2010	2009	% Chg
OIBDA	25,777	22,603	14.0
- CapEx accrued during the period	(10,844)	(7,257)	
- Payments related to cancellation of commitments	(834)	(793)	
- Net interest payment	(2,018)	(2,070)	
- Payment for tax	(2,616)	(2,942)	
- Results from the sale of fixed assets	(4,150)	(248)	
-Investment In working capital and other deferred income and expenses	2,694	(719)	
= Net Free Cash Flow after CapEx	8,010	8,573	(6.6)
+ Net Cash received from sale of Real Estate	41	241	

- Net payment for financial investment	(6,618)	(1,419)	
- Net payment for operations wirh minority shareholders and treasury stock	(7,132)	(5,785)	
= Free Cash Flow after dividends	(5,700)	1,610	c.s.

Unaudited figures (Euros in millions)

	January - December		
	2010	2009	% Chg
Net Free Cash Flow after CapEx	8,010	8,573	(6.6)
+ Payments related to cancellation of commitments	834	793	
- Operations with minority shareholders	(378)	(269)	
= Free Cash Flow	8,466	9,097	(6.9)
Weighted average number of ordinary shares outstanding during the period (millions)	4,522	4,553	
= Free Cash Flow per share (euros)	1.87	2.00	(6.3)

Notes:

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.

2009 and 2010 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Table of Contents

TELEFÓNICA GROUP
Financial Data
NET FINANCIAL DEBT AND COMMITMENTS
Unaudited figures (Euros in millions)

		December 2010
	Long-term debt (1)	53,074
	Short term debt including current maturities (2)	11,721
	Cash and cash equivalents	(4,220)
	Short and Long-term financial investments (3)	(4,982)
A	Net Financial Debt	55,593
	Guarantees to IPSE 2000	0
B	Commitments related to guarantees	0
	Gross commitments related to workforce reduction (4)	3,556
	Value of associated Long-term assets (5)	(803)
	Taxes receivable (6)	(1,043)
C	Net commitments related to workforce reduction	1,710
A + B + C	Total Debt + Commitments	57,303
	Net Financial Debt / OIBDA (7)	2.4x
	Total Net Debt + Commitments/ OIBDA (7)	2.5x

(1) *Includes long-term financial debt and 1,718 million euros of other long-term debt .*

(2) *Includes short-term financial debt and 1,977 million euros of short-term provisions and other liabilities for the pending payment commitment with Portugal Telecom from the acquisition of Brasilcel.*

(3) *Includes Current financial assets and 3,408 million euros recorded under the caption of Non-current financial assets and investments in associates .*

(4) *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 .*

(5) *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.*

(6) *Net present value of tax benefits arising from the future payments related to workforce reduction commitments.*

(7) *Calculated based on December 2010 OIBDA, and excluding results on the sale of fixed assets and firm commitments relating to the Telefónica Foundation s social activities. It includes 100% of Vivo s OIBDA for the full year 2010.*

Note: 2010 reported figures include the hyperinflationary adjustments in Venezuela.

DEBT STRUCTURE BY CURRENCY
Unaudited figures

	December 2010				
	EUR	LATAM	GBP	CZK	USD
Debt structure by currency	73%	15%	7%	3%	3%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody s	Baa1	P-2	Stable	07/29/2010
JCR	A		Stable	12/17/2008
S&P	A-	A-2	Negative	08/06/2010
Fitch/IBCA	A-	F-2	Stable	11/25/2008

Table of Contents

TELEFÓNICA GROUP
Financial Data
TELEFÓNICA GROUP
EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Statement of Financial Position (2)	
	Jan - Dec 2010	Jan - Dec 2009	December 2010	December 2009
USA (US Dollar/Euro)	1.324	1.390	1.336	1.441
United Kingdom (Sterling/Euro)	0.857	0.891	0.861	0.888
Argentina (Argentinean Peso/Euro)	5.180	5.174	5.313	5.474
Brazil (Brazilian Real/Euro)	2.328	2.757	2.226	2.508
Czech Republic (Czech Crown/Euro)	25.291	26.435	25.060	26.465
Chile (Chilean Peso/Euro)	674.363	775.795	625.356	730.460
Colombia (Colombian Peso/Euro)	2,509.215	2,985.075	2,557.460	2,941.176
Guatemala (Quetzal/Euro)	10.660	11.331	10.708	12.035
Mexico (Mexican Peso/Euro)	16.711	18.778	16.502	18.812
Nicaragua (Cordoba/Euro)	28.271	28.258	29.239	30.023
Peru (Peruvian Nuevo Sol/Euro)	3.738	4.186	3.754	4.165
Uruguay (Uruguayan Peso/Euro)	26.537	31.303	26.850	28.275
Venezuela (Bolivar Fuerte/Euro) (3)	5.746	3.097	5.746	3.097

(1) These exchange rates are used to convert the P&L and CapEx accounts of the Group foreign subsidiaries from local currency to euros.

(2) Exchange rates as of 31/December/10 and 31/December/09.

(3) After considering Venezuela as an hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro.

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica España[1]

Against the backdrop of an adverse economic environment, austerity measures and strong price oriented competition, Telefónica España recorded a high level of commercial activity in 2010. Thus, aligned with the management priorities set for the year, the Company sustains its solid market leadership, especially in terms of revenue and profitability.

It is worth highlighting the 926 thousand net additions registered for the full year (not considering the disconnections in May following the process of identifying inactive prepay customers), that more than six fold the comparable figure recorded in 2009. It is also noteworthy the higher level of commercial activity recorded in both the wireline and wireless businesses, with an overall 10.5% year-on-year growth in gross additions in 2010, which coupled with continued churn management, drove total accesses to 47.6 million by year end. Net additions in the fourth quarter totalled 227 thousand (+4.9% year-on-year).

In the wireline business it should be noted the growth posted by **retail fixed broadband Internet accesses** in 2010 (+4.5% year-on-year) and the significant increase of **Pay TV** customers (12.1% year-on-year). On the other hand, it is remarkable the lower **retail fixed line** losses (-920 thousand in 2010), which decreased 18.3% year-on-year.

Additionally, in the **mobile business**, growth in the contract segment remained solid (+6.9% year-on-year). It should be highlighted the increase in the mobile broadband customer base, which reached 4.8 million by year end, 1.7 times higher than at the end of 2009.

As for reported economic-financial results, against the backdrop of lower consumption and increased price pressure, the loss of higher-margin revenue and increased commercial efforts relative to 2009 had a direct impact on OIBDA. In addition, operating expenses in 2010, and OIBDA by extension, reflect the TV tax introduced in the year (107 million euros) as well as non-recurrent restructuring expenses, mainly related to personnel reorganization plans, booked in the fourth quarter of the year (202 million euros). Another factor worth recalling is the 220 million euros capital gain on the disposal of Medi Telecom booked in the fourth quarter of 2009.

Revenue totalled 18,711 million euros in 2010, down 5.0% year-on-year in reported terms, impacted primarily by the trading environment, lower revenue related to Universal Service (95 million in 2010 vs. 223 million in 2009), the exit of Telyco Marruecos from the consolidation perimeter (57 million in 2009) and revenue from the sale of applications rights (101 million in 2010 vs. 48 million in 2009).

Reported revenue declined 7.5% year-on-year in the fourth quarter of 2010, affected by lower revenue related to Universal Service (38 million in 2010 vs. 148 million in 2009) and higher revenue from the sale of application rights (49 million in 2010). The economic impact of the full consolidation of Tuenti on Telefónica España s wireless business in 2010 is not material.

In comparable terms, revenue declined 4.4% year-on-year in 2010 (-6.4% in the fourth quarter). This evolution is primarily explained by lower consumption across businesses and strong competition, with a direct impact on ARPUs. Against this backdrop, it is worth highlighting the healthy performance of IT revenue in 2010 in the wireline business (+9.0% year-on-year in comparable terms). On the other hand, in the wireless business it is especially noteworthy the performance of connectivity revenue (+54.3% year-on-year), which is cementing its status as a key revenue driver.

1 Figures in millions of euros. Since January 2010, T. España s consolidation perimeter does not include Telyco Marruecos (wireline business) and since August 2010 includes Tuenti (mobile business). Comparable terms exclude the impact from changes in the consolidation perimeter, and thus includes Tuenti in the period August-December 2009 and excludes the impact of the following: Universal Service:+95 in revenue (wireline) and +31 in OIBDA in 2010 ; +223 in revenue (wireline) and +68 in OIBDA in 2009;+38 in revenue (wireline) and +13 in OIBDA in the fourth quarter of 2010 ; +148 in revenue (wireline) and +47 in OIBDA in the fourth quarter of 2009; property capital gains: +6 in OIBDA in the fourth quarter of 2009; capital gain on the sale of Medi Telecom: +220 in OIBDA in the fourth quarter of 2009; exit of Telyco Marruecos from the consolidation perimeter: +57 in revenue and +4 in OIBDA in 2009; +9 in revenue and +2 in OIBDA in the fourth quarter of 2009; non-recurrent restructuring expenses mainly related to personnel reorganization plans: -202 in OIBDA in the fourth quarter of 2010; revision of estimates made prior to 2009 related to personnel commitments:+90 in

OIBDA in 2009; TV tax: -107 in OIBDA in 2010; -24 in OIBDA in the fourth quarter of 2010; sale of application rights :+101 in revenue and OIBDA (+51 in wireline; +51 in mobile) in 2010 ; +48 in revenue and OIBDA in 2009 (mobile); +49 in revenue and OIBDA in the fourth quarter of 2010 (+25 in wireline;+25 in mobile) and recovery of bad debts:+20 in OIBDA in 2010.

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica España

Operating expenses amounted to 10,489 million euros in 2010, a slight increase of 0.8% year-on-year in reported terms. In the fourth quarter operating expenses grew 3.0% year-on-year, reflecting impact from the non-recurrent restructuring expenses, mainly related to personnel reorganization plans, above-mentioned. In comparable terms, operating expenses decreased 1.5% in 2010 (-2.1% in the quarter), thanks to the efficiency measures implemented.

A breakdown by component is as follows:

- Despite the higher commercial effort along the year, **subcontract expenses** totalled 3,017 million euros in 2010, decreasing 2.8% year-on-year in reported terms (-3.6% in the quarter). In comparable terms, excluding the restructuring projects booked in the fourth quarter of 2010, the year-on-year drop in operating expenses widens to 3.7% (-7.1% in the quarter).
- **Personnel expenses** amounted to 2,658 million euros in 2010 and increased 15.3% year-on-year in reported terms (+35.5% in the quarter). This trend is affected by the revision of estimates made prior to 2009 related with personnel commitments (+90 million euros in the second quarter of 2009) and, particularly in the fourth quarter of 2010, by restructuring expenses mainly related to personnel reorganization already mentioned, and the negative impact of a higher-than-estimated rate of CPI. In comparable terms, personnel expenses would increase 3.7% year-on-year for the full year (+6.4% in the quarter).
- **Supplies** reached 4,185 million euros in 2010 and decreased 2.5% year-on-year in reported terms and 1.4% in comparable terms (-1.2% in comparable terms in the quarter), reflecting lower interconnection costs due to mobile termination rate cuts, which offset higher expenses on mobile handsets.
- **Taxes** increased 1.0% year-on-year in 2010 in reported terms to 496 million euros, adversely affected by the recognition of the TV tax (107 million euros in 2010), which more than offset lower expenses associated with the Universal Service. In comparable terms, taxes declined 3.2% year-on-year in 2010 (-4.5% in the quarter).
- **Bad debt provisions** (133 millon euros in 2010), accounted for 0.7% of reported revenue by year end, and had a significant year-on-year reduction of 36.8% in reported terms, reflecting the improvements made on bad debt recoveries. In comparable terms, the year-on-year decline was 27.5% (-43.6% in the quarter).

As a result, **operating income before depreciation and amortization (OIBDA)** amounted to 8,520 million euros in 2010 (-12.7% year-on-year in reported terms), standing the OIBDA margin at 45.5% (-4.0 percentage points year-on-year).

In comparable terms, OIBDA decreased 6.9% year-on-year (-10.2% in the quarter). The Company maintained a high operational efficiency as reflected by the comparable OIBDA margin, which stood at 46.9% for the full year, limiting its year-on-year decline to 1.2 percentage points.

CapEx totalled 2,021 million euros in 2010, up 8.4% year-on-year, driven by the Company s strategic focus on the development of growing services, particularly fixed and mobile broadband.

Operating cash flow (OIBDA-CapEx) amounted to 6,499 million euros in 2010, a year-on-year decline of 10.7% in comparable terms (-17.7% in reported terms).

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS
Telefónica España

COMMERCIAL ACTIVITY AND REVENUE PERFORMANCE BY BUSINESS UNIT

WIRELINE BUSINESS

In the fourth quarter of 2010, the wireline access market recorded a slight improvement that contributed to the fact that the Company registered 20 thousand net additions in the quarter of **total wireline accesses** (retail wireline telephony accesses, wholesale line rental -AMLT-, fully undundled loops, and naked wholesale ADSL). As a result, total wireline accesses reached 16.0 million at year end, and remained virtually stable year-on-year in 2010 (-0.4% on 2009), posting a much better performance than in 2009 (-2.4% year-on-year). The Company s estimated market share stood at around 83% at year end.

It is also worth highlighting the significant year-on-year reduction in net losses of **retail wireline telephony accesses** in both the quarter (-27.3%; 205 thousand lines) and the full year (-18.3% year-on-year; -920 thousand lines). The loss of retail accesses in the full year was virtually fully offset (in its 94%) by net additions in wholesale accesses, which continue to generate revenue for the Company. As a result, retail wireline accesses, impacted by loops unbundling, declined 6.5% on 2009 to 13.3 million, implying an estimated market share of around 69%.

The number of preselected lines continued to fall (-73 thousand in the fourth quarter; -375 thousand in 2010) to stand around 682 thousand at year end.

Telefónica España held on to its solid leadership position in the **wireline broadband Internet access** market, with more than 5.7 million accesses at year end (+4.5% year-on-year), implying an estimated market share of over 53%. Net additions for the full year stood at 245 thousand, growing 6.6% year-on-year (50 thousand net additions in the quarter, pretty much in line with the previous quarter).

Net additions of wholesale indirect broadband accesses, boosted by the introduction of new modalities as well as price reductions, reached 202 thousand in 2010, bringing total accesses to 561 thousand at year end (+56.4% year-on-year). Net additions in the quarter were 53 thousand.

Total unbundled loops stood at almost 2.5 million at year end, (+15.0% year-on-year), of which 11% were shared loops, while the remainders were full unbundled loops (including 602 thousand naked shared loops). It should be noted the slowdown in the pace of growth reflected in the net additions for the full year (323 thousand loops), which were 29.1% below the 2009 figure (106 thousand in the quarter; -20.3% year-on-year). Shared loops decreased by 184 thousand accesses in 2010 (-33 thousand in the quarter), while full unbundled loops rose by 507 thousands (138 thousand in the quarter), of which 34% were naked shared loops.

Pay TV accesses recorded a positive performance in 2010, with 85 thousand net additions (15 thousand in the quarter), driving the customer base to over 788 thousand accesses (+12.1% year-on-year), and leaving an estimated market share of almost 19%.

On the other hand, the total number of Dúo and Trío packages accounted for 89% of the Company s retail broadband Internet accesses by year end.

Revenue declined 6.3% year-on-year in reported terms to 11,397 million euros in 2010 (-9.8% in the quarter). In comparable terms, revenue fell 5.3% year-on-year in 2010, primarily driven by the performance in access and voice revenue in an adverse economic environment. In the fourth quarter comparable revenue fell 7.2% year-on-year, mainly driven by the lower contribution of voice revenue and a slowdown in data and IT revenues. By component:

- **Traditional access revenue** fell 13.1% year-on-year in reported terms in 2010, due to lower revenue related to Universal Service (95 million euros in 2010 vs. 223 million euros in 2009). In comparable terms, the year-on-year decline was 9.2% due to lower accesses (-6.5% year-on-year) and lower average revenue per line. The pace of decline eased in the fourth quarter (-9.0% year-on-year in comparable terms), improving quarter-on-quarter.
- **Voice service revenue** declined 10.9% year-on-year in 2010 (-13.1% in the quarter), affected by lower traffic, particularly international and fixed-to-mobile, and the growing weight of traffic under flat-rates.

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS

Telefónica España

Internet and broadband revenue dropped 0.9% year-on-year in 2010 (-2.1% in the quarter):

Retail broadband revenue fell 4.3% year-on-year in the full year, reflecting the decline in effective ARPU (-8.7% year-on-year). Revenue performance in the quarter (-7.6% year-on-year) reflected higher promotional activity amid strong competition.

Wholesale broadband revenue posted an outstanding 29.0% year-on-year increase (+40.5% in the quarter), underpinned by growth in unbundled loops and wholesale ADSL accesses.

Revenue from **data services** grew 4.9% year-on-year in 2010 and remained virtually stable in the quarter (-0.2% year-on-year). Stripping out revenues coming from the wireless business of Telefónica España, data revenue would have fallen 1.4% year-on-year.

Revenue from **IT services** rose 19.0% year-on-year (+19.6% in the quarter), positively affected by the sale of applications rights (+51 million euros). In comparable terms, revenue growth was 9.0% year-on-year for the full year (+3.9% in the fourth quarter).

WIRELESS BUSINESS

At the end of 2010 the estimated penetration in the Spanish mobile telephony market stood at 125%.

Telefónica maintained a strong commercial activity throughout 2010, up 7.1% year-on-year. However, it is worth to mention that the Company adapted its commercial strategy through 2009, leading to a strong push from the third quarter of 2009 onwards that explains the slowdown in year-on-year growth in the fourth quarter of 2010.

Gross additions in 2010 rose sharply, up 14.9% year-on-year (+6.6% in the quarter), being especially remarkable the higher growth recorded in the contract segment (+24.5% in 2010).

The **churn** rate was 2.3% in the year, very similar to 2009 rate (2.4% in the quarter). Nevertheless, contract churn remained well below the blended rate (1.4% in 2010) and was virtually stable year-on-year.

As a result, net additions posted healthy growth in 2010 (1.4 times the 2009 figure in comparable terms) amounting to 884 thousand accesses (not considering the disconnections in May following the identification of inactive prepay customers).

The Company s focus on the contract segment drove net additions in this segment over one million accesses in the full year (roughly 1.4 times the 2009 figure), with 288 net additions in the quarter. As a result, the contract segment continued to post solid growth in 2010 (+6.9% year-on-year), accounting for over 67% of the Company s total mobile accesses, 2.3 percentage points more than in 2009.

It is worth noting the fact that this strategy, focused on the customer value, enabled Telefónica to sustain its leadership in the Spanish mobile telephony market, being the operator presenting the widest gap between revenue and access share.

As a result, the Company s **mobile telephony customer base** ended 2010 at 24.3 million accesses, up 3.3% on December 2009 figure.

Traffic fell by 0.8% year-on-year in both the full year and the quarter, reflecting a lower usage from customers in the current environment, and the different promotional campaigns of 2009 and 2010.

Table of Contents

RESULTS BY REGIONAL BUSINESS UNITS
Telefónica Espa&